

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

Consolidated Financial Statements for
year then ended on 31 December 2018,
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 34). 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. 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

Opinion

We have audited the consolidated financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Investment Property

Description

The Group manages a portfolio of urban property assets earmarked for lease (mainly shopping centres) located in Spain. Investment property is stated at its fair value at the reporting date and is not depreciated. At 31 December 2018, the portfolio of investment property was valued at EUR 1,440 million.

The Group periodically uses third parties independent of the Group as experts to determine the fair value of its property assets. The aforementioned experts have substantial experience in the markets in which the Group operates and employ valuation methodologies and standards widely used in the market.

The valuation of the real estate portfolio is a key audit matter, since it requires the use of estimates with a significant degree of uncertainty. Specifically, the discounted cash flow method is generally applied to the valuation of the rental property assets, which requires estimates of:

- the future net revenue from each property based on available historical information and market surveys;
- the internal rate of return or opportunity cost used when discounting;
- the residual value of the assets at the end of the projection period; and
- the exit yield.

In addition, small percentage changes in the key assumptions used for the valuation of the property assets could give rise to significant changes in the consolidated financial statements.

Procedures applied in the audit

Our audit procedures included, among others, the obtaining the valuation reports of the experts hired by the Group to value the entire real estate portfolio and assessed the competence, ability and objectivity of the experts and the suitability of their work for use as audit evidence. In this connection, with the cooperation of our internal valuation experts, we:

- analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts hired by Group management;
- performed an independent valuation of all the assets taking into consideration available industry information and transactions with property assets similar to those in the Group's real estate portfolio; and
- assessed, in conjunction with our internal experts, the most significant assessed risks, including the occupancy rates and expected returns on the real estate assets.

We also analysed and concluded on the suitability of the disclosures made by the Group in relation to these matters, which are included in Notes 5-a, 8 and 11 to the accompanying consolidated financial statements for 2018.

Compliance with the special REIT tax regime

Description

The Parent and most of its subsidiaries have availed themselves of the special tax regime for Real Estate Investment Trusts (REITs). One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%.

The tax regime for REITs is subject to certain mandatory requirements, such as those relating to their company name and object, the minimum amount of their share capital, the obligation to distribute the profit obtained each year in the form of dividends, and the listing of their shares on a regulated market, as well as other requirements, such as, basically, investment requirements and those relating to the nature of the income obtained each year, which require significant judgements and estimates to be made by management, since failure to comply with any of these requirements will result in the loss of entitlement to the special tax regime unless the cause of non-compliance is rectified within the immediately following year.

Therefore, compliance with the REIT tax regime requirements is a key matter in our audit, to the extent that the related tax exemption has a significant impact on both the consolidated financial statements and shareholder returns, since the business model of the Parent and its Group is based on continuing to qualify for taxation under the REIT tax regime.

Procedures applied in the audit

Our audit procedures included, among others, obtaining and reviewing the documentation prepared by Group management relating to compliance with the obligations associated with this special tax regime, including the documentation relating to the estimate made by the directors in relation to compliance with the income test in 2019 (see Notes 1 and 24 to the consolidated financial statements), and we involved our internal experts from the tax area, who assisted us in analysing both the reasonableness of the information obtained and the completeness thereof in relation to all the matters provided for in the legislation in force at the analysis date.

Lastly, we verified that Notes 1, 23 and 24 to the consolidated financial statements contain the disclosures relating to compliance with the conditions required by the REIT tax regime and other matters associated with the taxation of the Parent and of its subsidiaries.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels thereof:

- a) A specific level that applies to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report and, if this is not the case, reporting this fact.

- b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in above, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, 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.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix to this auditor's report. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

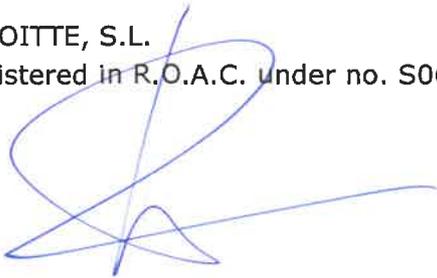
The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 26 February 2019.

Engagement Period

The Annual General Meeting held on 29 May 2017 appointed us as auditors of the Group for a period of two years from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of three years and have been auditing the financial statements uninterrupted since the year ended 31 December 2014.

DELOITTE, S.L.
Registered in R.O.A.C. under no. S0692



Antonio Sánchez-Covisa Martín-González
Registered in R.O.A.C. under no. 21251

26 February 2019

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Real Estate

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

Consolidated Financial Statements for the 2018 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 2018

(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>31/12/2018</u>	<u>31/12/2017</u>
Intangible assets	7	8,556	8,673
Investment property	8	1,363,646	1,306,350
Financial assets with associates	12	-	2,161
Equity-accounted investees	10	4,627	5,526
Non-current financial assets	13	11,426	11,928
Trade and long-term other receivables	13, 14	<u>2,733</u>	<u>-</u>
Total non-current assets		1,390,988	1,334,638
Non-current assets held for sale	11	78,081	124,295
Trade and other receivables	13, 14, 23	13,762	14,413
Financial assets with associates	12	-	27,718
Other current financial assets	13	3,268	7,118
Other current assets	19	4,176	553
Cash and cash equivalents	15	<u>191,328</u>	<u>45,617</u>
Total current assets		290,615	219,714
Total assets		<u>1,681,603</u>	<u>1,554,352</u>

The accompanying Notes 1 to 34 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
31 December 2018

(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>31/12/2018</u>	<u>31/12/2017</u>
Capital	16	186,438	185,248
Issue premium	16	476,301	487,349
Other reserves and other contributions	16	220,289	111,854
Retained earnings	16, 17	129,308	135,606
Treasury shares	16	(1,228)	(175)
Measurement adjustments	16	<u>(2,610)</u>	<u>(1,663)</u>
Total equity		1,008,498	918,219
Financial liabilities from issue of bonds and other marketable securities	18, 19	139,077	138,787
Bank borrowings	18, 19	428,400	361,165
Deferred tax liabilities	2g, 23, 18	19,405	14,613
Derivatives	18, 19	1,892	831
Other non-current liabilities	18, 20	<u>17,240</u>	<u>16,221</u>
Total non-current liabilities		606,014	531,617
Liabilities connected to non-current assets held for sale	11	810	47,618
Financial liabilities from issue of bonds and other marketable securities	18, 19	3,482	3,482
Bank borrowings	18, 19	6,461	5,580
Derivatives	18, 19	2,179	1,267
Short-term debts with group companies and associates	19	-	7,505
Other current liabilities	18, 20	-	147
Trade and other payables	21	<u>54,159</u>	<u>38,917</u>
Total current liabilities		67,091	104,516
Total equity and liabilities		<u>1,681,603</u>	<u>1,554,352</u>

The accompanying Notes 1 to 34 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Comprehensive Income for the period ended
31 December 2018

(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 Statement of Comprehensive Income</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Income	6	77,841	77,600
Other income		3,733	2,198
Other results	2g	-	653
Employee benefits expense	28	(502)	(542)
Depreciation charges	7	(307)	(15)
Other operating expenses	26	(55,148)	(35,847)
Changes to the fair value of investment property	8, 11	70,471	101,558
Profits/(losses) from the disposal of investment property	2g, 8, 11	28,541	2,842
Profits/(losses) from operating activities		<u>124,629</u>	<u>148,447</u>
Financial income	13c, 27	27,927	2,085
Financial costs	27	(16,786)	(14,281)
Changes in the fair value of financial instruments	27	(1,024)	1,474
Share in profits/(losses) for the period of equity-accounted investees	10	(899)	(2,119)
Profit for the period from continuing operations		<u>133,847</u>	<u>135,606</u>
Income tax	23	(4,539)	-
Profit for the period		<u><u>129,308</u></u>	<u><u>135,606</u></u>
Basic earnings per share (in Euros)	17	1.38	1.48
Diluted earnings per share (in Euros)	17	1.37	1.47

<u>Consolidated Statement of Comprehensive Income</u>		<u>2018</u>	<u>2017</u>
Profits/(losses) for the period (I)	29	129,308	135,606
Other Comprehensive Income Directly Recognised in Equity (II)	16	(1,952)	(1,173)
Other Amounts Transferred to the Income Statement (III)	16	1,005	875
Total Comprehensive Income (I)+(II)+(III)		<u><u>128,361</u></u>	<u><u>135,308</u></u>

The accompanying Notes 1 to 34 and Appendix I form an integral part of the Consolidated Statement of Comprehensive Income for the period ended 31 December 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Changes in Net Equity
31 December 2018

(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)

	Capital	Issue premium	Other reserves	Other contributions	Retained earnings	Treasury shares	Measurement adjustments	Total equity
Balance at 31 December 2016	181,081	498,914	42,658	240	91,430	(823)	(1,365)	812,135
Total income and expenses recognised in the period	-	-	-	-	135,606	-	(298)	135,308
Transactions with shareholders or owners:								
Capital increases	4,167	15,001	(19,168)	-	-	-	-	-
Distribution of profit:								
To reserves	-	-	88,014	-	(88,014)	-	-	-
To dividends	-	(26,566)	3	-	(3,416)	-	-	(29,979)
Treasury shares	-	-	131	-	-	648	-	779
Other operations	-	-	(24)	-	-	-	-	(24)
Balance at 31 December 2017	185,248	487,349	111,614	240	135,606	(175)	(1,663)	918,219
Total income and expenses recognised in the period	-	-	-	-	129,308	-	(947)	128,361
Transactions with shareholders or owners:								
Capital increases (Note 16a)	4,279	16,645	-	-	-	-	-	20,924
Capital decreases (Note 16a)	(3,089)	-	(9,865)	-	-	12,954	-	-
Distribution of profit:								
To reserves	-	-	118,333	-	(118,333)	-	-	-
To Dividends (Note 16f)	-	(27,693)	-	-	(17,273)	-	-	(44,966)
Treasury shares (Note 16e)	-	-	(33)	-	-	(14,007)	-	(14,040)
Balance at 31 December 2018	186,438	476,301	220,049	240	129,308	(1,228)	(2,610)	1,008,498

The accompanying Notes 1 to 34 and Appendix I form an integral part of the consolidated statement of changes in equity for the period ended 31 December 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Cash Flow Statement
31 December 2018

(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	2018	2017
A) Cash flows from operating activities		19,102	48,688
<i>Profits/(losses) before tax</i>		<i>138,847</i>	<i>135,606</i>
<i>Adjustments to profits/(losses)</i>		<i>(108,113)</i>	<i>(92,178)</i>
Profits/(losses) from adjustments to the fair value of investment property	8, 11	(70,471)	(101,558)
Amortisation of fixed assets	7	307	15
Impairment adjustments	26	(190)	19
Financial income	27	(27,927)	(2,085)
Financial costs	27	16,786	14,281
Changes in the fair value of financial instruments	27	1,024	(1,474)
Share in profits/(losses) in associates' periods	10	899	2,119
Profits/(losses) from the disposal of investment property	2g,8,11	(28,541)	(2,842)
Adjustments to the consideration given against profit and loss from business combinations		-	(653)
<i>Changes in working capital</i>		<i>6,508</i>	<i>17,389</i>
Trade and other receivables		(2,820)	1,776
Other current and non-current assets		(2,873)	(1,661)
Trade and other payables		12,201	17,274
<i>Other cash flows from operating activities</i>		<i>(13,140)</i>	<i>(12,129)</i>
Interest paid	19	(13,140)	(12,129)
B) Cash flows from investing activities		139,536	(129,142)
<i>Payments for investments</i>		<i>(161,281)</i>	<i>(163,530)</i>
Outflow of cash in business acquisitions	2g	(33,331)	(110,218)
Associates		-	(248)
Intangible assets		-	(8,686)
Investment property	8, 11	(127,950)	(43,934)
Other financial assets		-	(444)
<i>Proceeds from sales on investments and dividends</i>		<i>300,817</i>	<i>34,388</i>
Other financial assets		3,448	-
Associates	12	50,295	20,000
Inflow of cash in business sales	2g	52,929	14,388
Disposal of investment property	8, 11	194,145	-
C) Cash flows from financing activities		(16,009)	97,945
<i>Payments made and received for equity instruments</i>		<i>6,884</i>	<i>779</i>
Cash proceeds from issuing capital	16	20,924	-
Acquisition/disposal of equity instruments	16	(14,040)	779
<i>Payments made and received for financial liability instruments</i>		<i>22,073</i>	<i>127,145</i>
Issue of:			
Bank borrowings	19	83,540	143,375
Other financial liabilities		-	8,500
Refunds and amortization of:			
Bank borrowings	19	(61,467)	(24,730)
<i>Payments for dividends and remuneration from other equity instruments</i>			
Dividends paid	16	(44,966)	(29,979)
D) Cash and cash equivalents in non-current assets held for sale	11	3,082	(3,465)
E) Net increase/decrease in cash or cash equivalents		145,711	14,026
F) Cash and cash equivalents at the beginning of the period		45,617	31,591
G) Cash and cash equivalents at the end of the period		191,328	45,617

Notes 1 to 34 and Appendix I form an integral part of the consolidated statement of cash flows for the period ended 31 December 2018.

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(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

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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., (until 16 January 2018, when the company was sold) LE Offices Eloy Gonzalo 27, S.A.U., LE Retail As Termas, S.L.U., LE Retail Portal de la Marina, S.L.U. (until 10 September 2018, when the company was terminated following the merger by LE Retail Hiper Ondara, S.L.U), LE Logistic Alovera III y 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 Vidanova Parc S.L.U. (formerly called LE Retail Sagunto S.L.U.), LE Retail Megapark S.L.U. (until 10 September 2018, when the company was terminated following the merger by LE Retail Hiper Ondara, 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., LE Retail Sagunto II, S.L.U. (formerly called Lar España Offices VI, S.L.U.), Lar España Inversión Logística IV, 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 Via de Vigo, S.A.U., Inmobiliaria Juan Bravo 3, S.L., LE Retail Abadía, S.L.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U., LE Retail Hipermercados III, S.L.U. y LE Retail Rivas, S.L.U., (hereinafter the “Group”) most of which have as their principal activity the acquisition and management of shopping centres. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, industrial bays, logistics centres, offices 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 quoted price at 31 December 2018 was EUR 7.45 per share and the average price per share in the 2018 period was EUR 8.91.

The Parent Company is regulated by Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December, 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 chose to 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.

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

This will be calculated as a percentage of consolidated profit if the company is the parent of a group in accordance with the criteria established in Article 42 of the Spanish Code of Commerce, irrespective of domicile and of the obligation to draw up consolidated financial statements. 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 point 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 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, as amended by Law 16/2012 of 27 December, establishes the following specific modifications:

- Flexible criteria for acquiring and holding properties: there is no lower limit regarding the number of properties that may be contributed when constituting a SOCIMI, except for residential properties, where 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.

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- Reduced dividend distribution: until this Law entered into force, it was compulsory to distribute 90% of profits; this pay-out 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 set forth 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 corporate 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 report for the following period 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 Group 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 on the maximum period for holding leased assets 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 transition period ended in the 2017 period, such that as of said period the Parent Company must satisfy all the regime requirements on a mandatory basis. In this regard, the Directors believe that during the tax period corresponding to the period ended 31 December 2018 the Parent Company has satisfied all the regime requirements except for the fact that income earned by the Group comprising Lar España Real Estate SOCIMI, S.A. and some of the subsidiaries thereof in said period (income test), which were earned through its principal statutory activity, i.e. leasing activities, is less than 80%. Under these circumstances, according to the terms of Article 13 of the Law on SOCIMIs that states that the failure to satisfy this requirement shall entail exclusion from the special tax regime except where said failure is corrected within the following period, the Directors have performed an income test for the 2019 period based on the most recent business plan. They concluded that the aforesaid

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requirement will be satisfied for said period and therefore the breach regarding the income from the 2018 period shall be corrected within the deadline established in the relevant regulations in force for this situation. Therefore, the consolidated financial statements of the 2018 period have been drawn up under the assumption that the Parent Company shall continue to avail of the SOCIMI regime (Note 24).

The composition of the Group at 31 December 2018 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 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
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 Vidanova Parc, 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 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	The acquisition and development of properties for lease	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Albacenter,	Calle Rosario Pino, 14-16	Leasing of	Lar España Real Estate SOCIMI, S.A.	100	Global

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Corporate Name	Company Address	Activity	Company holding the stake	% stakes	Method of integration
S.L.U.	28020 Madrid	property			
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
LE Retail Sagunto II, 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
Lar España Inversión Logística IV, 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 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 Vía de Vigo, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Abadía, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados I, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados II, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados III, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Rivas, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global

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(2) BASIS OF PRESENTATION

(a) Regulatory framework on financial information

The accompanying consolidated financial statements for the period ended 31 December 2018 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 measure.
- Law 11/2009 of 26 October, as amended by Law 16/2012 of 27 December, 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 2018 and the consolidated financial performance, changes in consolidated cash flows and consolidated changes in equity for the 2018 period, these consolidated financial statements have been prepared applying the regulations in force at 31 December 2018.

(b) Functional and presentation currency

The figures disclosed in the consolidated financial statements for the period ended 31 December 2018 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 2017 is presented for comparative purposes together with the information related to the 2018 period.

The application of significant accounting policies in 2018 and 2017 was uniform and, therefore, there were no transactions or operations that were recognised under different accounting policies that could give rise to discrepancies in the interpretation of the comparative figures for the two periods.

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

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

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

The following is 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.

(i) Relevant accounting estimates and assumptions

- Calculation of fair value of investment property by applying measurement models (Note 8).
- Measurement of assets and liabilities held for sale (Note 11).
- Measurement adjustment for customer insolvencies. (Note 24)
- Assessment of provisions and contingencies (Note 5k).
- Financial risk management (Note 24).
- Compliance with the requirements that regulate SOCIMIs (Notes 1 and 24).
- Determination of the fair value and nature of derivative financial instruments. (Note 19)
- Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 (Note 2g).

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's Directors based on the best information available at 31 December 2018, 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 2018

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2018 and, where applicable, have been used by the Group to prepare the accompanying consolidated financial statements at 31 December 2018:

- IFRS 15 Revenue from Contracts with Customers (published May 2014) and clarifications (published April 2016). New revenue recognition standard (replaces

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IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31). Effective for annual periods beginning on or after 1 January 2018.

- IFRS 9 Financial Instruments (published July 2014). This replaces the requirements for classification, measurement and derecognition of financial assets and financial liabilities and hedge and impairment accounting under IAS 39. Effective for annual periods beginning on or after 1 January 2018.
- Amendment to IFRS 2 Classification and Measurement of Share-Based payments (published June 2016). These are restricted amendments that clarify specific questions such as the effects of the accrual conditions on payments based on shares to be settled in cash, the classification of payments based on shares when there are settlement clauses regarding the net amount, and some aspects of the amendments on the rate of payment based on shares. Effective for annual periods beginning on or after 1 January 2018.
- Amendment to IFRS 4 Insurance Contracts (published June 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 Property (published 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.
- Amendment to IFRS 1 First-time Adoption of IFRS (published December 2016). Elimination of some short-term exemptions (improvements to IFRS Cycle 2014-2016). Effective for annual periods beginning on or after 1 January 2018.
- Amendment to IAS 28 Investments in Associates and Joint Ventures (published December 2016). Clarification in relation to the option to measure at fair value (improvements to IFRS Cycle 2014-2016). Effective for annual periods beginning on or after 1 January 2018.
- Amendment to IFRIC 22 Foreign currency transactions and advances (published 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.

(f) Standards and interpretations issued but not effective at 1 January 2018

At the date of approval of these consolidated financial statements, 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 financial statements or because they have not yet been adopted by the European Union:

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(i) New regulations approved for use in the European Union

- IFRS 16 Leases (Published January 2016). This substitutes IAS 17 and the associated interpretations. Its main change is a sole accounting model for tenants that will include all leases in the balance sheet (with limited exceptions) with an impact similar to that of current financial leases (The asset will amortise due to the right of use and there will be a financial expense for the amortised cost of the liability.). Effective for annual periods beginning on or after 1 January 2019.

(ii) New regulations not yet approved for use in the European Union

- IFRS 17 Insurance Contracts (published May 2017). This will replace IFRS 4. It includes the principles of registration, measurement, presentation and breakdown of insurance contracts. Effective for annual periods beginning on or after 1 January 2021.

(iii) Amendments and/or interpretations adopted for use in the European Union

- Amendment to IFRS 9 Prepayment Features with Negative Compensation (published October 2017). This amendment will permit the measurement at amortised cost of certain financial that can be cancelled in advance for an amount less than the outstanding amount of principal and interest on such principal. Effective for annual periods beginning on or after 1 January 2019.
- IFRIC 23 Uncertainty over Income Tax Treatments (published June 2017). This interpretation clarifies how the registry and measurement criteria under IAS 12 are to be applied when there is uncertainty regarding the tax authority's acceptance of a given tax treatment used by the entity. Pending adoption in EU 1 January 2019.

(iv) Amendments and/or interpretations not yet adopted for use in the European Union

- Amendment to IAS 28 Long-term Interest in Associates and Joint Ventures (published October 2017). This clarifies that IFRS 9 must be applied to long-term interest in an associate or joint venture if the equity method is not used. Effective for annual periods beginning on or after 1 January 2019.
- Improvements to IFRS Cycle 2015-2017 (published December 2017). Amendments to a series of regulations. Effective for annual periods beginning on or after 1 January 2019.
- Amendment to IAS 19 Amendment, reduction or settlement of a plan (published February 2019). It clarifies how to calculate the service cost for the current period and the net interest for the remainder of an annual period when there is a change, reduction

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or settlement of a defined benefit plan. Effective for annual periods beginning on or after 1 January 2019.

- Amendment to IFRS 3 Definition of Business (published October 2018). Improvements to the definition of business
- Amendments to IAS 1 and IAS 8 Definition of “material” (published October 2018). Amendments to IAS 1 and IAS 8 to align the definition of “material” with that used in the Conceptual Framework.

(v) Impact assessment of the adoption of IFRS 9, 15 and 16

- IFRS 9 - Financial Instruments

IFRS 9 covers the classification, measurement and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014 and replaces the IAS 39 guide on the classification and measurement of financial instruments. IFRS 9 should be applied for periods beginning on or after 1 January 2018. The Group’s Directors estimate that the impact of IFRS 9 is not material, with the first application thereof having no effect on the financial statements. The implication on the items comprising the financial statements is as follows.

IFRS 9 establishes three main categories of measurement for financial assets: amortised cost, at fair value with changes under profits/(losses), and at fair value with changes in other comprehensive income. The basis for classification depends on the entity’s business model and the characteristics of the contractual cash flows of the financial asset. It has not been determined, based on the best estimate, that IFRS 9 modifies the method of measuring financial assets recognised at 31 December 2017 and 31 December 2018 in the Group’s financial statements.

In relation to financial liabilities, there have been no changes with respect to the classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value with changes under profits/(losses). In addition, for the exchange of debt instruments or amendments to contractual terms that do not result in the extinguishment of a financial liability, IFRS 9 establishes that the entity must recalculate the new amortised cost by discounting the new estimated cash flows at the effective interest rate of the original financial liability. Any difference between this amount and the carrying amount of the modified debt would be recorded as income or expense in the income statement. At present, the Group does not have any liabilities that have been part of exchanges or contractual modifications and that require an assessment of said impact.

The new impairment model requires the recognition of impairment provisions on the basis of expected credit losses rather than only credit losses incurred as is the case under IAS 39. It applies to the Group’s financial assets classified at amortised cost, most of which are trade balances receivable under leases, and to certain financial guarantee contracts. Based on the evaluations carried out to date, given the nature of the financial assets subject to the impairment evaluation, the Directors have not determined, based on the best estimate, a significant impact on the impairment

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provision, considering that non-payment risk is immaterial and that customers make a deposit as a credit guarantee.

With respect to hedge accounting, the main objective of the new hedging model in IFRS 9 is to align hedge accounting with the risk management activities of an entity. As in IAS 39, the application of hedge accounting remains optional. The Directors have not determined, based on the best estimate, a significant impact on the currently held accounting hedging relationships.

The new standard also introduces expanded disclosure requirements and changes in presentation.

– IFRS 15 - Income from Ordinary Activities Arising from Contracts with Customers

IFRS 15 sets out the principles for presenting useful information to users of financial statements about the nature, amount, timing and uncertainty of income from ordinary activities and cash flows arising from an entity's contracts with its customers. This IFRS shall apply for annual periods beginning on or after 1 January 2018.

In accordance with the scope of this Standard, an entity shall apply this Standard to all contracts with customers except, inter alia, lease contracts within the scope of IFRS 16 on Leases. Therefore, the Directors, based on the Group's main activity, have determined that its application has no impact on the consolidated financial statements.

– IFRS 16 - Leases

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases. This standard supersedes the current IAS 17, and applies to annual periods beginning on or after 1 January 2019.

IFRS 16 introduces a single lease accounting model for lessees that requires the recording of assets and liabilities for all leases longer than 12 months, with a recording similar to that for current financial leases. In relation to the lessor's accounting, the accounting requirements currently in force under IAS 17 are substantially maintained. Therefore, the Directors consider that the application of this standard will not have a material impact on the Group's consolidated financial statements. The other main change is the amendment to IAS 40 as a result of the entry to force of IFRS 16, which requires the rights of use the Group uses under leases be classified and measured like other investment property. The impact of this change is that concession projects are classified under "Investment property", with their increase in value, measured in accordance with IAS 40, being approximately EUR 5 million.

(g) Changes to the composition of the Group

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

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Exclusions from the scope of consolidation in the 2018 period

- On 16 January 2018, the Company sold 100% of the company shares in its subsidiary LE Offices Egeo, S.A.U. to Inmobiliaria Colonial, SOCIMI, S.A. for a base price of EUR 49,098 thousand and for a variable price of EUR 2,124 thousand linked to the measurement of the asset at 31 December 2018, which has fully accrued. The amount of net assets of LE Offices Egeo, S.A.U. at the time of sale totalled EUR 48,316 thousand, where the sale therefore made for a profit of EUR 2,906 thousand recorded under “Profits/(losses) from the disposal of investment property” of the 2018 Consolidated Intermediate Summary Statement of Comprehensive Income. The value of the investment property and the treasury at the time of sale totalled EUR 76,673 thousand and EUR 369 thousand, respectively.

At 31 December 2018 EUR 2,124 thousand are outstanding, corresponding to the variable price.

The sale of the holdings was effected after the property assets were held for three years as required by the Law on SOCIMIs (Note 1).

Business combinations in the 2018 period

- On 6 February 2018, the Parent Company acquired 100% of the stakes in Legaro Spain, S.L.U., (now LE Retail Rivas, S.L.U.) from CSRE I Spanish Holding, S.L.U.

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

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Rivas, S.L.U.	Leasing of property	06/02/2018	100%	35,361

There are no contingent consideration assets or liabilities associated with this business combination.

	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment property	53,202	10,353	63,555
Trade and other receivables	156	-	156
Other assets	798	-	798
Cash and other cash equivalent assets	2,030	-	2,030
Deferred tax liabilities	-	(2,588)	(2,588)
Bank borrowings	(27,460)	-	(27,460)
Other long-term financial liabilities	(730)	-	(730)
Trade and other payables	(400)	-	(400)
Total net assets	27,596	7,765	35,361
Transferred consideration for the 100%			35,361

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On 6 February 2018 a sales contract was signed. The total amount paid by the Parent Company being EUR 35,361 thousand, of which EUR 3,519 thousand was used to cancel the loan held by LE Retail Rivas, S.L.U. with its previous shareholders at the date of acquisition.

The assets attributed with the fair value are investment property. The main asset of the acquired company was the Rivas Futura Retail Park in Madrid, the fair value of which when purchased was EUR 63,555 thousand. Said asset is leased to several tenants, through lease contracts for the commercial premises that constitute the asset.

The methodology used to calculate the market value consisted in preparing income and expense, updated at the date of the business combination using a market discount rate. The residual value was obtained by applying a return rate to the net profits or losses of the last projected period.

On the date of acquisition, based on IAS 12 on Income Tax, “Deferred tax liabilities” includes 25% of the difference between the book 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 Group first identifies the various assets and liabilities acquired in order to calculate the fair value thereof. With regard thereto, with the exception of the investment property, the Group did not identify significant differences compared to the carrying amounts at which they were recorded in the financial statements of the acquired business. No contingent liabilities were recognised in the business combination.

The profit and loss and income from leasing activities incorporated in the 2018 period since the date of acquisition and included in the consolidated income statement for the 2018 period amounted to EUR (78) thousand and EUR 3,290 thousand, respectively.

If the acquisition had taken place on 1 January 2018 (the beginning date of each accounting period of the acquired company), the profit and loss and income contributed to the Group would have varied by EUR 93 thousand and EUR 551 thousand. The Directors have used the income received from 1 January 2018 when determining said amount.

On 6 February 2018, the Company changed its name to LE Retail Rivas, S.L.U. Likewise, on 6 February 2018 the company has requested the ability to avail of the special tax regime for SOCIMIs retroactively to 1 January 2018.

The net cash flow in the acquisition was:

	<u>Thousands of Euros</u>
Cash paid:	
- For stakes	35,361
Less: Cash and cash equivalents	(2,030)
Total	33,331

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Exclusions from the scope of consolidation in the 2017 period

- On 27 September 2017, the Company sold 100% of the company shares in its subsidiary LE Offices Arturo Soria, S.A.U. to Inmobiliaria Colonial, SOCIMI, S.A. for a base price of EUR 19,640 thousand and for a variable price of EUR 876 thousand linked to the measurement of the asset at 31 December 2018, which has fully accrued in the current 2018 period. The amount of net assets of LE Offices Arturo Soria, S.L.U. at the time of sale totalled EUR 16,798 thousand, where the sale therefore made for a profit of EUR 2,842 thousand in the 2017 period and EUR 876 thousand, for the variable price, in the 2018 period recorded under “Profits/(losses) from the disposal of investment property” of the 2017 and 2018 Consolidated Statements of Comprehensive Income, respectively. The value of the investment property and the treasury at the time of sale totalled EUR 29,664 thousand and EUR 1,052 thousand, respectively. Likewise, the value of the debt at the time of sale totalled EUR 30,182 thousand.

At 31 December 2017 EUR 4,200 thousand were outstanding, which were collected in full in the 2018 period.

At 31 December 2018 EUR 876 thousand are outstanding, corresponding to the variable price.

The sale of the holdings was effected after the property assets were held for three years as required by the Law on SOCIMIs (Note 1).

Business combinations in the 2017 period

- On 27 March 2017, the Parent Company acquired 100% of the stakes in the company NPS European Property Toledo, S.L.U. (now LE Retail Abadía, S.L.U.) from the company Rockspring NPS European Property Holding, B.V.

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 Abadía, S.L.U.	Leasing of property	27/03/2017	100%	65,285

There are no contingent consideration assets or liabilities associated with this business combination.

	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment property	49,868	17,785	67,653
Trade and other receivables	138	-	138
Other assets	740	-	740
Cash and other cash equivalent assets	2,725	(230)	2,495
Deferred tax liabilities	-	(4,446)	(4,446)
Other long-term financial liabilities	(996)	-	(996)
Trade and other payables	(299)	-	(299)
Total net assets	52,176	13,109	65,285
Transferred consideration for the 100%			65,285

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On 27 March 2017 a sales contract was signed. The total amount paid by the Parent Company being EUR 65,285 thousand, of which EUR 47,928 thousand was used to cancel the loan held by LE Retail Abadía, S.L.U. at the date of acquisition.

The assets attributed with the fair value are investment property. The main asset of the acquired company was the Abadía Retail Park in Toledo, the fair value of which when purchased was EUR 67,653 thousand. Said asset was leased to several tenants, through lease contracts for the commercial premises that constitute the asset.

The methodology used to calculate the market value consisted in updated valuation of income and expense, updated at the date of the business combination using a market discount rate. The residual value was obtained by applying a return rate to the net profits or losses of the last projected period.

On the date of acquisition, based on IAS 12 on Income Tax, “Deferred tax liabilities” included 25% of the difference between the book 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 Group first identifies the various assets and liabilities acquired in order to calculate the fair value thereof. With regard thereto, with the exception of the investment property, the Group did not identify significant differences compared to the carrying amounts at which they were recorded in the financial statements of the acquired business. No contingent liabilities were recognised in the business combination.

The profit and loss and income from leasing activities incorporated in the 2017 period since the date of acquisition and included in the consolidated income statement for the 2017 period amounted to EUR 1,345 thousand and EUR 3,261 thousand, respectively.

If the acquisition had taken place on 1 January 2017 (the beginning date of each accounting period of the acquired company), the profit and income contributed to the Group would have varied by EUR (126) thousand and EUR 931 thousand, respectively. The Directors have used the income received from 1 January 2017 when determining said amount.

In addition, on 27 March 2017, the Company changed its name to LE Retail Abadía, S.L.U. Likewise, on 19 September 2017 the company requested the ability to avail of the special tax regime for SOCIMIs retroactively to 1 January 2017.

The net cash flow in the acquisition was:

	Thousands of Euros
Cash paid:	
- For stakes	17,357
- For the cancelled loan	47,928
Less: Cash and cash equivalents	(2,495)
Total	62,790

- On 27 March 2017, the Parent Company acquired 100% of the stocks in the companies NPS European Property Retail I, S.L.U., NPS European Property Retail II, S.L.U. and NPS European Property Retail III, S.L.U., (currently LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U.) from the company Rockspring NPS European Property Holding, B.V.

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The information on the three acquired companies and the consideration transferred in the business combination is presented below, broken down by group:

Companies	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Hipermercados I, S.L.U./ LE Retail Hipermercados II, S.L.U./ LE Retail Hipermercados III, S.L.U.	Leasing of property	27/03/2017	100%	49,723

There are no contingent consideration assets or liabilities associated with this business combination.

	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment property	43,319	6,491	49,810
Trade and other receivables	134	-	134
Other assets	605	-	605
Cash and other cash equivalent assets	2,295	-	2,295
Deferred tax liabilities	-	(1,623)	(1,623)
Other long-term financial liabilities	(632)	-	(632)
Trade and other payables	(213)	-	(213)
Total net assets	45,508	4,868	50,376
Transferred consideration for the 100%			49,723
Income from the business combination			653

On 27 March 2017 a private sales contract was signed, the total amount paid by the Parent Company being EUR 49,723 thousand, of which EUR 37,425 thousand was used to cancel the loan held by the three companies at the date of acquisition.

The assets of the acquired companies correspond to a business dealing with supermarkets located in the Autonomous Communities of the Balearic Islands, Cantabria, Basque Country, Navarre and La Rioja, the fair value of which was EUR 49,810 thousand when purchased. Said assets are leased to tenants by virtue of lease contracts.

The methodology used to calculate the market value consisted in preparing income and expense, updated at the date of the business combination using a market discount rate. The residual value was obtained by applying a return rate to the net profits or losses of the last projected period.

On the date of acquisition, based on IAS 12 on Income Tax, "Deferred tax liabilities" included 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.

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The Group first identifies the various assets and liabilities acquired in order to calculate the fair value thereof. With regard thereto, with the exception of the investment property, the Group did not identify significant differences compared to the carrying amounts at which they were recorded in the financial statements of the acquired business. No contingent liabilities were recognised in the business combination.

The profit and loss and income from leasing activities incorporated in the 2017 period since the date of acquisition and included in the consolidated income statement for the 2017 period amounted to EUR 1,797 thousand and EUR 2,904 thousand, respectively.

If the acquisition had taken place on 1 January 2017 (the beginning date of each accounting period of the acquired company), the profit and loss and income contributed to the Group would have varied by EUR 314 thousand and EUR 868 thousand, respectively. The Directors have used the income received from 1 January 2017 when determining said amount.

In addition, on 27 March 2017, the companies changed their names to LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U. Likewise, on 19 September 2017 the companies requested the ability to avail of the special tax regime for SOCIMIs retroactively to 1 January 2017.

The net cash flow in the acquisition would be:

	Thousands of Euros
Cash paid:	
- For stakes	12,298
- For the cancelled loan	37,425
Less: Cash and cash equivalents	(2,295)
Total	47,428

Based on the Directors' best estimate of the acquisitions mentioned in the paragraphs above, these have been recognised as business combinations.

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(3) DISTRIBUTION OF PROFIT

The proposal for allocating the profits for the 2018 period and other reserves of the Parent Company to be presented to the General Shareholders' Meeting is the following:

	Euros
<u>Basis of allocation</u>	
Profit for the period	76,081,968.60
Issue premium	6,647,373.43
<u>Distribution</u>	
Legal reserve	7,608,196.86
Dividends	75,000,000.00
Voluntary reserve	121,145.17

(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; entities that are managed through joint control with third parties are accounted for using the equity method.

The Group companies have been consolidated using the financial statements at 31 December 2018.

(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 subject, or has rights, to receive 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 current substantive rights that give it the ability to direct the relevant activities. The Parent Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when the returns from its involvement have the potential to vary as a result of the subsidiary's economic 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 exclusively to administrative tasks and the relevant activities are directed by means of contractual arrangements.

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The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements from their acquisition date, which is the date on which the Group obtained effective control of the aforementioned subsidiaries. Subsidiaries are excluded from the scope of consolidation as of the date on which control is yielded.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated upon consolidation.

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 reference the same submission 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 financial statements.

(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 financial statements, 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 profits/(losses) for the period of equity-accounted investees".

Details of the joint ventures and relevant information thereon are presented in Appendix I to the Notes on the consolidated financial statements.

(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 transferred assets, 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 Statement of Comprehensive Income.

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

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

Should the acquisition cost of identifiable net assets be below their fair value, the lesser amount shall be recognised in the Consolidated Statement of Comprehensive Income for the period.

(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 financial statements in a standardised format. Therefore, in general, uniform measurement standards have been applied.

In 2018, the same date has been used for the closing date of the financial statements of all the companies included in the scope of consolidation, or the closing dates have been temporarily standardised to match that of the Parent Company.

(e) Scope of consolidation

The companies included in the consolidated Group and the consolidation method used at 31 December 2018 and 31 December 2017 are as follows:

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2018 Period

Company	Inclusion	Activity	% stakes	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 Vidanova Parc, S.L.U.	On acquisition	Leasing of property	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 Retail Alisal, S.A.U	On incorporation	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 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	The acquisition and development of properties for lease	100%	Global
LE Retail Sagunto II, S.L.U.	On incorporation	The acquisition and development of properties for lease	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	The acquisition and development of properties for lease	100%	Global
LE Retail Anec Blau, S.L.U.	On incorporation	Leasing of property	100%	Global
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

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Company	Inclusion	Activity	% stakes	Consolidation method
LE Offices Marcelo Spínola 42, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Gran Vía de Vigo, S.A.U.	On acquisition	Leasing of property	100%	Global
LE Retail Abadía, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados I, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados II, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados III, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Rivas, S.L.U.	On acquisition	Leasing of property	100%	Global

2017 Period

Company	Inclusion	Activity	% stakes	Consolidation method
Inmobiliaria Juan Bravo 3, S.L. (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 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

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Company	Inclusion	Activity	% stakes	Consolidation method
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	The acquisition and development of properties for lease	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	The acquisition and development of properties for lease	100%	Global
LE Retail Anec Blau, S.L.U.	On incorporation	Leasing of property	100%	Global
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 Vía de Vigo, S.A.U.	On acquisition	Leasing of property	100%	Global
LE Retail Abadía, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados I, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados II, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hipermercados III, S.L.U.	On acquisition	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 property and intangible assets

Investment property is property, including that which is under construction or being developed for future use as investment property, which is earmarked totally or partially to earn income 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 property are in operation and occupied by various tenants. These properties are intended for lease to third parties. The Directors of the Parent Company, at the date these financial statements were prepared, do not consider the disposal of these assets in the upcoming year to be very likely and have therefore decided to maintain these assets in the consolidated statement of financial position as investment property.

Investment property 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 property 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 property, the Group commissions independent appraisers to appraise all of its assets, at least, 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 rent, minus a marketing period.

As a general rule, intangible assets are initially valued at their purchase price or cost of production. These assets are subsequently reduced by the corresponding accumulated amortisation and, where appropriate, impairment losses. Said assets are amortised based on their useful lives.

(b) Leases

(i) Classification of leases

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

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(ii) Operating leases

- Lessor accounting records

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

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

Contingent leases 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 benefits.

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 at 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.

The Group classifies financial instruments into the following categories: financial assets and financial liabilities at fair value through profit or loss, showing separately those designated as such upon initial recognition from those that are held for trading or mandatorily measured at fair value through profit or loss, financial assets and financial liabilities measured at amortised cost, and financial assets measured at fair value through other comprehensive income, showing separately equity instruments designated as such from other financial assets. The Group classifies financial assets, other than those designated as at fair value through profit or loss and equity instruments designated as at fair value through other comprehensive income, according to the business model and the contractual cash flow characteristics. The Group classifies financial liabilities as measured at amortized cost, except those designated as at fair value through profit or loss and those held for trading.

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Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition. The Group reclassifies financial assets when it changes its business model for managing them. The Group does not reclassify financial liabilities.

(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) Financial assets and financial liabilities at amortised cost

The Group classifies loans and receivables, as well as financial liabilities (including trade and other payables) as financial assets and financial liabilities at amortised cost.

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

Financial assets and financial liabilities at amortised cost are initially recognised at fair value, plus or minus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

(iv) Impairment and uncollectibility of financial assets

The Group recognises in profit or loss a loss allowance for expected credit losses on financial assets measured at amortised cost.

At each reporting date the Group measures the loss allowance at an amount equal to 12-month expected credit losses if the credit risk on the financial assets has not increased significantly since initial recognition or when it is considered that the credit risk on a financial asset has not increased significantly.

Nevertheless, the Group recognises expected credit losses over the life of the instrument for trade receivables, contract assets and finance lease receivables.

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The Group determines expected credit losses taking into consideration the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the effective interest rate or the effective interest rate adjusted by the original credit risk and reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The maximum period considered by the Group to measure expected credit losses is the contractual period, including renewal options, over which the Group is exposed to credit risk. However, for those financial instruments that include both a loan and an undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period, the Group measures expected credit losses over the period that the Group is exposed to credit risk and expected credit losses are not mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

Expected credit losses represent the difference between contractual and expected flows, both with regard to amount and term.

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 foreclosing and sale costs, 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 has determined the impairment of cash and cash equivalents for the 12-month expected credit losses. The Group considers that cash and cash equivalents have low credit risk based on the credit risk ratings of financial institutions where the cash or deposits are deposited.

For trade receivables the Group determines the expected credit losses over the life of the financial assets collectively, as all of these financial assets comprise lease receivables. Expected credit losses are estimated based on the total receivables once they are 90 days past due, based on historical projected information that is reasonably available.

As of 90 days, with past due and unpaid balances, trade receivables are considered uncollectible and are derecognised, regardless of whether the Group continues with active collection management, either by legal or negotiated channels. The subsequent recovery of derecognised amounts is recognised as a credit risk gain.

(v) *Derecognition, modification and cancellation 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.

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(vi) 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, provided the instruments have substantially different terms.

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

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the profits/(losses) 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 under profits/(losses).

(d) Derivative financial instruments and accounting of hedging transactions

Derivative financial instruments are initially recognised using the same criteria as those described for financial assets and financial liabilities. Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or minus any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

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

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed. Basically these risks relate to changes in interest rates. Within the framework of these operations, the Group arranges financial hedging instruments.

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At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will measure hedge effectiveness.

Hedging transactions qualify for hedging accounting when there is an economic relationship between the hedged item and the hedging instrument, the credit risk does not dominate the value changes that result from that economic relationship and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually uses to hedge that quantity of hedged item. However, that designation should not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness, irrespective of whether recognised or not, that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting

The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether a hedging relationship meets the hedge effectiveness requirements prospectively. The Group assesses hedge effectiveness at each reporting period or when significant changes arise that affect the hedge effectiveness requirements.

The Group assesses the quality of the hedge effectiveness provided that the critical terms of the instrument and hedged item are aligned. When the critical terms are not aligned, the Group uses a hypothetical derivative with terms that match the critical terms of the hedged item to assess and measure hedge effectiveness

When measuring hedge ineffectiveness the Group considers the time value of money. Consequently, the Group determines the value of the hedged item on a present value basis and therefore the change in the value of the hedged item also includes the effect of the time value of money.

(i) Cash flow hedges

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance costs the amount that is not expected to be recovered.

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If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the consolidated income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the Group reclassifies the associated gains and losses that were recognised in other comprehensive income and includes them in the initial cost or carrying amount of the non-financial asset or liability.

(ii) Discontinuation of hedge accounting

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio, but the risk management objective for that hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing). Rebalancing refers to the adjustments made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. The Company accounts for rebalancing as a continuation of the hedging relationship. On the rebalancing date, the Group determines the ineffectiveness of the hedging relationship and recognises any ineffectiveness in profit or loss.

The Group discontinues prospectively the hedging relationship when all or part of the hedging relationship ceases to meet the qualifying criteria. This includes situations where the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Group's documented risk management strategy.

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

At 31 December 2018, after assessing on previous periods the hedging relationships of interest rate hedging financial instruments contracted with Group companies LE Retail El Rosal, S.L.U, LE Retail As Termas, S.L.U., LE Retail Hiper Ondara, S.L.U. (Megapark) and LE Offices Joan Miró 21, S.L.U. said hedging relationships were classified as ineffective. Therefore, the Group recognised the change in fair value of said instruments in the amount of EUR 710 thousand on the Consolidated Statement of Comprehensive Income. In addition, at 31 December 2018, the impact on the income statement of recycling equity of the financial instruments of LE Retail El Rosal, S.L.U. and LE Retail As Termas, S.L.U. totalled negative EUR (314) thousand (Note 19c).

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

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

- The fair values of financial assets and liabilities with standard terms and conditions that are traded on active markets and cash are determined by referencing the prices listed on the market.
- The fair value of other financial assets and liabilities (excluding derivative instruments) are determined according to the measurement 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 measurement of cap and floor fair values.

Furthermore, in the measurement 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 measurement 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).
- Level 3: assets referencing measurement 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 2018 are as follows:

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	Thousands of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial liability instruments (Note 19c)	-	4,071	-	4,071
	-	4,071	-	4,071

The Group's financial assets and liabilities measured at fair value at 31 December 2017 are as follows:

	Thousands of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial liability instruments	-	2,098	-	2,098
	-	2,098	-	2,098

Additionally, Note 8 includes information regarding the determination of the fair value of investment property, pursuant to measurement 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 in transactions with own equity instruments are not recognised.

The subsequent depreciation 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 reserve accounts.

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' General Meeting.

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, 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.

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

- (i) 100% of profits deriving from dividends or shares of profits distributed by the entities referred to in Article 2.1 of Law 11/2009.
- (ii) At least 50% of the profits derived from the transfer of the properties and shares or equity investments referred to in Article 2.1 of Law 11/2009, held for the purpose of complying with the principal statutory activity, realised once the periods mentioned in Article 3.2 of Law 11/2009 have elapsed. The remainder of these profits must be reinvested in other properties or equity investments to be held for the purpose of complying with the statutory activity, within three years after the transfer date. Otherwise, these profits must be distributed in full together with any profits obtained during the period in which the reinvestment period expires. If the items in which the investment is made are transferred in the 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.

(h) Cash and cash equivalents

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

In addition, the Group has securities granted for the amount of EUR 8,396 thousand, mostly related to investment property under construction. In their best estimate, the Group Directors do not expect any obligation to materialise as a result thereof.

(i) Employee benefits

Short-term 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.

The Group recognises the expected cost of profit-sharing and bonus plans for workers 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) Payments based on shares

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 liability if the transaction is settled with an amount that is based on the value of the equity instruments.

(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 amounts recognised as provisions in the consolidated statement of financial position are the best estimate at the reporting date of the expenditure required to settle the present obligation, after taking into account all risks and uncertainties surrounding the provision and, where material, the financial effect of discounting, provided that the expenditures 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 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 under profits/(losses).

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 income statement item under which the related expense was recognised, and any surplus, where appropriate, is accounted for in other income.

(l) Income recognition

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

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 outstanding rent or bonus will be recorded in the last period prior to contract termination.

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(m) Lease of investment property to third parties

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

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

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

Invoices issued to tenants include EUR 20,689 thousand (EUR 19,544 thousand at 31 December 2017) for communal charges (shared utility costs, services related to the management of the property, etc.) passed on to them. This amount is presented, according to its nature, compensated the relevant expense under "Other expenses" in the accompanying Consolidated Statement of Comprehensive Income at 31 December 2018.

The Group regularly assesses whether any service provision 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 Group 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.

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 expected to be paid or recovered in the future for differences between the carrying amount of assets and liabilities and their tax value, as well as tax loss carry-forwards and tax deductions pending fiscal 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.

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(ii) Tax regime for SOCIMIs

The Parent Company and the subsidiaries (with the exception of Inmobiliaria Juan Bravo 3, S.L., LE Retail Marcelo Spínola, S.L. and LAR España Inversión Logística IV, S.L.) file tax returns under the special regime for SOCIMIs. This tax regime, following the amendment introduced by Law 16/2012 of 27 December, 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 regardless of whether they are quoted in organised markets. Similarly, the main source of income for these companies must be the real estate market, 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 distributed dividends. 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 to shareholders.

Pursuant to the ninth transitional Provision of Law 11/2009 of 26 October, amended by Law 16/2012 of 27 December, 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 to shareholders with a 5% or greater interest in the share capital of the entity, when such dividends are tax-exempt or are taxed at a rate of less than 10% at the shareholders' seat of economic activity. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date. The Group has established a procedure ensuring that shareholders confirm their tax status and, where applicable, 19% of the amount of the dividend distributed to the shareholders that do not meet the aforementioned tax requirements is withheld.

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn income 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. To this end, assets and liabilities are classified as current if they meet the following criteria:

- 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

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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 Material Goods linked to the investment property in operation or under construction. In addition, the Group has taken out insurance policies 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 any 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) Statement of cash flows

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

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

(t) Non-current assets held for sale and liabilities connected to non-current assets held for sale

The Group classifies a non-current asset or a disposal group, as well as directly connected liabilities, as being held for sale when a decision has been made to sell same and such sale is expected to happen within the next twelve months.

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These assets or disposal groups are measured at their carrying amount or fair value after deducting the necessary sales costs, whichever is less.

Assets classified as non-current and held for sale are not amortised, but at the date of each balance sheet the appropriate value adjustments are made so the carrying value does not exceed the fair value minus sales costs.

Income and expenses generated by non-current assets and disposal groups comprising elements held for sale that do not meet the requirements to be classified as discontinued operations are recognised in the Consolidated Statement of Comprehensive Income that corresponds to the nature of said asset, disposal group or liability.

(6) SEGMENT REPORTING

The Group is organised internally into operating segments, with four distinct lines of business: shopping centres (including the shopping centre and single-tenant commercial premise rental business), offices (including the office rental business), residential (including the development of a building project in Madrid) and other assets (including information on the logistics bay rental business that was fully divested in the 2018 period, as well as other investments in land). These are the strategic business units.

At 31 December 2018 the Group comprises the operating segments listed below, with the following income and principal services:

- Shopping centres: Txingudi, Las Huertas, Hipermercado Albacenter, Anec Blau, Portal de la Marina, Albacenter, As Termas, Portal de la Marina Hypermarket, El Rosal, VidaNova Parc, Lagoh (under development), As Termas Petrol Station, Megapark Barakaldo Retail Park, Vistahermosa Retail Park, Gran Vía de Vigo, Abadía Retail Park and Shopping Centre, Portfolio Supermarkets, Rivas Retail Park and plot M4-2.
- Office buildings: Marcelo Spínola and Eloy Gonzalo. (Note 11).
- Logistics: Cheste plot.
- Residential: Stakes in the Inmobiliaria Juan Bravo 3, S.L., owner at 31 December 2018 of a finished building currently delivering the different events on Calle Juan Bravo in Madrid.

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 this to be the most relevant information for assessing the profits generated by specific segments as compared with other groups that operate in these businesses.

Details of these activities for 2018 and 2017 are as follows:

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<u>Consolidated Statement of Comprehensive Income</u>	Thousands of Euros					Total
	2018					
	Shopping centres	Office buildings	Logistics bays	Residential (Stakes in associates)	Head Office and Central Services *	
Income from external customers:						
Income from leases	73,218	1,582	3,041	-	-	77,841
Total income	73,218	1,582	3,041	-	-	77,841
Other income	3,706	26	1	-	-	3,733
Changes to the fair value of investment property	55,601	9,017	5,853	-	-	70,471
Depreciation charges	(307)	-	-	-	-	(307)
Staff expenses	-	-	-	-	(502)	(502)
Operating expenses **	(44,386)	(4,553)	(2,271)	-	(3,938)	(55,148)
Profits/(losses) from the disposal of investment property	3,119	8,400	17,022	-	-	28,541
Operating profit	90,951	14,472	23,646	-	(4,440)	124,629
Net finance cost **	(14,967)	(1,918)	(758)	27,890	(130)	10,117
Profits/(losses) for the period from joint ventures accounted for using the equity method	-	-	-	(899)	-	(899)
Profit before taxes	75,984	12,554	22,888	26,991	(4,570)	133,847
Income tax expense/income	(231)	(2,205)	(2,103)	-	-	(4,539)
	<u>75,752</u>	<u>10,350</u>	<u>20,785</u>	<u>26,991</u>	<u>(4,570)</u>	<u>129,308</u>

* The Group's line item "Head Office and Central Services" essentially comprises corporate income and expense.

** In the 2018 period, the Parent Company re-invoiced the amount corresponding to Operating expenses to the subsidiaries. The amount of EUR 35,485 thousand was attributable to shopping centres at 31 December 2018. Of said amount EUR 3,728 thousand was attributable to office buildings, EUR 2,069 thousand to logistics bays and the rest is held under the Head Office. In addition, the Parent Company re-invoiced the amount corresponding to financial expenses accrued through the Bonds to its subsidiaries. The amount of EUR 2,440 thousand was attributable to shopping centres, EUR 1,152 thousand was attributable to office buildings, EUR 758 thousand to logistics bays.

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Consolidated Statement of Comprehensive Income

	Thousands of Euros					Total
	Shopping centres	Office buildings	Logistics bays	Residential (Stakes in associates)	Head Office and Central Services *	
	2017					
Income from external customers:						
Income from leases	65,865	6,137	5,598	-	-	77,600
Total income	65,865	6,137	5,598	-	-	77,600
Other income	2,030	97	70	-	1	2,198
Changes to the fair value of investment property	72,423	16,333	12,802	-	-	101,558
Other results	653	-	-	-	-	653
Depreciation charges	(15)	-	-	-	-	(15)
Staff expenses	-	-	-	-	(542)	(542)
Operating expenses **	(9,361)	(1,500)	(482)	-	(24,504)	(35,847)
Profits/(losses) from the disposal of investment property	-	2,842	-	-	-	2,842
Operating profit	131,595	23,909	17,988	-	(25,045)	148,447
Net finance cost **	(7,075)	(1,164)	12	2,072	(4,567)	(10,722)
Profits/(losses) for the period from joint ventures accounted for using the equity method	-	-	-	(2,119)	-	(2,119)
	<u>124,520</u>	<u>22,745</u>	<u>18,000</u>	<u>(47)</u>	<u>(29,612)</u>	<u>135,606</u>

* The Group's line item "Head Office and Central Services" essentially comprises corporate income and expense.

** In the 2017 period, the Parent Company re-invoiced the amount corresponding to Operating expenses to the subsidiaries, a fact not reflected in the table. The amount of EUR 17,318 thousand was attributable to shopping centres at 31 December 2017, EUR 2,396 thousand was attributable to office buildings, EUR 1,365 thousand to logistics bays and the rest is held under the Head Office. In addition, the Parent Company re-invoiced the amount corresponding to financial expenses accrued through the Bonds to its subsidiaries. The amount of EUR 2,765 thousand was attributable to shopping centres, EUR 730 thousand was attributable to office buildings, EUR 837 thousand to logistics bays.

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2018					
	Shopping centres	Office Buildings	Logistics bays	Residential (Stakes in associates)	Head Office and other Central Services	Total
Intangible assets	8,556	-	-	-	-	8,556
Investment property	1,363,339	-	307	-	-	1,363,646
Financial assets with associates	-	-	-	-	-	-
Equity-accounted investees	-	-	-	4,627	-	4,627
Non-current financial assets	11,332	94	-	-	-	11,426
Trade and long-term other receivables	2,733	-	-	-	-	2,733
Total non-current assets	1,385,960	94	307	4,627	-	1,390,988
Non-current assets held for sale	-	78,081	-	-	-	78,081
Trade and other receivables	10,254	620	488	-	2,400	13,762
Other current financial assets	3,139	-	-	-	129	3,268
Other current assets	3,639	-	56	-	481	4,176
Cash and cash equivalents	35,980	20,669	1,117	-	133,562	191,328
Total current assets	53,012	99,370	1,661	-	136,572	290,615
Total assets	1,438,972	99,464	1,968	4,627	136,572	1,681,603

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2018					
	Shopping centres	Office buildings	Logistics bays	Residential (Stakes in associates)	Head Office and other Central Services	Total
Liabilities connected to non-current assets held for sale	-	810	-	-	-	810
Financial liabilities from issue of bonds and other marketable securities	-	-	-	-	142,559	142,559
Bank borrowings	434,861	-	-	-	-	434,861
Deferred tax liabilities	17,201	2,204	-	-	-	19,405
Derivatives	4,071	-	-	-	-	4,071
Other non-current liabilities	17,100	140	-	-	-	17,240
Trade and other payables	38,373	1,101	2,799	-	11,886	54,159
Total non-current and current liabilities	511,606	4,255	2,799	-	154,445	673,105

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2017					
	Shopping centres	Office Buildings	Logistics bays	Residential (Stakes in associates)	Head Office and other Central Services	Total
Intangible assets	8,673	-	-	-	-	8,673
Investment property	1,129,020	85,450	91,880	-	-	1,306,350
Financial assets with associates	-	-	-	2,161	-	2,161
Equity-accounted investees	-	-	-	5,526	-	5,526
Non-current financial assets	10,508	337	1,083	-	-	11,928
Total non-current assets	1,148,201	85,787	92,963	7,687	-	1,334,638
Non-current assets held for sale	44,746	79,549	-	-	-	124,295
Trade and other receivables	9,153	684	319	-	4,257	14,413
Financial assets with associates	-	-	-	27,718	-	27,718
Other current financial assets	2,915	4,199	-	-	4	7,118
Other current assets	153	2	44	-	354	553
Cash and cash equivalents	33,468	1,511	2,821	-	7,817	45,617
Total current assets	90,435	85,945	3,184	27,718	12,432	219,714
Total assets	1,238,636	171,732	96,147	35,405	12,432	1,554,352

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2017					
	Shopping centres	Office buildings	Logistics bays	Residential (Stakes in associates)	Head Office and other Central Services	Total
Liabilities connected to non-current assets held for sale	18,852	28,766	-	-	-	47,618
Financial liabilities from issue of bonds and other marketable securities	-	-	-	-	142,269	142,269
Bank borrowings	357,097	9,648	-	-	-	366,745
Deferred tax liabilities	14,613	-	-	-	-	14,613
Derivatives	1,958	140	-	-	-	2,098
Other non-current liabilities	14,731	369	1,082	-	39	16,221
Short-term debts with Group companies and associates	-	-	-	-	7,505	7,505
Trade and other payables	20,962	986	404	-	16,565	38,917
Other current liabilities	-	-	-	-	147	147
Total non-current and current liabilities	428,213	39,909	1,486	-	166,525	636,133

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(u) Geographical segments

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

The table below summarises, by geographical area, the income, investment property (including those classified as non-current assets held for sale) and intangible assets (solely those that generate income) of each of the Group's assets:

	Thousands of Euros					
	31 December 2018					
	Income	%	Investment property	Non- current assets held for sale (Note 11)	Intangible assets	%
Basque Country	17,408	22.36	273,296	-	8,554	19.46
Galicia	15,315	19.68	260,560	-	1	17.99
Community of Valencia	12,473	16.02	240,932	-	1	16.63
Castile-La Mancha	11,583	14.89	143,760	-	-	9.92
Castile and León	7,779	9.99	122,810	-	-	8.48
Catalonia	6,593	8.47	97,060	-	-	6.70
Community of Madrid	4,268	5.48	67,500	76,400	-	9.93
Balearic Islands	840	1.08	11,547	-	-	0.80
Navarre	779	1.00	5,579	-	-	0.39
Cantabria	608	0.78	6,187	-	-	0.43
La Rioja	195	0.25	2,415	-	-	0.16
Andalusia	-	-	132,000	-	-	9.11
	<u>77,841</u>	<u>100.00</u>	<u>1,363,646</u>	<u>76,400</u>	<u>8,556</u>	<u>100.00</u>

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Thousands of Euros

	31 December 2017					
	Income	%	Investment property	Non-current assets held for sale (Note 11)	Intangible assets	%
Basque Country	15,903	20.49	269,063	-	8,671	19.38
Galicia	14,792	19.06	247,225	-	1	17.25
Community of Valencia	11,524	14.85	210,470	-	1	14.69
Castile–La Mancha	11,494	14.81	197,742	-	-	13.80
Castile and León	7,725	9.96	121,550	-	-	8.48
Catalonia	7,044	9.08	116,830	-	-	8.15
Community of Madrid	5,708	7.36	64,000	88,017	-	10.61
Cantabria	1,668	2.15	6,112	19,313	-	1.77
Navarre	964	1.24	5,539	10,700	-	1.13
Balearic Islands	633	0.82	11,426	-	-	0.80
La Rioja	145	0.18	2,393	-	-	0.17
Andalusia	-	-	54,000	-	-	3.77
	<u>77,600</u>	<u>100</u>	<u>1,306,350</u>	<u>118,030</u>	<u>8,673</u>	<u>100.00</u>

The Group carries out its activity entirely in Spain.

(v) Main customers

This item presents details of the ten tenants that contributed the most income during 2018, as well as the main characteristics of each:

Position	Trade name	Project	% of total income	% Accumulated	Expiration*	Sector
1	Inditex Group	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo	7.31	7.31	2025-2034	Textile/Fashion
2	Centros Comerciales Carrefour, S.A.	Alovera II/El Rosal/Gran Vía de Vigo/Hiper Portal de la Marina	7.20	14.51	2028-2060	Retail/Hypermarket
3	Eroski Sociedad Cooperativa	Hiper Albacenter/ As Termas/Portfolio Supermarkets	5.62	20.13	2019-2051	Retail
4	Mediamark, S.A.	Megapark/Nuevo Alisal/Parque Abadía/Vistahermosa/Villaverde/As Termas/Rivas	4.38	24.51	2023-2041	Technology
5	Decathlon España, S.A.	Megapark/Abadía/VidaNova Parc	3.02	27.53	2036-2043	Retail
6	Conforama España, S.A.	Abadía/VidaNova Parc/Rivas/Megapark	2.61	30.14	2028-2038	Retail
7	El Corte Inglés, S.A.	Megapark/Galaria/Gran Vía de Vigo/Rivas	2.42	32.56	2020-2029	Retail
8	Tendam Retail, S.A.	Albacenter/Anec Blau/As Termas/Abadía/Huertas/Rosal/Gran via de Vigo/Vistahermosa/Txingudi/Megapark/VidaNova Parc/Portal de la Marina	2.23	34.79	2019-2030	Textile/Fashion
9	Alcampo, S.A.	Vistahermosa/Abadía	2.05	36.84	2055-2061	Retail/Food Industry
10	Hennes & Mauritz, S.L.	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo/Txingudi	1.93	38.77	2022-2047	Textile/Fashion

*The information above references the contracts that were in force during the 2018 period, where the effect of income linearisation was not taken into account. Furthermore, the expiration of contracts refers to the final date of the contract, although the contract may have the option for early termination.

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(7) INTANGIBLE ASSETS

At 31 December 2018, intangible assets mainly included a right of use regarding a floor space where the Megapark Barakaldo Leisure Area is located. Said leisure area is currently operated by Group company LE Retail Hiper Ondara, S.L.U., after the same merged with LE Retail Megapark, S.L.U. on 10 September 2018, and earns income from leases.

The right of use, which matures in 2056, and its net carrying amount at 31 December 2018 amounts to EUR 8,554 thousand, having accrued amortisation expenses of EUR 307 thousand in the period. Once the right of use expires, the assets contained on leased floor space will be delivered to the Barakaldo City Council.

The recoverability of the intangible asset, specifically the recorded surface rights, was calculated using the fair value provided by a professionally accredited, external, independent appraisal company with recent experience in the locations and categories of the properties being appraised. Said appraisal company provides the fair value of the surface rights each 6 months, where the fair value at 31 December 2018 was EUR 13,700 thousand.

The appraisal is conducted in accordance with the Professional Standards published by The Royal Institution of Chartered Surveyors (“Red Book”), based in the United Kingdom and the method is the same used for the Group’s investment property (Note 8).

In addition, at 31 December 2018 and 31 December 2017, the Company holds industrial property under the “As Termas” and “Vistahermosa” brands for EUR 2 thousand.

(8) INVESTMENT PROPERTY

At 31 December 2018 the investment property owned by the Group mainly comprises 14 shopping centres (1 under construction), 2 hypermarkets (Ondara and Albacenter), the As Termas Petrol Station and 22 commercial premises, and the land on which these are located, which are held to obtain rental income and are therefore not occupied by the Group.

Investment property is presented at fair value.

The Group has recognised the following investment property at fair value at 31 December 2018 and 31 December 2017:

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	Thousands of Euros	
	Investment property held	
	31/12/2018	31/12/2017
Shopping centres and single-tenant commercial properties	1,362,339	1,129,020
Office buildings	-	85,450
Logistics bays and other assets	1,307	91,880
	1,363,646	1,306,350

The composition and movements that had occurred in the accounts included under the heading “Investment property” in the Group’s consolidated financial statement of financial position at 31 December 2018 and 2017 were as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Balance at the beginning of the period	1,306,350	1,191,089
Additions for the period	123,000	43,934
Non-current assets held for sale (Note 11)	(169,382)	(118,030)
Change to the scope of consolidation (Note 2g)	63,555	87,799
Sale of property	(25,207)	-
Changes in fair value	65,330	101,558
Balance at the end of the period	1,363,646	1,306,350
Fair value	1,363,646	1,306,350

Additions and changes to the scope

2018 Period

Type of asset	Company	Thousands of Euros	
		Additions	Changes to the scope
Shopping centre	Abadía (a)	14,352	-
Shopping centre	Rivas (Note 2g)	-	63,555
Shopping centre	Lagoh (b)	51,769	-
Shopping centre	M4-2 (c)	1,000	-
Retail Park	VidaNova Parc (d)	27,550	-
Offices	Eloy Gonzalo (e)	3,598	-
Retail Park	Megapark Barakaldo (f)	6,598	-
Shopping centre	Portal de la Marina (f)	2,695	-
Shopping centre	Albacenter (f)	2,326	-
-	Improvements to other assets and fit-outs (g)	13,112	-
		123,000	63,555

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- (a) This amount corresponds to the acquisition of the Shopping Centre in Parque Abadía, Toledo. On 20 February 2018, the Company formalised the purchase deed for the Shopping Centre for EUR 14,352 thousand, taking into account the expenses directly associated with said purchase.
- (b) This amount corresponds to the construction of the Lagoh Shopping Centre in Seville, by the company Lar España Shopping Centres VIII, S.L.U. In the 2018 period EUR 47,269 thousand in construction costs were incurred. In addition, the purchase of an adjacent plot of land measuring 12,000 m2 was formalised for EUR 4,500 thousand.
- (c) This amount corresponds to LE Retail Sagunto II, S.L.U.'s purchase of a plot in Sagunto for EUR 1,000 thousand.
- (d) This amount corresponds to the construction of a shopping centre in VidaNova Parc in Sagunto by the company LE Retail VidaNova Parc, S.L.U. In the 2018 period EUR 27,550 thousand in construction costs were incurred.
- (e) This amount refers to the comprehensive renovations that were completed in the current period to the Eloy Gonzalo office building.
- (f) The amounts mainly correspond to renovations performed on the Megapark, Portal de la Marina and Albacenter property assets.
- (g) This amount refers to improvements and fit-outs effected in the period in the rest of the assets in the Group's portfolio.

2017 Period

Type of asset	Company	Thousands of Euros	
		Additions	Changes to the scope
Shopping centre	Sagunto (a)	12,641	-
Logistics bay	Cheste (b)	2,271	-
Shopping centre	Palmas Altas (c)	13,381	-
Shopping centre	Txingudi (d)	3,812	-
Offices	Eloy Gonzalo (e)	2,437	-
-	Improvements to other assets and fit-outs (f)	9,392	-
Offices	Arturo Soria (Note 2g)	-	(29,664)
Shopping centre	Abadía (Note 2g)	-	67,653
Shopping centre	Portfolio Supermarkets (Note 2g)	-	49,810
		43,934	87,799

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- (a) This is in reference to the acquisition of two plots in Sagunto, Valencia, where construction of a retail park is planned. On 5 April 2017 the Company formalised the deed of purchase for the plots M2-1 and M3-1 for EUR 7,018 thousand. Furthermore, construction costs in the amount of EUR 5,623 thousand in total were capitalised prior to the start-up of the retail park.
- (b) This is in reference to the acquisition of two plots in Cheste, Valencia, where construction of a logistics bay was planned. On 25 January 2017 and 23 February 2017, the Company formalised the deeds of purchase for the two sites for EUR 1,975 thousand and EUR 296 thousand, respectively.
- (c) This is in reference to the construction of the shopping centre Lagoh, in Seville. In the 2017 period EUR 13,381 thousand in construction costs were incurred.
- (d) This amount mainly refers to the current renovations at the Txingudi Shopping Centre.
- (e) This amount refers to the comprehensive renovations completed at the Eloy Gonzalo Office Building.
- (f) This amount refers to improvements and fit-outs effected in the period in the rest of the assets in the Group's portfolio.

Sale of property

On 28 December 2018, the sale of the unencumbered Joan Miró 21 Office Building was signed with Grantham Invest, S.L. for EUR 28,800 thousand, earning capital gains net of the expenses associated with said sale totalling EUR 4,618 thousand recorded under "Profits/(losses) from the disposal of investment property" in the Consolidated Intermediate Statement of Comprehensive Income, with the 3-year maintenance period required by the SOCIMI Regime having been completed on the aforesaid date.

In addition, on 15 October 2018 the sale of land in Sagunto to Inmobiliaria Noroto, S.L. was signed for EUR 1,025 thousand, with there being no profits or losses from the sale at the consolidated level. This sale took place before completing the 3-year period for maintaining the asset under lease as required by the SOCIMI regime, and therefore the amount of EUR 232 thousand was accrued in corporate income tax.

Disclosures on the fair value of investment property

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

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	Thousands of Euros			
	2018			
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment property</i>				
Shopping centres				
- Land	340,225	-	-	340,225
- Buildings	1,023,114	-	-	1,023,114
Industrial bays				
- Land	307	-	-	307
Total assets measured recurrently at fair value	<u>1,363,646</u>	<u>-</u>	<u>-</u>	<u>1,363,646</u>

	Thousands of Euros			
	2017			
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment property</i>				
Shopping centres				
- Land	325,989	-	-	325,989
- Buildings	803,031	-	-	803,031
Office buildings				
- Land	24,738	-	-	24,738
- Buildings	60,712	-	-	60,712
Industrial bays				
- Land	14,258	-	-	14,258
- Buildings	77,622	-	-	77,622
Total assets measured recurrently at fair value	<u>1,306,350</u>	<u>-</u>	<u>-</u>	<u>1,306,350</u>

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

At 31 December 2018 and 2017, details of the gross lettable area and occupancy rate by line of business are as follows:

	2018	
	Square metres	
	Gross leasable area	Occupancy rate
Shopping centres and single-tenant commercial property (*)	509,755	92.00%
Office buildings (**)	-	-

(*) The square meters of the Lagoh site have not been taken into account, since it is currently under construction.

(**) The Eloy Gonzalo and Cardenal Marcelo Spínola office buildings, which are classified as held for sale, have occupancy rates of 100% and 21.5%, and measure 6,401 sq. meters and 8,875 square meters, respectively, said square meters having not been included.

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	2017	
	Square metres	
	Gross leasable area	Occupancy rate
Shopping centres and single-tenant commercial property (*)	423,968	93.13 %
Office buildings (**)	17,482	49.15 %
Logistics bays (***)	161,841	100.00 %

() The square meters of the VidaNova Parc and Lagoh sites have not been taken into account, since they were under construction at the time. Furthermore, retail parks classified as held for sale, which have a surface area of 16,148 square meters and a 100 % occupancy rate, were not taken into account.*

*(**) The square meters of the Eloy Gonzalo 27 office building have not been taken into account, since it is being remodelled. Furthermore, the Egeo Office Building, which is classified as held for sale and has a surface area of 18,245 square meters and a 93 % occupancy rate, was not taken into account.*

*(***) The square meters of the Cheste site have not been taken into account, since it was currently under construction.*

All investment properties that are rented or are expected to be rented under leases are classified as investment properties. In accordance with IAS 40, the fair value of the investment property has been 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 property portfolio every six months (June and December) or on a quarterly basis in the case of assets under construction or comprehensive renovations.

The appraisal is conducted in accordance with the 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 discounting 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 11 is calculated applying a rate of return ("exit yield" or "cap rate") to the net income projections for year 11. 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.

The appraisal companies that performed the measurements of the Group's investment property at 31 December 2018 are listed below:

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	Appraisal Company
Txingudi Shopping Centre	Cushman & Wakefield
Las Huertas Shopping Centre	Cushman & Wakefield
Anec Blau Shopping Centre	Jones Lang LaSalle España
Albacenter Shopping Centre	Jones Lang LaSalle España
Cardenal Marcelo Spínola Office Building	Cushman & Wakefield
Albacenter Hypermarket	Jones Lang LaSalle España
Eloy Gonzalo Building	Cushman & Wakefield
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 Retail Park	Cushman & Wakefield
Portal de la Marina Hypermarket	Cushman & Wakefield
Palmas Altas Shopping Centre (under development)	Cushman & Wakefield
El Rosal Shopping Centre	Jones Lang LaSalle España
VidaNova Parc Retail Park	Jones Lang LaSalle España
Vistahermosa Retail Park	Jones Lang LaSalle España
Abadía Retail Park	Jones Lang LaSalle España
Abadía Shopping Centre	Jones Lang LaSalle España
22 Retail Units (Eroski Hypermarkets)	Cushman & Wakefield
Rivas Futura Retail Park	Cushman & Wakefield

Fees paid by the Group to the appraisal companies for measurements in the 2018 and 2017 periods are as follows:

	Thousands of Euros	
	2018 Period	2017 Period
Appraisal services	208	174
	208	174

Assumptions used in measurements

In terms of calculating the fair value of investment property, including that classified as non-current assets held for sale (Nota 11), the material unobservable input data used to measure the fair value correspond to rental income, the Exit Yield and the discount cash flow used in projections. Quantitative information on the material unobservable input data used to measure the fair value is shown below:

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2018 Period

	Exit Yield	Discount rate
Shopping centres and single-tenant commercial properties (*)	5.00-7.00	7.49-11.02
Office buildings (**)	4.21-4.32	5.05-7.35

(*) The data on the asset under construction Lagoh is not included.

(**) All office buildings are classified as non-current assets held for sale (Nota 11)

2017 Period

	Exit Yield	Discount rate
Shopping centres and single-tenant commercial properties (*)	5.50-8.59	5.50-12.29
Office buildings (*)	4.08-5.08	7.60-7.64
Logistics bays (*)	6.5-7.5	8.17-9.59

(*) The data on the assets under construction, Cheste, Lagoh and VidaNova Parc, are not included.

Rental amounts per square metre used in the appraisal have ranged between Euros 7.7 and Euros 28.4 per month, depending on the type of asset and location. Rental growth rates used in the projections are mainly linked to the CPI.

Sensitivity analysis of the assumptions used

The effect on consolidated assets and the Consolidated Statement of Comprehensive Income of a one-quarter percentage point, one-half percentage point and one percentage point variation in the discount rate, income and exit yields with respect to investment property, would be as follows:

Change in discount rate

	Thousands of Euros					
	31/12/2018					
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Discount rate increase	(27,370)	(51,958)	(103,355)	(27,370)	(51,958)	(103,355)
Discount rate decrease	28,529	52,524	107,000	(28,529)	(52,524)	107,000

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Thousands of Euros						
31/12/2017						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Discount rate increase	(19,728)	(41,221)	(81,783)	(19,728)	(41,221)	(81,783)
Discount rate decrease	23,342	45,783	91,512	23,342	45,783	91,512

Change in income

Thousands of Euros						
31/12/2018						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Income increase	399	1,733	5,254	399	1,733	5,254
Income decrease	(2,902)	(4,531)	(8,028)	(2,902)	(4,531)	(8,028)

Thousands of Euros						
31/12/2017						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Income increase	3,032	4,750	8,474	3,032	4,750	8,474
Income decrease	(1,929)	(2,889)	(6,329)	(1,929)	(2,889)	(6,329)

Change in Exit Yield

Thousands of Euros						
31/12/2018						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Exit Yield increase	(13,729)	(49,571)	(114,623)	(13,729)	(49,571)	(114,623)
Exit Yield decrease	69,637	115,767	216,611	69,637	115,767	216,611

Thousands of Euros						
31/12/2017						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Exit Yield increase	(31,150)	(60,645)	(113,411)	(31,150)	(60,645)	(113,411)
Exit Yield decrease	36,466	74,820	164,681	36,466	74,820	164,681

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The details of “Changes in fair value of investment property” in the Consolidated Statement of Comprehensive Income at 31 December 2018 and 31 December 2017 are as follows:

	2018	
	Thousands of Euros	
	Investment property	Non-current assets held for sale
Shopping centres and single-tenant commercial properties	55,401	200
Office buildings	9,929	(912)
Logistics bays	-	5,853
	<u>65,330</u>	<u>5,141</u>
	2017	
	Thousands of Euros	
	Investment property	Non-current assets held for sale
Shopping centres and single-tenant commercial properties	72,423	-
Office buildings	16,333	-
Logistics bays	12,802	-
	<u>101,558</u>	<u>-</u>

(9) OPERATING LEASES – LESSOR

At 31 December 2018 the Group has the shopping centres, office buildings and single-tenant commercial properties leased to third parties under operating leases.

The occupancy rates of the buildings for lease at 31 December 2018 and 2017 are as follows:

	Occupancy rate	
	31/12/2018	31/12/2017
Shopping centres and single-tenant commercial property (*)	92.00%	93.13%
Office buildings (**)	-	49.15%
Logistics bays	-	100.00%

(*) The square meters of the Lagoh Shopping Centre have not been taken into account, since it is currently under construction.

(**) The Eloy Gonzalo and Cardenal Marcelo Spínola office buildings, which are classified as held for sale, have occupancy rates of 100% and 21.5%, and measure 6,401 sq. meters and 8,875 square meters, respectively, said square meters having not been included.

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

		2018	
		Thousands of Euros	
		Income	Fair value
Shopping centres	Txingudi	2,519	37,500
	Huertas	973	12,600
	Albacenter	2,802	44,960
	Hiper Albacenter	985	15,390
	Anec Blau	5,832	97,060
	Villaverde (c)	156	-
	Nuevo Alisal (c)	133	-
	As Termas	5,374	85,500
	As Termas Petrol Station	118	2,060
	Portal de la Marina Hypermarket	542	9,475
	VidaNova Parc	1,201	59,910
	El Rosal	6,807	110,210
	Galaria (c)	411	-
	Megapark	11,680	208,500
	Megapark Ocio (d)	1,260	-
	Portal de Marina	6,834	119,700
	Vistahermosa	3,475	50,540
	Gran Vía de Vigo	9,822	173,000
	Palmas Altas	-	132,000
	Abadía	5,177	83,410
	22 retail units	3,827	53,024
	Rivas	3,290	67,500
M4-2	-	1,000	
		73,218	1,363,339
Offices	Egeo (b)	124	-
	Cardenal Marcelo Spínola (a)	396	-
	Eloy Gonzalo (a)	302	-
	Joan Miró (c)	760	-
		1,582	-

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		2018	
		Thousands of Euros	
		Income	Fair value
Logistics Bays	Alovera I (c)	647	-
	Alovera II (c)	1,454	-
	Alovera III (C2) (c)	100	-
	Alovera IV (C5-C6) (c)	419	-
	Almussafes (c)	421	-
	Ceste	-	307
		3,041	307
TOTAL		77,841	1,363,646

- (a) Non-current assets held for sale (Note 11).
(b) Stakes in the company owning the property sold in the period (Note 2g).
(c) Asset sold in the period (Notes 8 and 11).
(d) Intangible asset not recorded at fair value (Note 7).

		2017	
		Thousands of Euros	
		Income	Fair value
Shopping centres	Txingudi	2,508	39,000
	Huertas	932	12,600
	Albacenter	2,381	41,309
	Hiper Albacenter	970	15,013
	Anec Blau	5,833	95,380
	Villaverde (a)	782	-
	Nuevo Alisal (a)	1,309	-
	As Termas	5,335	82,250
	As Termas Petrol Station	116	1,975
	Portal de la Marina Hypermarket	536	9,300
	VidaNova Parc	-	24,780
	El Rosal	6,793	108,950
	Galaria (a)	691	-
	Megapark	11,705	203,000
	Megapark Ocio (c)	241	-
Portal de Marina	6,748	110,500	

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		2017	
		Thousands of Euros	
		Income	Fair value
	Vistahermosa	3,479	50,390
	Gran Vía de Vigo	9,341	163,000
	Palmas Altas	-	54,000
	Abadía	3,261	65,040
	22 retail units	2,904	52,533
			65,865
Offices	Egeo (a)	3,055	-
	Cardenal Marcelo Spínola	172	37,500
	Arturo Soria (b)	1,128	-
	Eloy Gonzalo	570	26,500
	Joan Miró	1,212	21,450
			6,137
Logistics Bays	Alovera I	1,003	18,800
	Alovera II	2,802	43,680
	Alovera III (C2)	274	4,300
	Alovera IV (C5-C6)	758	9,600
	Almussafes	761	10,300
	Ceste	-	5,200
		5,598	91,880
TOTAL		77,600	1,306,350

(a) Non-current assets held for sale (Note 11).

(b) Stakes in the company owning the property sold in the period (Note 2g).

(c) Intangible asset not recorded at fair value (Note 7).

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

The income shown in the preceding table refers to the accrued rental income from shopping centres, single-tenant commercial properties, office buildings and logistics bays in the 2018 and 2017 periods.

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

	Thousands of Euros	
	31/12/2018*	31/12/2017*
Less than one year	73,429	68,400
One to five years	162,755	154,351
Over five years	131,137	104,450
	367,321	327,201

* This does not include the effect of the bonuses in the amount of EUR 1,415 thousand in 2018 (EUR 1,009 thousand in 2017), at less than one year, EUR 688 thousand in 2018 (EUR 1,086 thousand in 2017), at one to five years and EUR 2 thousand in 2018 (EUR 59 thousand in 2017) at more than five years.

(10) EQUITY-ACCOUNTED INVESTEEES

The details by company at 31 December 2018 and 31 December 2017 of equity-accounted investees as well as the result attributable to the Group are as follows:

	Thousands of Euros			
	31 December 2018		31 December 2017	
	Investments	Result attributable to the Group	Investments	Result attributable to the Group
Inmobiliaria Juan Bravo 3, S.L.	4,627	(899)	5,526	(2,119)
Total	4,627	(899)	5,526	(2,119)

Net assets provided by this company are broken down in Appendix I.

(11) NON-CURRENT ASSETS HELD FOR SALE AND LIABILITIES CONNECTED TO ASSETS HELD FOR SALE

As established in International Financial Reporting Standard 5 “Non-current assets held for sale and discontinued operations”, those assets in the process of being divested with committed sale plans were reclassified, namely the office building owned by LE Offices Eloy Gonzalo 27, S.L.U. and the office building owned by LE Retail Marcelo Spínola, S.L.U..

In accordance with IAS 40, and the exception applicable under IFRS 5, investment property classified as non-current assets held for sale was recognised at fair value, which led to the recognition of a remeasurement income; the fair value was obtained from the measurements carried out by independent appraisers, amounting to EUR 5,141 thousand, which are recognised under “Changes to the fair value of investment property” in the attached Consolidated Income

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Statement. The assumptions used in the measurement are broken down, along with the other investment property, in Note 8. Likewise, the amount of the improvements and fit-outs performed on non-current assets held for sale total EUR 4,950 thousand, where this amount mainly comprises the development of the land in Cheste.

The different assets and liabilities reclassified as held for sale are set forth below:

	Thousands of Euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Logistics assets (a)	-	-	-	-
LE Offices Eloy Gonzalo 27, S.L.U.	41,023	-	705	-
LE Offices Marcelo Spínola, S.L.U. (b)	37,058	-	105	-
LE Retail Villaverde, S.L.U. (c)	-	12,660	-	4,689
LE Retail Alisal, S.A.U. (d)	-	20,149	-	7,718
LE Retail Galaria, S.L.U. (e)	-	11,937	-	4,281
LE Offices Egeo, S.A.U. (Note 2g)	-	79,549	-	30,930
	<u>78,081</u>	<u>124,295</u>	<u>810</u>	<u>47,618</u>

- (a) In the first quarter of 2018, in accordance with the management plans, the logistics segment was classified under non-current assets held for sale. On 18 July 2018, the sale of the logistics portfolio, comprising the logistics bays of Alovera, Almussafes and part of the land being developed in Cheste, was signed with Mopelia Properties 2018, S.L. for EUR 119,645 thousand (excluding VAT), earning capital gains net of the expenses associated with said divestment totalling EUR 17,022 thousand recorded under “Profits/(losses) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income. At the time of sale, all the property assets satisfied the 3-year maintenance period required by the SOCIMI Regime, except that in Cheste, where the operation thereof accrued an expense of EUR 2,103 thousand as it is taxed under the general corporate income tax scheme. The divested assets were under guarantee through directly associated financial liabilities.
- (b) In addition, the Group presents the directly connected assets and liabilities of LE Offices Marcelo Spínola, S.L. U. as non-current and held for sale, because on 28 December 2018 a purchase option was signed with IRE-RE SPINOLA, S.L. for the office building owned by the Group, for a base price of EUR 37,000 thousand. On 31 January 2019 the sale of the office building was formalized for the initially pledged price, after executing the aforesaid purchase option. During 2018 period, LE Offices Marcelo Spínola, S.L.U. requested the renouncement of the SOCIMI tax regime, such that at 31 December 2018 a deferred tax liability is recorded that corresponds to the tax payable under the general corporate income tax regime of the recorded remeasurement of Marcelo Spínola as per IAS 40 in the amount of EUR 2,204 thousand (Note 33).

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- (c) On 12 March 2018, the sale of the unencumbered Villaverde Shopping Centre was signed with Pierre Plus Scpi in the amount of EUR 12,255 thousand, earning capital gains net of the expenses associated with said divestment totalling EUR 912 thousand recorded under “Profits/(losses) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year maintenance period required by the SOCIMI Regime having been completed on the aforesaid date. The financial liabilities associated with the property assets, which totalled EUR 4,602 thousand, have been settled in full with the funds obtained from the sale.
- (d) On 12 March 2018, the sale of the unencumbered Nuevo Alisal single-tenant commercial premise park was signed with Pierre Plus Scpi in the amount of EUR 20,920 thousand, earning capital gains net of the expenses associated with said divestment totalling EUR 1,607 thousand recorded under “Profits/(losses) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year maintenance period required by the SOCIMI Regime having been completed on the aforesaid date. The financial liabilities associated with the property assets, which totalled EUR 7,403 thousand, have been settled in full with the funds obtained from the sale.
- (e) On 3 August 2018, the sale of the unencumbered Galaria single-tenant commercial premise park was signed with Fructiregions Europe in the amount of EUR 11,500 thousand, earning capital gains net of the expenses associated with said divestment totalling EUR 600 thousand recorded under “Profits/(losses) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year maintenance period required by the SOCIMI Regime having been completed on the aforesaid date. The financial liabilities associated with the property assets, which totalled EUR 4,210 thousand, have been settled in full with the funds obtained from the sale.

The details of the assets and liabilities classified as held for sale at 31 December 2018 are as follows:

	LE Offices Eloy Gonzalo, S.A.U.	LE Offices Marcelo Spínola, S.L.U.	Total
Non-current assets held for sale	41,023	37,058	78,081
Investment property	39,400	37,000	76,400
Non-current financial assets	69	58	127
Trade and other receivables	1,171	-	1,171
Cash and cash equivalents	383	-	383
Liabilities connected to non-current assets held for sale	705	105	810
Other current liabilities	244	105	349
Trade and other payables	461	-	461
Non-current assets held for sale	40,318	36,953	77,271

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The details of the assets and liabilities classified as held for sale at 31 December 2017 are as follows:

	Thousands of Euros				Total
	LE Offices Egeo, S.A.U.	LE Retail Villaverde, S.L.U.	LE Retail Alisal, S.A.U.	LE Retail Galaria, S.L.U.	
Non-current assets held for sale	79,549	12,660	20,149	11,937	124,295
Investment property	76,674	11,343	19,313	10,700	118,030
Non-current financial assets	500	135	206	-	841
Trade and other receivables	1,828	2	129	-	1,959
Cash and cash equivalents	547	1,180	501	1,237	3,465
Liabilities connected to non-current assets held for sale	30,930	4,689	7,718	4,281	47,618
Bank borrowings (*)	30,000	4,502	7,361	4,119	45,982
Other current liabilities	564	135	206	116	1,021
Trade and other payables	366	52	151	46	615
Non-current assets held for sale	48,619	7,971	12,431	7,656	76,677

**The effect of measuring the financial liabilities for bank borrowings, classified as non-current assets, at amortised cost amounted to EUR 135 thousand in 2017.*

(12) FINANCIAL ASSETS WITH ASSOCIATES

This category included two loans granted by the Parent Company to Inmobiliaria Juan Bravo 3, S.L. (included using the equity method) in order to provide said company with the funds necessary to develop the building project in Madrid called “Lagasca99”, which said company has developed over the last three financial years and whose construction ended in December 2018. Both loans were repaid in full to the Parent Company of the Group in 2018 with the cash flows generated by said building project.

The main characteristics of the both contracts were as follows:

- A first loan acquired by the Parent Company in 2015 from the previous financial creditors of Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 40,000 thousand. The nominal value of said loan totalled EUR 61,303 thousand and accrued market-rate fixed and variable interest due to its being a participating loan. The purchase price was lower than its nominal value because of the insolvency of said company.

- A second loan in the amount of EUR 2,000 thousand granted on 11 January 2016 that accrued interest tied to the Euribor plus a 4% spread.

Movements in the balance under “Long- and short-term financial assets” throughout the 2018 period are as follows:

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Thousands of Euros

2018

Company	Date granted	Loan total	Balance at 31/12/2017	Amortisations	Capitalised accrued interest	Current	Non-current	Loan total at 31 December 2018
Inmobiliaria Juan Bravo 3, S.L.	29/05/2015	40,000	27,718	(55,633)(*)	6,612	-	-	-
Inmobiliaria Juan Bravo 3, S.L.	11/01/2016	2,000	2,161	(2,167)	6	-	-	-
		<u>42,000</u>	<u>29,879</u>	<u>(57,800)</u>	<u>6,618</u>	<u>-</u>	<u>-</u>	<u>-</u>

(*) See final amortisation explanations below

Thousands of Euros

2017

Company	Date granted	Loan total	Contributions	Amortisations	Capitalised accrued interest	Current	Non-current	Loan total at 31 December 2017
Inmobiliaria Juan Bravo 3, S.L.	29/05/2015	40,000	1,184	(20,000)	6,534	27,718	-	27,718
Inmobiliaria Juan Bravo 3, S.L.	11/01/2016	2,000	28	-	133	-	2,161	2,161
		<u>42,000</u>	<u>1,212</u>	<u>(20,000)</u>	<u>6,667</u>	<u>27,718</u>	<u>2,161</u>	<u>29,879</u>

On 20 February 2018, Inmobiliaria Juan Bravo 3, S.L. paid EUR 5,000 thousand in accordance with the repayment schedule of the loan. Similarly, on 31 January 2018 the Parent Company and Inmobiliaria Juan Bravo 3, S.L. agreed to offset positions and balances between the parties in the amount of EUR 7,505. Thus, the loan was cancelled in full as was part of the granted participating loan.

Finally, on 28 December 2018, the participating loan was cancelled in full by Inmobiliaria Juan Bravo 3, S.L., both the principal and accrued interests. Thus, Inmobiliaria Juan Bravo 3, S.L. proceeded to return the nominal amount of the loan granted with the Parent Company. Said return was possible thanks to the funds obtained by IJB in the sale of the property development it owned to third parties. Consequently, the Group earned a positive financial result in the amount of EUR 21,303 thousand, corresponding to the difference between the price at which it purchased the participating loan from a financial institution and the nominal value thereof. Said profit is included under "Financial income" on the attached Consolidated Statement of Comprehensive Income for the 2018 period.

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In the 2018 period the financial income from the participating loan totalled EUR 6,612 thousand, corresponding to the fixed and variable interest, calculated using the estimated free cash flow form Inmobiliaria Juan Bravo 3, S.L.

(13) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

	Thousands of Euros			
	2018		2017	
	Non-current Carrying amount	Current Carrying amount	Non-current Carrying amount	Current Carrying amount
Non-current financial assets	11,426	-	11,928	-
Financial assets with associates (Note 12)	-	-	2,161	27,718
Other financial assets	-	3,268	-	7,118
Trade receivables (Note 14)	2,733	2,137	-	6,442
Advances to suppliers	-	784	-	774
Public entities, other (Note 23)	-	10,841	-	7,197
Total	14,159	17,030	14,089	49,249

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

“Non-current financial assets” mainly comprise the security deposits and guarantees received from the tenants of the investment property mentioned in Note 8, which the Group has deposited with the corresponding public bodies.

At 31 December 2018, “Public entities, other” mainly comprises the Value Added Tax pending return related to the investments made in on-going developments or to relevant renovations in the amount of EUR 4,136 thousand (Note 23).

At 31 December 2018, “Other financial assets” mainly includes the outstanding amount relating to the sales of stakes in the company LE Offices Arturo Soria, S.L.U. and LE Offices Egeo, S.A.U. in the amount of EUR 3 million (Note 2g).

(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

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(14) TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 31 December 2018 and 2017 are as follows: (in thousands of Euros)

	2018	2018
	Thousands of Euros	Thousands of Euros
	Current	Non-current
Operating lease receivables	1,038	-
Operating lease receivables - pending invoices	1,346	-
Operating lease receivables - income linearisation	575	2,733
Advances to suppliers	784	-
Public entities, other (Note 23)	10,841	-
Less impairment allowances	(822)	-
	13,762	2,733
Total		
		2017
		Current
Operating lease receivables		3,018
Operating lease receivables - pending invoices		1,342
Operating lease receivables - income linearisation		2,854
Advances to suppliers		774
Public entities, other (Note 23)		7,197
Less impairment allowances		(772)
		14,413
Total		

(a) Impairment

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

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	Thousands of Euros
	2018
Balance at 31 December 2017	772
Impairment losses (Note 26)	318
Reversals of impairment losses (Note 26)	(268)
Balance at 31 December 2018	822

In the 2018 period losses were recorded for irrecoverable credits in the amount of EUR 140 thousand.

	Thousands of Euros
	2017
Balance at 31 December 2016	853
Change to the scope	57
Impairment losses	336
Reversals of impairment losses	(474)
Balance at 31 December 2017	772

Additions to the scope of 2017 during the period corresponded to the value impairment in the acquisition of the investment property the Abadía Retail Park. In the 2017 period losses were recorded for uncollectible credits in the amount of EUR 157 thousand.

(15) CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Banks	191,328	45,617
Total	191,328	45,617

The Directors of the Parent Company, by virtue of the agreement by the General Shareholders' Meeting held on 29 May 2018, formalised a stock buy-back programme with a financial intermediary. By virtue of said contract, the Parent Company has EUR 16,606 thousand in an unrestricted account and the financial intermediary is able to use said amount to purchase the company's own shares.

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Said contract suspends temporarily the liquidity agreement formalised with a financial intermediary pursuant to the terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other applicable regulations, dated 5 July 2017.

(16) EQUITY

(a) Capital

At 31 December 2018 the share capital of Lar España Real Estate SOCIMI, S.A. amounted to EUR 186,438 thousand (EUR 185,248 thousand at 31 December 2017) represented by 93,219,044 nominative shares (92,624,097 nominative shares at 31 December 2017), represented through book entries, with a par value of EUR 2 each, subscribed and fully paid, all granting the same rights.

On 7 May 2018, the Board of Directors approved an increase in share capital of EUR 20,924 thousand in par value by issuing shares (2,139,437 ordinary shares with a par value of EUR 2) and an issue premium in the amount of EUR 16,645 thousand. This capital increase has been subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. in compliance with the provisions of the Investment Manager Agreement, which establishes that the manager must invest the post-tax performance fee and divestment fee in the subscription of the capital increase carried out by the Parent in accordance with the terms of the aforementioned agreement. This capital increase was carried out with the exclusion of pre-emptive subscription rights and delegation to the Board of Directors for the execution of the resolution.

On 28 December 2018, by virtue of the agreement by the Board of Director's Meeting held 29 May 2017, the Parent Company decreased share capital by EUR 3,089 thousand, corresponding to 1,544,490 shares with a nominal value of EUR 2 each, representing 1.63% of the share capital. The capital decrease was charged against the unrestricted reserves by virtue of the provision of an amortised capital reserve in an amount equal to the nominal value of the amortised shares, where said reserve shall be restricted in nature. The shares were amortised through the use of own shares, the value of which at the time of the capital decrease totalled EUR 12,954 thousand.

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

The quoted price at 31 December 2018 was EUR 7.45 per share and the average price per share in the 2018 period was EUR 8.91 (In the 2017 period the average price per share was EUR 8.89 and the quoted price was EUR 7.84 per share).

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At 31 December 2018 and 2017 the Company's shareholders are as follows:

	2018
LVS II Lux XII S.a.r.l.	19.9%
Grupo Lar Inversiones Inmobiliarias, S.A.	10.2%
Franklin Templeton Institutional, LLC	8.0%
Brandes Investment Partners, L.P.	5.1%
Threadneedle Asset Management	5.1%
Blackrock Inc.	3.7%
Santa Lucia S.A. Cia de Seguros	3.2%
Other shareholders with an interest of less than 3%	44.8%
Total	100.0%
	2017
LVS II Lux XII S.a.r.l.	19.6%
Franklin Templeton Institutional, LLC	15.0%
Grupo Lar Inversiones Inmobiliarias, S.A.	5.7%
Threadneedle Asset Management	5.0%
Brandes Investment Partners, LP	5.0%
Blackrock INC.	3.7%
Santa Lucia S.A. Cia de Seguros	3.1%
Other shareholders with an interest of less than 3%	42.9%
Total	100.0%

(b) Issue premium

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

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

On 19 April 2018, the distribution of dividends from the 2017 period against the share premium was approved for the amount of EUR 27,714 thousand, where the effect of having the treasury shares was EUR 21 thousand.

At 31 December 2018, the Group's share premium amounted to EUR 476,301 thousand (31 December 2017: EUR 487,349 thousand).

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(c) Other reserves

The breakdown of this category as at 31 December 2018 and 2017 is the following:

	Thousands of Euros	
	31/12/2018	31/12/2017
Legal reserve	2,968	1,047
Amortised capital reserve	3,089	-
Parent Company Reserves	2,393	4,573
Consolidated reserves	211,599	105,994
Other shareholder contributions	240	240
Total	220,289	111,854

Reserve movements that took place during the 2018 and 2017 periods were as follows:

	Thousands of Euros		
	2018		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	5,860	105,994	111,854
Profit for the period	18,213	117,393	135,606
Distribution of Dividends for the period	(17,273)	-	(17,273)
Exclusions from the scope of consolidation	11,788	(11,788)	-
Capital decrease	(9,865)	-	(9,865)
Result from treasury shares	(33)	-	(33)
Closing balance	8,690	211,599	220,289

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	Thousands of Euros		
	2017		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	15,533	27,365	42,898
Profit for the period	10,847	80,583	91,430
Distribution of Dividends for the period	(3,413)	-	(3,413)
Exclusions from the scope of consolidation	1,954	(1,954)	-
Capital increase (Note 16)	(19,168)	-	(19,168)
Result from treasury shares	131	-	131
Other changes	(24)	-	(24)
Closing balance	5,860	105,994	111,854

(i) Legal reserve

The legal reserve is to be provided for in compliance with Article 274 of the 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 the 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 2018 the legal reserve of the Company totals EUR 2,968 thousand (EUR 1,047 thousand at 31 December 2017). Therefore, the legal reserve at 31 December 2018 is not fully provided for.

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) Amortised capital reserve

- This reserve includes the nominal amount of treasury shares amortised in the share capital decrease effected on 28 December 2018 for a total amount of EUR 3,089 thousand. The provision and availability of this reserve shall be held to the same requirements required for the capital decrease, in application of article 335 c) of the Spanish Companies Act, the consolidated text of which was approved by Legislative Royal Decree 1/2010 of 2 July 2010 (“the Spanish Companies Act”).

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(d) Measurement adjustments

This category on 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 2018 is presented below:

	Thousands of Euros
31 December 2017	(1,663)
Changes in fair value of hedges in the period recognised directly in equity	(1,952)
Other amounts transferred to the income statement	1,005
31 December 2018	<u>(2,610)</u>

(e) Treasury shares

At 31 December 2018 the Company holds treasury shares amounting to EUR 1,228 thousand (EUR 175 thousand at 31 December 2017).

Movement during the 2018 and 2017 periods was as follows:

	Number of shares	Thousands of Euros
31 December 2017	19,880	175
Additions	3,456,153	30,300
Disposals	(3,311,108)	(29,247)
31 December 2018	<u>164,925</u>	<u>1,228</u>
	Number of shares	Thousands of Euros
31 December 2016	117,998	823
Additions	3,993,001	31,371
Disposals	(4,091,119)	(32,019)
31 December 2017	<u>19,880</u>	<u>175</u>

The average selling price of treasury shares in 2018 was EUR 8.33 per share (EUR 7.87 in 2017). The proceeds for the period ended 31 December 2018 amounted to EUR 33 thousand (EUR 131 thousand in profits at 31 December 2017) and have been recognised under “Other reserves” in the consolidated statement of financial position.

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The Parent Company formalised a share buy-back programme between Lar España and its liquidity provider, aimed at a maximum of 3,160,000 shares, representing 3.33% of the share capital, which may be acquired at a price no greater than (a) the price of the last independent transaction or (b) the highest independent offer at that time in the business centre where the purchase is made. The maximum deadline for this programme is 28 February 2019.

The aforesaid programme suspends temporarily the liquidity agreement with a financial intermediary pursuant to the terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other applicable regulations, such that a restricted amount of EUR 500 thousand is held in the Treasury and there is a maximum of 63,000 shares available for purchase/sale as treasury shares.

(f) Dividends paid

On 19 April 2018 the Shareholders' General Meeting approved the distribution of the Company's profits in accordance with the proposal formulated by the Parent Company's Directors in their meeting held on 23 February 2018. The distribution is as follows:

	Euros
<u>Basis of allocation</u>	
Profit for the period	19,211,128.53
Issue premium	27,713,695.30
 <u>Distribution:</u>	
Legal reserve	1,921,112, 85
Dividends	45,000,000.00
Voluntary reserve	3,710.98

On 19 April 2018, the Shareholders' General Meeting approved the distribution of a dividend of EUR 17,286 thousand, at EUR 0.187 per share (taking into account all the shares issued) and recognised in profit and loss for the 2017 period, and of EUR 27,714 thousand, at EUR 0.299 per share (taking into account all the shares issued), charged to the share premium. The amount distributed totalled EUR 44,966 thousand. (This is after deducting the amount relating to treasury shares, which does not come out of the Parent Company's equity. Of said deduction, EUR 13 thousand corresponds to the distribution of dividends against profit and loss and EUR 21 thousand corresponds to the distribution of dividends against the share premium.) The EUR 44,966 takes into account the approved amount per share and the shares in circulation at the time of approval by the Shareholders' Meeting on 19 April 2018 and the difference is adjusted by the greater number of treasury shares charged against the "Share premium". The distributed dividend was paid in full on 18 May 2018.

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(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 the issue premium.

	Thousands of Euros	
	31/12/2018	31/12/2017
Total financial debt (Notes 11 and 18)	581,491	557,094
Less, Cash and cash equivalents (Note 15)	(191,328)	(45,617)
Net debt	390,163	511,477
Total capital (capital + premium)	662,739	672,597
Debt + own resources	1,052,902	1,184,074
Financial debt ratio	37.10%	43.20%

(17) 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:

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	31/12/2018	31/12/2017
Profit for the period attributable to equity instrument holders of the Parent Company (in thousands of Euros)	129,308	135,606
Weighted average number of ordinary shares in circulation (number of shares)	93,404,258	91,372,891
Basic earnings per share (in Euros)	1.38	1.48

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

	31/12/2018	31/12/2017
Ordinary shares	92,624,097	90,540,562
Share capital increase (weighted effect)	1,107,818	907,662
Share capital decrease (weighted effect)	(12,694)	-
Average effect of treasury shares	(314,963)	(75,333)
Weighted average number of ordinary shares in circulation at 31 December (shares)	93,404,258	91,372,891

(ii) Diluted

Diluted earnings per share are calculated by adjusting profit for the year attributable to shareholders 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.

As indicated in Note 30, the Parent has entered into an Investment Manager Agreement, which accrues a variable performance fee. This variable fee will be settled, as chosen by the Parent, in cash (which will be subsequently used by the manager to subscribe to the shares issued) or in own shares. In accordance with paragraphs 46 and 47A of IAS 33 and taking into consideration that at 31 December 2018 the manager has fully rendered its service, all the potential ordinary shares handed over to the manager by the Parent are considered as dilutive.

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

	31.12.2018	31.12.2017
Profit after tax	128,685,946	135,569,000
Weighted shares outstanding	93,340,474	91,372,891
Potential ordinary shares	577,721	729,813
Diluted earnings per share	1.37	1.47

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(18) FINANCIAL LIABILITIES BY CATEGORIES

(a) Classification of financial liabilities by category

The classification of financial liabilities by category at 31 December 2018 and at 31 December 2017 is as follows:

	Thousands of Euros	
	2018	
	Non-current	Current
	Carrying amount	Carrying amount (*)
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	139,077	3,482
Bank borrowings	428,400	6,461
Carried at fair value:		
Derivatives	1,892	2,179
Other financial liabilities	17,240	-
Trade and other payables:		
Trade payables	-	48,223
Public entities, other	19,405	5,686
Customer advances	-	250
 Total financial liabilities	 <u>606,014</u>	 <u>66,281</u>

(*) Liabilities connected to non-current assets held for sale are not included.

	Thousands of Euros	
	2017	
	Non-current	Current
	Carrying amount	Carrying amount (*)
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	138,787	3,482
Bank borrowings	361,165	5,580
Carried at fair value:		
Derivatives	831	1,267
Other financial liabilities	16,221	147
Trade and other payables:		
Short-term debts with Group companies and associates	-	7,505
Trade and other payables:		
Trade payables	-	32,926
Public entities, other	14,613	1,950
Customer advances	-	4,041
 Total financial liabilities	 <u>531,617</u>	 <u>56,898</u>

(*) Liabilities connected to non-current assets held for sale are not included.

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At 31 December 2018 and 2017 the carrying amounts of the financial liabilities recorded at amortised cost do not differ significantly from the fair value.

“Customer advances” includes the amount of EUR 233 thousand received from the subsidiary LAR España Inversión Logística IV, S.L.U. as advances for the purchase option regarding plots 1-M, 2.3- M, 8.1-M, 8.2-M, 8.3-M, 67-M,

(b) Classification of financial liabilities by maturity

Details by maturity of financial liabilities at 31 December 2018 and 31 December 2017 are as follows:

	2018						
	Thousands of Euros						
	2019	2020	2021	2022	2023 and subsequent years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,482	-	-	140,000	-	-	143,482
Bank borrowings (a)	6,461	78,837	5,437	109,731	241,796	-	442,262
Derivatives	2,179	410	-	681	801	-	4,071
Other financial liabilities	-	-	-	-	-	17,240	17,240
Deferred tax liabilities	-	-	-	-	-	19,405	19,405
Trade and other payables	54,159	-	-	-	-	-	54,159
Total	66,281	79,247	5,437	250,412	242,597	36,645	680,619

	2017						
	Thousands of Euros						
	2018	2019	2020	2021	2022 and subsequent years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,482	-	-	-	140,000	-	143,482
Bank borrowings (a)	5,580	5,445	73,176	4,999	284,656	-	373,856
Derivatives	1,267	-	-	-	831	-	2,098
Other financial liabilities	147	-	-	-	-	16,221	16,368
Deferred tax liabilities	-	-	-	-	-	14,613	14,613
Trade and other payables	38,917	-	-	-	-	-	38,917
Debts with Group companies	7,505	-	-	-	-	-	7,505
Total	56,898	5,445	73,176	4,999	425,487	30,834	596,839

(a) The effect of valuing financial liabilities from bonds and bank borrowings at amortised cost decreases the nominal value of the liabilities reflected above by EUR 923 thousand and EUR 7,401 thousand, respectively in the 2018 period (EUR 1,213 thousand and EUR 7,111 thousand in the 2017 period).

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(19) 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.

On 8 March 2018, by virtue of the deed granted before Mr Ignacio Paz-Ares, the investment properties pledged as collateral for bonds were amended. Said amendment comprised the cancellation of the mortgage on the Alovera I, Alovera II, Alovera C2, Alovera C5/C6 and Almussafes logistics bays, the Marcelo Spínola and Eloy Gonzalo office buildings, and the pledging of the Anec Blau Shopping Centre and the stakes in LE Retail Anec Blau, S.L.U.

The main characteristics of the issue are therefore as follows:

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Amount of the issue: EUR 140,000 thousand.
- Nominal amount of each bond: 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.
- Guarantees: Guarantee on the financial investments of the Parent Company and mortgages and ordinary first-tier pledges up to a maximum amount of 20% of the placement. The mortgaged assets are as follows: the Txingudi, Albacenter, Las Huertas, Albacenter Hipermercado, Anec Blau shopping centres and the Eroski hypermarkets. An ordinary pledge has also been established on the shares in LE Retail Txingudi, S.L.U., LE Retail Huertas, S.L.U., LE Retail Albacenter, S.L.U., LE Retail Anec Blau, S.L.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U and LE Retail Hipermercados III, S.L.U.

The issuance expenses associated with this issue amounted to EUR 1,995 thousand, which were recorded by reducing the debt. In 2018, EUR 289 thousand of these expenses (EUR 281 thousand in 2017) have been charged to the entry "Financial expenses" on the Consolidated Statement of Comprehensive Incomes for the period. The interest accrued at 31 December 2018 totalled EUR 4,060 thousand (EUR 4,060 thousand at 31 December 2017). Of said total, the amount of EUR 3,482 thousand was outstanding at 31 December 2018, to be paid in February of 2019.

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At 31 December 2018, the investment assets that had been pledged as collateral for bonds have a fair value of EUR 260,534 thousand and correspond to the aforesaid assets, all of which comprise investment property that belongs 100% to the subsidiaries of the Parent Company.

Covenants

With respect to the bonds, the issue includes the fulfilment of certain ratios by the Group, calculated using the consolidated financial statements.

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

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 2018 without the need for additional guarantees and they believe these ratios will be met in 2019.

(b) Main characteristics of bank borrowings

The terms and conditions of the bank borrowings are as follows:

Institution	Currency	Effective rate	Year of maturity	Thousands of Euros			Guarantee
				Amount available	Amortised cost and interest pending payment at 31/12/2018	Liabilities linked to non-current assets held for sale at 31/12/18	
LE Retail As Termas, S.L.U.	Euro	Euribor 3M + 1.80% spread	25 June 2020	37,345	37,210	-	As Termas Shopping Centre (b)
LE Retail El Rosal, S.L.U.	Euro	Euribor 3M + 1.75% spread	7 July 2030	50,000	49,304	-	El Rosal Shopping Centre (b)
LE Retail Hiper Ondara, S.L.U.	Euro	Euribor 3M + 1.7% spread	24 February 2023	97,000	95,990	-	Megapark Shopping Centre (a)(b)(c)
LE Retail Hiper Ondara, S.L.U.	Euro	Euribor 3M + 1.7% spread	24 February 2023	60,000	58,240	-	Portal de la Marina Shopping Centre

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Institution	Currency	Effective rate	Year of maturity	Thousands of Euros			
				Amount available	Amortised cost and interest pending payment at 31/12/2018	Liabilities linked to non-current assets held for sale at 31/12/18	Guarantee (a)(b)(c)
LE Retail Gran Vía de Vigo, S.A.U.	Euro	Euribor 3M + 1.75% spread	14 March 2022	82,400	80,779	-	Gran Vía de Vigo Shopping Centre (a)(b)(c)
LE Retail Vistahermosa, S.L.U.	Euro	1.52% (until 2 June 2017) Subsequently Euribor 3 M + 1.85% spread	2 March 2022	21,550	21,225	-	Vistahermosa Retail Park (a)(b)
LE Retail Abadía, S.L.U.	Euro	1.80% (until 23 November 2020) Subsequently Euribor 3M + 1.75% spread	23 May 2024	34,750	34,092	-	Abadía Retail Park (a)(b)
LE Retail Abadía, S.L.U.	Euro	1.93% (until 23 November 2020) Subsequently Euribor 3M + 1.75% spread	23 May 2024	8,685	7,068	-	Abadía Shopping Centre (a)(b)
LE Retail Hiper Ondara, S.L.U.	Euro	Euribor 3M + 1.7% spread	24 February 2023	8,250	4,741	-	Megapark Shopping Centre (a)(b)(c)
LE Retail Vidanova Parc, S.L.U.	Euro	Euribor 3M + 2.1% spread	14 September 2020	24,000	18,359	-	VidaNova Parc
LE Retail Rivas, S.L.U.	Euro	Fixed interest 2.28%	30 June 2020	27,500	27,432	-	Rivas Retail Park (b)
LAR España Shopping Centres VIII, S.L.U.	Euro	Euribor 3M + 2.25% (under construction) Subsequently Euribor 3M +2.0% spread	29 June 2025	98,500	-	-	Lagoh Development (b)
LAR España Shopping Centres VIII, S.L.U.	Euro	Euribor 3M + 2.25% spread	30 June 2020	4,000	421	-	Lagoh Development
Lar España Real Estate SOCIMI, S.A.	Euro	Euribor 12M + 1.20% spread	16 May 2019	25,000	-	-	-

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Institution	Currency	Effective rate	Year of maturity	Thousands of Euros			Guarantee
				Amount available	Amortised cost and interest pending payment at 31/12/2018	Liabilities linked to non-current assets held for sale at 31/12/18	
Lar España Real Estate SOCIMI, S.A.	Euro	Fixed interest 1.25%	26 October 2025	70,000	-	-	Lagoh Development
				648,980	434,861	-	

- (a) *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.*
- (b) *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 As Termas, S.L.U., LE Retail El Rosal, S.L.U., LE Retail Hiper Ondara, S.L.U., LE Retail Villaverde, S.L.U., LE Retail Vistahermosa, S.L.U., LE Retail Gran Via de Vigo, S.A.U., LE Retail Abadía, S.L.U., LAR España Shopping Centres VIII, S.L.U. and LE Retail Rivas, S.L.U. have clauses on the maintenance of a minimum Debt Service Coverage Ratio between 1.1% and 3%. If the DSCR is not kept between said figures, all or part of the debt will mature early.*
- (c) *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 2018 period totalled EUR 11,849 thousand. The accrued, unpaid interest for the 2018 period amounted to EUR 1,039 thousand. The financial expense accrued due to the bonds totals EUR 4,350 thousand, where EUR 3,482 thousand was outstanding at 31 December 2018.

The main changes that occurred in the period ended 31 December 2018 are as follows:

- On 28 December 2018 the loan that Group company LE Offices Joan Miró 21, S.L.U. had formalised with Banco Bilbao Vizcaya Argentaria, S.A. for an outstanding amount of EUR 9,800 thousand was cancelled after the sale of the property asset that was pledged (Note 8).
- On 26 October 2018 the Parent Company entered into a credit line for the amount of EUR 70,000 thousand with the European Investment Bank (“EIB”). Said loan shall mature at 7 years from the date the first drawdown is effected. At 31 December 2018 no sum has been used. This credit line is drawable until 26 October 2020.
- In terms of the merger of subsidiaries LE Retail Megapark, LE Retail Portal de la Marina (absorbed companies) and LE Retail Hiperondara (adsorbing company), on 3 August 2018, the syndicated loan that Group company LE Retail Portal de la Marina, S.L.U. had formalised with Banco Bilbao Vizcaya Argentaria, S.A., Caixabank, S.A. and Banco de Sabadell, S.A. for an outstanding amount of EUR 35,452 thousand was cancelled.

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In addition, after the aforesaid merger, LE Retail Hiperondara, S.L.U. 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., as financing institutions, for a total amount of EUR 60,000 thousand paid in two deposits of EUR 36,000 thousand on 3 August 2018 and EUR 24,000 thousand on 11 October 2018, to mature on 24 February 2023. The loan accrues interest quarterly, at an interest rate tied to the 3-month Euribor plus a 1.7% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 1,891 thousand.

- On 20 July 2018, Group company “Lar España Shopping Centres VIII, S.L.U.” signed a credit account with Bankinter for EUR 4,000 thousand, which may be drawn down up to the limit established at any time by means of cheques, transfer orders, debit orders or any other payment mandate accepted by Bankinter. The maturity date is 30 June 2020, where same can be implicitly extended on an annual basis. Interest is accrued on an annual basis at an interest rate of 5 basis points. At 31 December 2018, EUR 411 thousand had been drawn down from said credit account.
- On 29 June 2018, Group company Lar España Shopping Centres VIII, S.L.U. entered into a syndicated loan agreement with Banco Santander, S.A. acting as the agent bank, for a maximum total amount of EUR 98,500 thousand. The purpose of the loan is to partially fund the investment costs necessary for the development of the shopping centre owned by the company and not covered by share capital contributions and finance the payment of fees, taxes and expenses inherent to the granting of financing documents. The amount of the disbursed loan pending return at any given moment shall accrue interest on a daily basis, as of the date of the contract until same is fully amortised, on the basis of a 360-year day. Interest shall be calculated per calendar day over each interest period, including the first day and excluding the last day, by applying the 3-month Euribor calculation, plus a margin of 2.25% over the construction period, then subsequently a 2% spread. At 31 December 2018 no sum has been used. The effect of posting the debt at amortised cost as at the date of contracting totalled EUR 3,473 thousand, which are recorded under “Other current assets” because the loan was not used.
- On 16 May 2018, the Parent signed a credit facility with Bankinter for EUR 25,000 thousand, which may be drawn down up to the limit established at any time by means of cheques, transfer orders, debit orders or any other payment mandate accepted by Bankinter. The due date by which the amount must be fully reimbursed is 16 May 2019. Interest accrues quarterly and the interest rate is 12-month EURIBOR plus a spread of 1.20%. It has commissions for excess balance of 4.5%. At 31 December 2018 no amount of said credit line had been drawn down. The financial expenses accrued in the 2018 period in terms of said credit line totalled EUR 131 thousand.

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- On 21 March 2018 Group company LE Retail Abadía S.L.U., after the purchase of Abadía Shopping Centre, signed an extension to the loan contract that the company had since 23 May 2017 with Banco Santander, S.A., formalising two new instalments, a first instalment of EUR 7,310 thousand, completely drawn down, and an instalment of EUR 1,375 thousand pending drawdown as at 31 December 2018. The debt matures on 23 May 2024. These instalments accrue interest quarterly, at the fixed quarterly rate of 1.93% until 23 August 2021 and thereafter at an interest rate tied to the 3-month Euribor plus a 1.75% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 272 thousand. This operation has not entailed any change to the debt already held with Banco Santander, S.A. in the amount of EUR 34,750 thousand.
- On 6 February 2018, Lar España Real Estate SOCIMI, S.A. acquired 100% of the stakes in the company Legaro Spain, S.L.U. (owner of the Rivas Futura Retail Park) the name of which was changed to LE Retail Rivas, S.L.U. Along with the company, it acquired a loan contract for the amount of EUR 27,500 thousand that the company had formalised with Banco Bilbao Vizcaya Argentaria, S.A., to mature on 9 September 2020. The loan accrues quarterly interest at a fixed interest rate of 2.28 basis points, which will be paid on the last day of the Interest Period.
- On 14 September 2017, Group company LE Retail Vidanova Parc, S.L.U. signed a loan agreement with Caixabank, S.A. for a total amount of EUR 24,000 thousand. The purpose of the loan is to partially fund the investment costs of the built shopping centre that are not covered by share capital contributions and to finance the payment of fees, taxes and expenses inherent to the granting of the financing documents. The amount of the disbursed loan pending return at any given moment shall accrue interest on a daily basis, as of the date of the contract until same is fully amortised, on the basis of a 360-year day. Interest is calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying the Euribor calculation plus a 2.1% spread. At 31 December 2017 no amount had been drawn down and in the 2018 period a total of EUR 18,755 thousand was drawn down. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 773 thousand.

The financing agreements signed by the Group require compliance with certain financial ratios. The Directors believe that they are satisfied at 31 December 2018 and expect them to be satisfactorily satisfied while the agreements remain in force.

(c) Derivatives

The details of the derivative financial instruments as at 31 December 2018 and 2017 are as follows:

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	Thousands of Euros
	2018
Non-current	1,892
Interest rate	
Current	2,179
Interest rate	
	4,071
	Thousands of Euros
	2017
Non-current	831
Interest rate	
Current	1,267
Interest rate	
	2,098

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 2018 and 31 December 2017 and their fair values at said dates are as follows (in thousands of Euros):

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	Thousands of Euros				
	Type of interest contracted	Fair value at 31/12/2018	Fair value at 31/12/2017	Notional	Maturity
LE Retail El Rosal, S.L.U.	0.44%	643	833	50,000	2020
LE Retail As Termas, S.L.U.	0.53%	459	637	37,345	2020
LE Offices Joan Miró 21, S.L.U.	0.41%	<i>(ii)</i>	141	9,800	2020
LE Retail Hiper Ondara, S.L.U. (Megapark)	0.22%	870	(125)	97,000	2023
LE Retail Hiper Ondara, S.L.U. (Portal de la Marina)	0.31% / 0.39%	769	<i>(i)</i>	60,000	2023
LE Retail Hiper Ondara, S.L.U. (Megapark Ocio)	0.35%	69	25	4,675	2023
LE Retail Gran Vía de Vigo, S.A.U.	0.29%	1,088	582	82,400	2022
LE Retail Vistahermosa, S.L.U.	0.12%	173	5	21,550	2022
		4,071	2,098		

The main changes that occurred as at 31 December 2018, in addition to the oscillations in the fair prices of the derivative instruments, are as follows:

- (i)* On 3 August 2018, Group company LE Retail Megapark, S.L. signed two IRS hedging instrument contracts for nominal amounts of EUR 14,926 thousand, EUR 11,887 thousand and EUR 8,938 thousand for the first instalment and EUR 10,124 thousand, EUR 8,063 thousand and EUR 6,063 thousand for the second instalment with Natixis, S.A., Credit Agricole Corporate and Investment Bank, S.A. and Banco Santander, S.A., with a maximum maturity of 6 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 reference interest rate for the first instalment comprises a fixed at 0.308 and a variable portion tied to the 3-month Euribor and the reference interest rate for the second instalment comprises a fixed portion at 0.384 and a variable portion tied to the 3-month Euribor. The fair value of this financial instrument was EUR 769 thousand in liabilities at 31 December 2018. The Group has deemed the hedges of said derivatives to be effective and has therefore carried the changes in fair value to equity.
- (ii)* On 28 December 2018, Group company Le Offices Joan Miró 21, S.L. cancelled the hedging

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instrument agreement with Banco Bilbao Vizcaya Argentaria, S.A., after the sale of the property asset (Note 8).

The hedging relationships of interest rate hedging financial instruments contracted by the companies LE Retail El Rosal, S.L.U., LE Retail As Termas, S.L.U. and LE Retail Hiper Ondara, S.L.U. (Megapark) were classified as ineffective as at 31 December 2017. In this respect, the Group recognised the change in fair value of said instruments in the amount of EUR 710 thousand on the Consolidated Income Statement, in addition to the effect of reversing the amount recorded under equity corresponding to LE Retail El Rosal, S.L.U. and LE Retail As Termas, S.L.U., EUR 314 thousand.

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

Scenario	Thousands of Euros		
	Liabilities	Equity	Consolidated profit before tax
5bps Interest rate increase	5,471	(2,882)	(2,589)
5bps Interest rate decrease	(5,509)	2,902	2,607

(d) Short-term debts with Group companies and associates

On 31 January 2018 compensation for the credit line between Lar España Real Estate SOCIMI, S.A. and Inmobiliaria Juan Bravo 3, S.L., was signed with Inmobiliaria Juan Bravo 3, S.L. with the total ordinary credit granted thereto in the amount of EUR 2.2 million and part of the granted participating loan in the amount of EUR 5.3 million.

(e) Movements of cash under financial liabilities from borrowings

The movement of cash in the 2018 period of the Group's financial debts is as follows:

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	Opening balance	Balance of Liabilities linked to non-current assets held for sale (Note 11)	New debt	Initial amortised cost	Principal paid	Interest paid	Accrued interest (*)	Changes in fair value	Changes to the scope (Note 2g)	Closing balance
			Cash flow	Cash flow	Cash flow	Cash flow				
Financial liabilities from issue of bonds	142,269	-	-	-	-	(4,060)	4,350	-	-	142,559
Bank borrowings	366,745	45,982	86,476	(2,936)	(61,467)	(6,932)	9,715	-	(2,722)	434,861
Derivatives	2,098	-	-	-	-	(2,148)	2,148	1,973	-	4,071
	511,112	45,982	86,476	(2,936)	(61,467)	(13,140)	16,213	1,973	(2,722)	581,491

(*) Taking the effect of formalization expenses into account

The changes in the period correspond to the inclusion in the scope of consolidation of Group Company LE Retail Rivas, S.L.U. and to the sale of stakes held by the Parent Company in LE Offices Egeo, S.A.U.

(20) OTHER NON-CURRENT FINANCIAL LIABILITIES

At 31 December 2018 the Group includes under “Other non-current financial liabilities” EUR 17,240 thousand (EUR 16,221 thousand at 31 December 2017) 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 and will be reimbursed at the end of the contract term.

(21) TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Trade payables (a)	38,413	25,797
Trade payables, related companies (b)	9,694	11,128
Customer advances	250	41
Salaries payable	116	136
Public entities, other (Note 23)	5,686	1,815
	54,159	38,917

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(a) “Trade payables” at 31 December de 2018 includes EUR 24,078 thousand corresponding to the amount pending payment and withholdings for works performed at the VidaNova Parc developments (Shopping centre inaugurated in Q4 of 2018) and Lagoh (retail park currently on-going) (Note 8).

(b) “Trade payables, related companies” includes EUR 9,303 thousand related to the fixed remuneration and the variable remuneration to be paid to the Manager and accrued in the period (Note 30).

(22) 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 financial statements in terms of the average number of days payable outstanding to suppliers in commercial transactions:

	2018	2017
	Days	Days
Average number of days payable outstanding to suppliers	25	29
Ratio of paid operations	25	25
Ratio of operations pending payment	49	13
	Thousands of Euros	Thousands of Euros
Total effected payments	240,888	120,120
Total pending payments	61,153	4,698

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 financial statements, commercial transactions corresponding to the delivery of goods or rendering of services accrued since the date Law 31/2014 of 3 December entered into force were taken into consideration, although this has been exclusively regarding companies based in Spain that have been fully or proportionally integrated.

Trade payables as they relate to goods and services included in “Short-term suppliers, related companies”, “Suppliers, Group and associates” 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.

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“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).

(23) PUBLIC ENTITIES AND TAXATION

(a) Balances with public entities

<u>Receivables</u>	Thousands of Euros	
	31/12/2018	31/12/2017
Taxation authorities, VAT recoverable	8,965	5,277
Taxation authorities, other withholdings	1,876	1,920
	10,841	7,197

<u>Payables</u>	Thousands of Euros	
	31/12/2018	31/12/2017
Taxation authorities, VAT payable	3,276	1,709
Taxation authorities, personal income tax withholdings payable	71	66
Taxation authorities, corporate income tax payable	2,335	34
Social Security contributions payable	4	6
Deferred tax liabilities (Note 2)	19,405	14,613
	25,091	16,428

(b) Reconciliation of accounting profit and taxable income

At 31 December 2018 and 2017, the taxable fiscal base comprises the following items:

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	Thousands of Euros
	31/12/2018
Profit before tax from continuing operations	129,308
Consolidation adjustments:	8,208
Permanent differences	(2,806)
Temporary differences	1,662
Taxable income (tax loss)	136,372
Tax payable (25%)	2,148
Tax payable (0%)	-
Corporate income tax expense/income	4,539

	Thousands of Euros
	31/12/2017
Profit before tax from continuing operations	135,606
Consolidation adjustments:	(100,348)
Permanent differences	160
Temporary differences	(436)
Taxable income (tax loss)	34,982
Tax payable (25%)	-
Tax payable (0%)	-
Corporate income tax expense/income	-

At 31 December de 2018 the Parent Company and the subsidiaries are taxed under the SOCIMI tax regime, with the exception of LE Offices Marcelo Spínola, S.L.U and LAR España Inversión Logística IV, S.L.U., which requested the renouncement of the SOCIMI tax regime during 2018 period.

Therefore the corporate income tax expense for the period corresponds to the tax payable by the company LAR España Inversión Logística IV, S.L.U. after the partial sale of the property it owned in Cheste (Note 11) and a deferred tax liability due to the remeasurement recorded for Marcelo Spínola is recognised at 31 December de 2018 (Note 11).

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.

In terms of the sale of the Marcelo Spínola Office Building, as it was a company not taxed under the SOCIMI regime, a deferred tax liability was recorded in the amount of EUR 2,204 thousand.

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%.

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The deferred tax liability totalling EUR 19,537 thousand is the result of the purchase of LE Retail Gran Vía de Vigo, S.A.U., LE Retail Abadía, S.L.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U., LE Retail Hipermercados III, S.L.U. and LE Retail Rivas, S.L.U after adjusting the fair value of their assets when the business combination was incorporated, because these companies were not taxed under the special SOCIMI tax regime at the time of their acquisition, as well as the calculation of the deferred tax corresponding to the future sale of the Cardenal Marcelo Spínola Office Building. The change in the balance in the 2018 period corresponds to the business combinations carried out during same (Note 2g) and to the recording of the tax impact of having remeasured the Marcelo Spínola Office Building.

(c) Periods 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 2018 reporting date, the last four fiscal years of the Group are open to inspection. 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 financial statements 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 financial statements of each of the Group companies.

(24) RISK MANAGEMENT POLICY

(a) Financial risk factors

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

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

(i) Market risk

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

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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 property, 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 bank borrowings translates to an effect totalling EUR 398 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:

	Note	Thousands of Euros	
		2018	2017
Financial assets with associates	12	-	29,879
Non-current financial assets	13	11,426	11,928
Other current financial assets	13	3,268	7,118
Other current assets	13	4,176	553
Trade and other receivables	14	16,495	14,413
Cash and cash equivalents	15	191,328	45,617
		226,693	109,508

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.

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	Thousands of Euros				Total
	2018				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	
Operating lease receivables (Note 14)	22	117	229	670	1,038
Total assets	22	117	229	670	1,038

	Thousands of Euros				Total
	2017				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	
Operating lease receivables	1,765	205	199	849	3,018
Total assets	1,765	205	199	849	3,018

At 31 December 2018 and 2017, the Group has recognised impairment on all trade receivables at risk of default (90 days), thus covering the maximum exposure at risk. Impairment of receivables by geographical region representing the Group's activities is as follows:

	Thousands of Euros	
	2018	2017
Community of Valencia	311	306
Basque Country	201	123
Galicia	140	50
Castilla La Mancha	94	86
Catalonia	73	64
Castile and León	3	140
Community of Madrid	-	3
	822	772

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Cash and cash equivalents

At 31 December 2018 the Group has cash totalling EUR 191,328 thousand (EUR 45,617 thousand at 31 December 2017), which represents its maximum exposure to the risk associated with these assets. Cash is held in banks and financial institutions and is restricted as explained in Note 15.

(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 2018 and 2017 is set forth below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

	2018					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	
Liabilities connected to non-current assets held for sale	810	-	-	-	-	810
Financial liabilities from issue of bonds	-	3,482	-	139,077	-	142,559
Bank borrowings	295	745	5,421	428,400	-	434,861
Derivatives	-	-	2,179	1,892	-	4,071
Other non-current liabilities	-	-	-	-	17,240	17,240
Deferred tax liabilities	-	-	-	-	19,405	19,405
Trade and other payables	27,244	-	26,915	-	-	54,159
Debts with Group companies	-	-	-	-	-	-
Total	<u>28,349</u>	<u>4,227</u>	<u>34,515</u>	<u>569,369</u>	<u>36,645</u>	<u>673,105</u>

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	2017					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	
Liabilities connected to non-current assets held for sale	30,930	-	16,688	-	-	47,618
Financial liabilities from issue of bonds	-	3,482	-	138,787	-	142,269
Bank borrowings	205	1,535	3,840	361,165	-	366,745
Derivatives	-	-	1,267	831	-	2,098
Other non-current liabilities	-	147	-	-	16,221	16,368
Deferred tax liabilities	-	-	-	-	14,613	14,613
Trade and other payables	6,218	29,427	3,272	-	-	38,917
Debts with Group companies	7,505	-	-	-	-	7,505
Total	<u>44,858</u>	<u>34,591</u>	<u>25,067</u>	<u>500,783</u>	<u>30,834</u>	<u>636,133</u>

(iv) Cash flow and fair value interest rate risks

At 31 December 2018 the Group holds short-term fixed-rate financial assets (deposits) to generate a return on cash surpluses not invested in investment property. Fixed-rate financial assets are for the most part independent of market interest rate fluctuations.

At the reporting date, income and cash flows from the Group's operating activities are for the most part 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 part of the subsidiaries thereof have availed themselves of the special tax regime for SOCIMIs. In the 2017 period, the transitional period ended and compliance with all the requirements established by the regime became obligatory as of the previous year (Notes 1 and 5n ii). Among the obligations that the Parent Company must comply with are some that are more formalistic in nature, such as the inclusion of the term SOCIMI in the corporate name, the inclusion of certain information in the notes to the individual financial statements, listing on a stock exchange, etc., and others that additionally require the preparation of estimates and the application of rulings by the Management (determination of tax income, income tests, asset tests, etc.) that may be complex, especially considering that the SOCIMI Regime is relatively recent and its development has been carried out, fundamentally, through the response of the General Directorate of Taxation to the queries raised by different companies. In this sense, Group Management, with the support of its tax advisors, has carried out an evaluation regarding the satisfaction of the requirements of the regime, conducting that at 31 December de 2018 all the requirements are satisfied except that of the income test. The Directors believe this breach to be an extraordinary situation caused by the positive results obtained after returning the loan granted to Inmobiliaria Juan Bravo 3, S.L. (Note 12). In this sense, as established in Article 13 of the Law on SOCIMIs, which allows this breach to be corrected in the following period, the Directors believe, pursuant to the company 2019 business plan, that in 2019 the Group will satisfy the level required by said Law in terms of the income test. Consequently the Parent Company will continue to be taxed under the SOCIMI Regime, and such assumption was used when preparing the consolidated financial statements.

Conversely, and for the purposes of also taking the financial effect of the Regime into account, it is important to point out that pursuant to Article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December, SOCIMIs, companies choosing to adopt the special tax regime, are required to distribute profit for the period as dividends to shareholders, after settling all appropriate trading obligations. Such distribution must be agreed within six months after each period end and the dividend must be paid within one month from the date of the agreement (Note 5g).

Should the Parent Company not satisfy the requirements established by the Regime or should the Shareholders' Meeting of said Companies, not approve of the distribution of dividends proposed by the Board of Directors, which was 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.

(25) INCOME

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

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(26) OTHER OPERATING EXPENSES

Details of other expenses are as follows:

	Thousands of Euros	
	2018	2017
Independent professional services	45,597	27,203
Insurance premiums	590	399
Bank fees and commissions	180	335
PR and advertising	1,129	1,293
Taxes other than corporate income tax	5,415	4,758
Impairment losses and uncollectibility of trade and other receivables (Note 14a)	190	19
Remuneration of the Board of Directors (Note 30b) (*)	590	464
Other expenses	1,457	1,376
	55,148	35,847

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

(27) FINANCE PROFIT

The details of the finance profit at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Financial income		
Financial income from loans (Note 13c)	27,921	2,072
Financial income from deposits (Note 13c)	6	13
Financial costs		
Financial expenses due to bank borrowings (Note 19)	(8,088)	(8,070)
Financial expenses due to bonds (Note 19)	(4,350)	(4,341)
Financial expenses due to derivatives (Note 19)	(2,736)	(1,810)
Other financial expenses	(1,612)	(60)
Changes in the fair value of financial instruments (Note 19)	(1,024)	1,474
	10,117	(10,722)

(28) EMPLOYEE BENEFITS EXPENSE

Details of employee benefits expense at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Salaries and wages	437	477
Other benefits and taxes	65	65
	502	542

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(29) PROFIT FOR THE PERIOD

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

	Thousands of Euros	
	2018*	2017*
Lar España Real Estate SOCIMI, S.A.	67,153	656
LE Logistic Alovera I y II, S.A.U.	(3,765)	9,329
LE Retail Hiper Albacenter, S.A.U.	(287)	1,081
LE Offices Egeo, S.A.U.	(61)	3,278
LE Retail Alisal, S.A.U.	(632)	1,588
LE Offices Eloy Gonzalo 27, S.A.U.	7,802	8,800
LE Retail As Termas, S.L.U.	2,573	6,606
LE Retail Portal de la Marina, S.L.U.	-	15,592
LE Logistic Alovera III y IV, S.L.U.	(1,062)	2,362
LE Logistic Almussafes, S.L.U.	3	1,319
LE Retail Hiper Ondara, S.L.U.	9,655	1,090
LE Offices Joan Miró 21, S.L.U.	3,826	222
LE Retail Megapark, S.L.U.	-	17,079
LE Retail Vidanova Parc, S.L.U.	6,748	5,581
LE Retail El Rosal, S.L.U.	1,502	11,114
LE Retail Galaria, S.L.U.	(777)	670
Lar Shopping Centres VIII, S.L.U.	23,046	577
LE Retail Vistahermosa, S.L.U.	564	5,367
LE Retail Sagunto II, S.L.U.	(219)	-
LE Retail Las Huertas, S.L.U.	147	(298)
LE Retail Gran Vía de Vigo, S.A.U.	10,013	22,495
LE Offices Marcelo Spínola 42, S.L.U.	(2,856)	2,517
LE Retail Anec Blau, S.L.U.	2,120	3,748
LE Retail Albacenter, S.L.U.	1,769	5,907
LE Retail Txingudi, S.L.U.	(1,024)	684
Lar España Inversión Logística IV, S.L.U.	(393)	2,814
LE Retail Villaverde, S.L.U.	(873)	960
LE Offices Arturo Soria, S.L.U.	-	1,774
Inmobiliaria Juan Bravo 3, S.L.	(899)	(2,119)
LE Retail Abadía, S.L.U.	4,843	(777)
LE Retail Hipermercados I, S.L.U.	120	2,278
LE Retail Hipermercados II, S.L.U.	168	1,703
LE Retail Hipermercados III, S.L.U.	268	1,609
LE Retail Rivas, S.L.U.	4,375	-
Profit before income tax	133,847	135,606
Income tax	(4,539)	-
Profit after income tax	129,308	135,606

* The elimination of amounts the Parent Company re-invoiced to subsidiaries is not included.

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(30) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party balances and transactions

On 12 February 2014, the Parent Company signed an Investment Manager 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 the financial management thereof.

On 19 February 2018, the Parent Company entered into a new agreement with its management company, for the purpose of renewing the terms of the Investment Manager Agreement. According to the aforementioned novation, the IMA will be effective for 4 years from 1 January 2018. In addition, the structure of the fees corresponding to the Management Company (fixed fee or base fee and variable fee or performance fee) has been modified. From 2018 onwards, the base fee payable to the Management Company shall be calculated on the basis of an annual amount equivalent to whichever is the higher between (i) EUR 2 million or (ii) the sum of (a) 1.00% of the value of the EPRA NAV (EPRA net asset value) (excluding net cash) at 31 December of the previous year up to an amount of EUR 1 billion or less, and (b) 0.75% of the value of the EPRA NAV (excluding net cash) at 31 December of the previous year in relation to the amount exceeding EUR 1 billion. Likewise, as from 2018 the performance fee payable to the Management Company will be calculated on the basis of the EPRA NAV and the Company’s market capitalisation, and will be subject to a total limit equivalent to 3% of the Company’s EPRA NAV at 31 December of the preceding year.

The fixed amount accrued by the manager totalled EUR 8,740 thousand (net of expenses discounted on the basis of the management contract formalised between the parties, which totalled EUR 775 thousand). At 31 December 2018 EUR 737 thousand of this amount was outstanding. At 31 December 2017 the base fee expense totalled EUR 9,023 thousand of which EUR 756 thousand was outstanding at 31 December 2017.

Additionally, pursuant to Clause 7.2 of the Investment Management Contract, Grupo Lar Inversiones Inmobiliarias, S.A. had the right to a Performance Fee that was paid to the manager depending on the profitability obtained by the Company shareholders, increase in the EPRA NAV and the Company’s market capitalisation.

At 31 December 2018 no variable amount has accrued in relation to the increase in market capitalisation.

As regards the increase in EPRA NAV and considering that the shareholders’ returns calculated by the Parent Company amounted to EUR 148,688 thousand, a Performance Fee was accrued in the amount of EUR 8,566 thousand in 2018 (EUR 10,000 thousand in 2017), which was recorded as a liability.

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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 manager was entitled, under the original Investment Management Agreement (IMA), to receive a fee linked to the sale of investment property, when the amount of said sales was equal to or greater than EUR 100 million. In this regard, the manager accrued in 2018 an amount of EUR 17,898 million derived from the sales that took place in the same year. Said amount has been liquidated as at 31 December 2018.

The Group has also signed a contract with a related company, Gentalia 2006, S.L., (an investee in which Grupo Lar Inversiones Inmobiliarias, S.A. has a majority shareholding) for the provision of services related to the administration of the property assets. At 31 December 2018 the related expense amounts to EUR 2,516 thousand (of which EUR 390 thousand was outstanding at 31 December 2018). At 31 December 2017 the related expense amounted to EUR 2,136 thousand (of which EUR 434 thousand was outstanding).

In addition, the amount of income obtained by the Parent Company with respect to the credit delivered to the associate Inmobiliaria Juan Bravo 3, S.L. (Note 12) totalled EUR 27,921 thousand in the 2018 period.

(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 2018 and 2017, classified by item, is as follows:

	Thousands of Euros							Remuneration for individuals representing the company
	2018							
	Salaries	Allowances	Other items	Pension plans	Insurance premiums	Termination benefits	Payments based on equity instruments	
Board of Directors	-	590	-	-	194*	-	-	-
Senior management personnel	437	-	-	-	-	-	-	-

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Thousands of Euros								
2017								
	Salaries	Allowances	Other items	Pension plans	Insurance premiums	Termination benefits	Payments based on equity instruments	Remuneration for individuals representing the company
Board of Directors	-	464	-	-	49*	-	-	-
Senior management personnel	447	-	-	-	-	-	-	-

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

Allowances for the Board of Directors include EUR 85 thousand for the non-director Secretary of the Board of Directors (EUR 75 thousand at 31 December 2017).

At 31 December 2018 the company had 7 Board members, 5 men and 2 woman (at 31 December 2017 the company had 7 Board members, 6 men and 1 woman).

At 31 December 2018 and 2017 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 2018 and 2017 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

Apart from the transactions with related parties listed above, in 2018 the Directors have not carried out any transactions other than ordinary business or with conditions other than market conditions with related parties or with Group companies.

(d) Investments and positions held by 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.

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(31) EMPLOYEE INFORMATION

The average headcount of the Group at 31 December 2018 and 2017, distributed by category, is as follows:

	2018	2017
Professional category		
Senior management personnel	4	4
Total	4	4

The distribution of Group personnel by gender at 31 December 2018 and 2017 is as follows:

	Number	
	2018	
	Female	Male
Senior management personnel	1	2
Total	1	2

	Number	
	2017	
	Female	Male
Senior management personnel	1	3
Total	1	3

In the 2018 and 2017 periods the Company had no employees with a 33% or greater disability.

(32) AUDIT FEES

During 2018 and 2017, fees for audit and other related services charged to the Group by the auditor of the consolidated financial statements, Deloitte, S.L., and by companies belonging to the Deloitte network, as well as fees for services charged by the auditors of the individual financial statements of the companies included in the consolidation and by the entities related thereto through control, shared property or management were as follows (in thousands of Euros):

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	Thousands of Euros
	31/12/2018
Audit and related services	
Audit services 2018	326
Other verification services	81
Professional services	
Other services	254
Total	661

	Thousands of Euros
	31/12/2017
Audit and related services	
Audit services 2017	293.5
Other verification services	28.0
Professional services	
Other services	182.0
Total	503.5

(33) EVENTS AFTER THE REPORTING PERIOD

On 15 January 2019, the Parent acquired all the shares in Global Pergamo, S.L.U. from Latorre & Asociados Consultoría, S.L. for a total amount of Euros 4 thousand.

On 31 January 2019 the office building located at Calle Cardenal Marcelo Spínola 42, which was classified as held for sale at 31 December 2018, was sold to the Invesco company called IRE-RE Spínola, S.L.U. for EUR 37 million, subject to price adjustments that are typical in this type of operation.

(34) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

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a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Market value (b)	Thousands of Euros		
			Direct	Total								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	(457)	31,670	(16,050)	169	15,849	-	-	-	60
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100	100	60	200	200	(111)	12,432	12,581	15,390	12,758	2,632	12,480
LE Retail Alisal, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100	100	60	(52)	4,110	(2,098)	2,162	4,234	-	-	-	2,210
LE Offices Eloy Gonzalo 27, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100	100	60	(1,783)	(1,783)	-	19,314	17,591	39,400	18,547	20,853	19,834
LE Retail As Termas, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	1,815	630	-	28,227	28,861	85,500	67,931	17,569	28,531

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	(59)	5,725	(2,935)	97	2,891	-	-	-	101
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	(46)	4,239	(2,185)	2,525	4,583	-	-	-	2,529
LE Retail Hiper Ondara, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	5,559	657	-	122,115	122,776	339,735	275,034	64,701	113,729
LE Offices Joan Miró 21, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	(712)	5,496	-	13,794	19,294	-	-	-	13,799
LE Retail Vidanova Parc, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100	100	4	(866)	(236)	-	22,796	22,564	59,910	47,209	12,701	24,068

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	(438)	(1,805)	-	23,246	21,444	110,210	71,761	38,449	32,067
LE Retail Galaria, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	166	3,261	(1,665)	(1)	1,599	-	-	-	4
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(3,036)	(3,184)	-	94,344	91,163	132,000	104,262	27,738	96,854
LE Retail Sagunto II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	4	4	-	1,532	1,539	-	1,223	(1,223)	1,536
LE Retail Vistahermosa, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100	100	3	413	(167)	-	20,169	20,005	50,540	42,903	7,637	20,345

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(2,840)	5,575	(5,165)	(9)	404	-	307	(307)	111
LE Retail Villaverde, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(34)	3,054	(1,598)	1,651	3,110	-	-	-	1,653
LE Retail Anec Blau, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	1,025	1,025	(554)	77,989	78,463	97,060	78,745	18,315	78,785
LE Retail Albacenter, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	220	220	-	30,638	30,861	44,960	31,993	12,967	30,734
LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(21)	(21)	-	30,637	30,619	37,500	30,640	6,860	30,761

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	1	1	-	11,960	11,964	12,600	11,842	758	12,196
LE Offices Marcelo Spínola, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(2,158)	(2,158)	-	28,590	26,435	37,000	27,629	9,371	31,564
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	502	2,430	226	-	21,831	22,559	173,000	106,947	66,053	53,932
LE Retail Abadfa, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	7,204	2,151	1,199	(827)	14,617	22,193	83,410	63,110	20,300	34,780
LE Retail Hipermercados I, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	346	346	(343)	13,929	13,935	17,734	14,427	3,307	14,735

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Market value (b)	Thousands of Euros		
			Direct	Total								Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Hipermercados II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	370	370	(317)	14,064	14,120	17,541	14,647	2,894	15,955
LE Retail Hipermercados III, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	262	262	(215)	12,803	12,853	17,749	13,284	4,465	14,643
LE Retail Rivas, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	422	(185)	-	25,593	25,411	67,500	52,586	14,914	33,361
					8,019	74,132	58,731	(34,063)	647,214	679,901	1,440,046	1,087,785	352,261	721,357

* Company audited by Deloitte, S.L.

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

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b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating results	Thousands of Euros			Carrying amount of investment
					Direct	Total			Profits/(losses)	Dividends	Other equity	
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50	50	3,483	26,067	17,513	-	(3,151)	8,647

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a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating results	Profits/(losses)	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	966	966	(529)	42,704	43,201	62,480	43,531	18,949	42,594
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100	100	60	296	275	(251)	11,861	11,945	15,013	12,029	2,948	11,909
LE Retail Alisal, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	60	669	452	(398)	9,033	9,147	19,313	16,655	2,658	9,081
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100	100	60	1,054	447	(406)	35,881	35,982	76,674	64,443	12,231	36,427
LE Offices Eloy Gonzalo 27, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	60	(330)	(330)	-	15,070	14,800	26,500	15,231	11,269	15,260

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail As Termas, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	2,487	1,424	(956)	29,382	29,854	82,250	67,806	14,444	30,125
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	620	620	(374)	9,833	10,083	13,900	10,293	3,607	9,839
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	463	463	(387)	8,087	8,167	10,300	8,296	2,004	8,092
LE Retail Hiper Ondara, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	297	297	(270)	6,773	6,804	9,300	6,903	2,397	6,778
LE Offices Joan Miró 21, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	409	228	(166)	10,387	10,453	21,450	19,546	1,904	10,392

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Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Megapark, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	4,849	3,415	(2,179)	76,266	77,506	204,975	166,797	38,178	77,182
LE Retail Sagunto, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100	100	4	(369)	(368)	-	20,522	20,158	24,780	11,788	12,992	21,426
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	675	(512)	-	24,588	24,079	108,950	73,807	35,143	33,059
LE Retail Galaria, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	4	422	337	(307)	4,808	4,842	10,700	8,356	22,344	4,813
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(930)	(930)	-	44,711	43,784	54,000	36,000	18,000	46,292

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Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Lar España Offices VI, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	-	-	-	(1)	2	-	-	-	3
LE Retail Vistahermosa, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100	100	3	1,116	717	(473)	21,820	22,067	50,390	43,607	6,783	21,949
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(104)	(92)	-	2,395	2,306	5,200	2,262	2,938	2,423
LE Retail Villaverde, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	422	324	(278)	5,188	5,237	11,343	9,060	2,283	5,189
LE Retail Anec Blau, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	982	982	(622)	77,784	78,147	95,380	78,706	16,674	78,579

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Information on Group companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Albacenter, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	387	387	(112)	29,279	29,557	41,309	29,813	11,496	29,376
LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	449	449	(342)	30,155	30,265	39,000	31,244	7,756	30,280
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	126	126	(70)	12,203	12,262	12,600	12,044	556	12,439
LE Offices Marcelo Spínola, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(1,736)	(1,736)	-	29,076	27,343	37,500	27,945	9,555	30,314
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	502	3,983	2,242	(1,139)	25,344	26,949	163,000	107,018	55,982	57,040

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Information on Group companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating results	Profits/(losses)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Portal de la Marina, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	27,240	3,012	2,645	(1,786)	12,343	40,442	110,500	79,090	31,410	39,318
LE Retail Abadía, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	7,204	2,237	1,179	(905)	8,660	16,138	65,040	42,248	22,792	29,059
LE Retail Hipermercados I, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	850	742	(478)	14,339	14,606	17,538	14,613	2,925	15,146
LE Retail Hipermercados II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	829	721	(529)	14,524	14,719	17,424	14,837	2,587	16,416
LE Retail Hipermercados III, S.L.U.	The acquisition and development of properties	Subsidiary	100	100	3	752	648	(520)	13,203	13,334	17,570	13,456	4,114	15,044
					35,320	24,883	16,118	(13,477)	646,218	684,179	1,411,779	1,025,176	376,919	745,844

* Company audited 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 2017

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating results	Profits/(losses)	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	22,438	20,769	-	(23,946)	11,443

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

Consolidates Management report for the period ended
31 December 2018

1 Situation of the Group

1.1 Organisational structure and operations

The Group is a group of companies that was created in 2014 with an externalised management structure. It has designated Grupo Lar Inversiones Inmobiliarias, S.A. as exclusive manager, a company that has more than forty years of experience in the property market and a long history of generating value through various property cycles in the last decades, and that has alliances with some of the most internationally renowned investors.

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

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

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

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

- Offices: the rental of offices.

The Group has been and is currently implementing a plan to build up the value of assets in its portfolio in order to maximise shareholder returns from divesting in said assets.

- Logistics: the rental of logistics bays.

The Group has been and is currently implementing a plan to build up the value of assets in its portfolio in order to maximise shareholder returns from divesting in said assets.

- Residential.

The Group made an exception investment in the luxury residential market in Madrid, through the joint development (50%) of the Lagasca99 project with PIMCO. The development, most of which has already been delivered, is not in response to a strategic line in envisaged in the future business plans.

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

- On assets the company considers to be strategic assets, mainly commercial parks and shopping centres.
- Investment opportunities in mid-sized assets that offer great management possibilities, avoiding those segments where competition may be greater.
- Risk diversification, expanding throughout Spain mainly in shopping centre investments.

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

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

Consolidates Management report for the period ended
31 December 2018

investment plans as forecast.

2 Evolution and result of the businesses

2.1 Introduction

At the 2018 reporting date, the Group's ordinary revenue amounted to 77,841 thousand euros, corresponding to the business in which the Group is engaged: the rental business.

During 2018 the Group incurred "Other expenses" amounting to 55,148 thousand euros, corresponding essentially to the fees for management provided by Grupo Lar Inversiones Inmobiliarias, S.A. to the Group (35,204 thousand euros), and recurrent services that are directly linked to the everyday management of the assets (supplies, IBI -propertytax-, etc.) by the amount of 12,646 thousand Euros.

Earnings before interest, taxes, depreciation and amortisation (EBITDA is calculated as the result of the operations, net of the change in fair value of investment property, net of amortisation expenses) stood at 54,465 thousand euros.

The appreciation in value during 2018 of the assets held by the Group at 31 December 2018, according to the independent valuation conducted by Cushman & Wakefield and JLL at the close of the financial year is 70,471 thousand euros.

The financial result was positive amount of 10,117 thousand euros.

The Group's profit for the period was 129,308 thousand euros.

By area of activity, we should be emphasised:

- A significant percentage of the Group's revenue is the result of rent from retail centres, accounting for 94% of total revenue, as opposed to 2% from offices and 4% from logistics.
- Around 41% of rental revenue is generated by the Megapark, Gran Vía de Vigo and Portal de la Marina.

As at 31 December 2018, the Group occupied across its whole business 90.9% the gross leasable area (GLA), the occupancy rate at retail centres being 92.0% and 54.4% for offices.

As at 31 December 2018, the Group has a portfolio of real estate rental projects covering retail centres (483.255 m²), business premises (27,909 m²) and office buildings (15,276 m²). The overall total gross leasable area of 526,440 m².

The information in the previous two paragraphs does not take into account the Lagoh sites, since they have not been built to date.

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

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2.2 Other financial indicators

As at 31 December 2018, the Group revealed the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 223,524 thousand (EUR 115,198 thousand as at 31 December 2017).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 4.3 (2.1 as of 31 December 2017).
- Solvency ratio (calculated as the quotient of the sum of net assets and non-current liabilities in the numerator and denominator, non-current assets) → 1.2 (1.1 as of 31 December 2017).

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 profitability obtained by the Group on its own shares, totals 13.42% (15.77% as of 31 December 2017). 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 8.03% (9.15% as of 31 December 2017), 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 "Full yearly report 2018", which was published on the same date as these Financial Statements and explanatory notes, state how the EPRA (European Public Real Estate Association) indicators are calculated and defined.

2.3 Environment 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 at 31 December 2018 the Group has 3 employees (2 men and 1 woman). Said employees are classified as Senior Management. In the 2018 period the Company has had no employees with a 33% or greater disability.

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

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3 Liquidity and capital resources

3.1 Liquidity and capital resources

As at 31 December 2018, the Group's financial debt amounted to EUR 581,491 thousand, taking into account the debt classified as non-current assets held for sale. The level of debt is related to the purchases of the As Termas, el Rosal, Megapark, Portal de la Marina, Vistahermosa, Gran Vía de Vigo, Lagoh, Parque Abadía and VidaNova Parc shopping center, and the Parque Galaria single-tenant commercial property. This also includes the bonds issued by the Parent Company in 2015 and a credit line arranged by the Parent Company.

As at 31 December 2018, the Group's short-term financial debt stands at EUR 12,122 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 6 February 2018, the Company has acquired the 100% of the share capital of the company LE Retail Rivas, S.L.U. owner of the Rivas Futura retail complex in Madrid with a gross leasable area (GLA) of approximately 36,726 m², totally occupied. The acquisition has been carried out for a total amount of approximately €35.36 million, subject to the subsequent customary price adjustments in this kind of transactions, and has been fully paid with the funds of the Company.

On 20 February 2018, the Company acquired a shopping mall in Parque Abadía (Toledo) with a gross leasable area (GLA) of approximately 6,138 m². The acquisition was carried out for a total amount of EUR 14 million, subject to the subsequent customary price adjustments for this kind of transaction.

On 21 March 2018 Group company LE Retail Abadía S.L.U., after the purchase of Abadía Shopping Centre, signed an extension to the loan contract that the company had since 23 May 2017 with Banco Santander, S.A., formalising two new instalments, a first instalment of EUR 7,310 thousand, completely drawn down, and an instalment of EUR 1,375 thousand pending drawdown as at 31 December 2018. The debt matures on 23 May 2024. These instalments accrue interest quarterly, at the fixed quarterly rate of 1.93% until 23 August 2021 and thereafter at an interest rate tied to the 3-month Euribor plus a 1.75% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 272 thousand.

On 17 January 2018, the sale of 100% of the shares in LE Offices Egeo, S.A.U., which owns the Egeo office building, was signed to Inmobiliaria Colonial, SOCIMI, S.A. for an amount of EUR 40,098 thousand and a variable price for an amount of EUR 2,124 thousand of variable price linked to the valuation of the asset at 31 December 2018, which has been fully accrued, obtaining a result of EUR 2,906 thousand.

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On 12 March 2018, the sale of the unencumbered medium-sized company Villaverde was signed with Pierre Plus Scpi, for an amount of EUR 12,255 thousand, and a net gain of EUR 912 thousand was obtained on the expenses associated with the sale, recorded under “Profits or Losses from the Disposal of Investment Property” in the Consolidated Statement of Comprehensive Income, with the 3-year maintenance period required by the SOCIMI Regime having been completed. The financial liabilities associated with the real estate assets have been settled in full with the funds obtained from the sale.

On 12 March 2018, the sale of the unencumbered medium-sized company Nuevo Alisal was signed with Pierre Plus Scpi, for an amount of EUR 20,920 thousand, and a net gain of EUR 1,607 thousand was obtained on the expenses associated with the sale, recorded under “Profits or Losses from the Disposal of Investment Property” in the Consolidated Statement of Comprehensive Income.

On 18 July 2018, the sale of the unencumbered five logistic assets, four of them in Alovera (Guadalajara) and the fifth in Almussafes (Valencia) and 17 plots intended for logistical use in Cheste (Valencia) was signed with The Blackstone Group LP, for an amount of EUR 119,645 thousand, and a net gain of EUR 17.022 thousand was obtained on the expenses associated with the sale, recorded under “Profits or Losses from the Disposal of Investment Property” in the Consolidated Statement of Comprehensive Income.

On 3 August 2018, the unencumbered sale of two retail warehouses in Parque Galaria retail park (Pamplona) was signed with Fructiregions Europe SCPI, for an amount of EUR 11,500 thousand, and a net gain of EUR 600 thousand was obtained on the expenses associated with the sale, recorded under “Profits or Losses from the Disposal of Investment Property” in the Consolidated Statement of Comprehensive Income.

On 28 December 2018, the unencumbered sale of an office building and a retail unit on ground floor at Calle Joan Miró 19-21 Barcelona was signed with an AEW company named Grantham Invest, S.L., for an amount of EUR 28,800 thousand, and a net gain of EUR 4,618 thousand was obtained on the expenses associated with the sale, recorded under “Profits or Losses from the Disposal of Investment Property” in the Consolidated Statement of Comprehensive Income.

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

As at 31 December 2018, the Group has no contractual obligations that may require a future outflow of liquid resources, over and above those mentioned in point 3.1 or in the explanatory notes of the consolidated report.

As at 31 December 2018, the Group does not present off-balance-sheet transactions that have had, or are expected to have, a significant effect on the financial position of the Group, the revenue and expenditure structure, the operating result, liquidity, capital expenses or on own resources.

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

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

Consolidates Management report for the period ended
31 December 2018

is informed by the Audit and Oversight Committee. The Group's Risk Management and Control System identifies, groups, manages and control risks that could potentially affects said Group in the areas that make up the Group's corporate risk map, which is adequately reported in the Annual Corporate Governance Report.

5 Significant circumstances occurring after the close

No important circumstances arose after the reporting period other than those mentioned under post-closing events.

6 Information on the foreseeable evolution of the Group

After the volume of investments made 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 profitability with respect to purchase price. All of this will be reflected in the increased value of the assets in our portfolio.

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

In turn, the Group has been and is currently implementing a plan to create value on the assets in its portfolio with the aim of maximising shareholder return from divesting in these assets for office and logistics assets.

With the appropriate reservations given the current situation, we believe that the Group will be in a position to continue making progress in 2019 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. However, Lar España remains committed to becoming the leader of the transformation of the retail sector, by creating new, more efficient and digital methods of interacting with external and internal customers (Customer Journey Experience).

8 Acquisition and disposal of treasury stock

The Parent Company formalised a share buy-back programme between Lar España and its liquidity provider, aimed at a maximum of 3,160,000 shares, representing 3.33% of the share capital, which may be acquired at a price no greater than (a) the price of the last independent transaction or (b) the highest independent offer at that time in the business centre where the purchase is made. The maximum deadline for this programme is 28 February 2019.

The aforesaid programme suspends the liquidity agreement with a financial intermediary pursuant to

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

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31 December 2018

the terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other applicable regulations, such that a restricted amount of EUR 500 thousand is held in the Treasury and there is a maximum of 63,000 shares available for purchase/sale as treasury shares.

The acquisitions were carried out within the framework of a discretionary treasury share management contract, of which the Spanish Securities Market Commission (CNMV) was notified in compliance with the recommendations published by said body on 18 July 2013.

As of 31 December 2018, the share price was EUR 7.45.

As of 31 December 2018, the Company holds a total of 164,925 shares, representing 0.2% of total issued shares.

On 28 December 2018 the General Shareholder's Meeting approved a decrease in share capital by amortising all of the Company's treasury shares as at said date. Said capital decrease was executed through the amortisation of 1,544,490 treasury shares with a nominal value of EUR 2 (EUR 3,089 thousand). The share capital of the Company after the decrease shall be set at EUR 186,438 thousand, corresponding to the 93,219,044 shares with a nominal value of EUR 2.

9 Other relevant information

9.1 Stock exchange information

The initial share price at the start of the year was EUR 8.88 and the nominal value at the reporting date was EUR 7.45. During 2018, the average price per share was EUR 8.91.

It is important to take into consideration that in May 2018, the following capital increase was effected, where same was fully subscribed by Grupo Lar Inversiones Inmobiliarias by virtue of the formalised management contract.

- The issue of 2,139,437 shares with a nominal value of EUR 2 plus an issue premium of EUR 7.78 per share.

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

9.2 Dividend policy

On 19 April 2018, the Shareholders' General Meeting approved the distribution of a dividend of EUR 17,286 thousand, at EUR 0.187 per share (taking into account all the shares issued) and recognised in profit and loss for the 2017 period, and of EUR 27,714 thousand, at EUR 0.299 per share (taking into account all the shares issued), charged to the share premium. The amount distributed amounted to EUR 44,966 thousand (after deducting the amount relating to treasury shares, which does not come out of the Parent Company's equity), taking into account the amount per share approved and the shares outstanding at the time of approval by the Shareholders' Meeting on 19 April 2018 and adjusting the difference for the greater number of treasury shares charged against the "Share premium". The distributed dividend was paid in full on 18 May 2018.

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

Consolidates Management report for the period ended
31 December 2018

9.3 Average number of days payable outstanding to suppliers

The average number of days payable outstanding to suppliers is 25, complying with the maximum legal payment period applicable to the Company in the year 2018 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.

10 Annual Corporate Governance Report

To the effects of Article 538 of the Spanish Companies Act, it is stated for the record that the 2018 Annual Corporate Governance Report forms part of this Management Report.

11 Events after the reporting period

On 15 January 2019 the Parent Company acquired 100% of the stakes in Global Pergamo, S.L.U from Latorre & Asociados Consultoría, S.L. for a total of EUR 4 thousand.

On 31 January 2018 the office building located at Calle Cardenal Marcelo Spínola 42, which was classified as held for sale at 31 December 2018, was sold to the Invesco company called IRE-RE Spínola, S.L.U. for EUR 37 million, subject to price adjustments that are typical in this type of operation.

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

Preparation of the consolidated financial statements
Yearly period ended on 31 December 2018 and
statement of compliance of
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 26 February 2019, 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 financial statements for the period ended 31 December 2018. The consolidated financial statements comprise the attached documents that precede this certification issued on the accompanying pages of ordinary paper, all of which have been initialized by the Deputy-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 financial statements for the annual period ended 31 December 2018, 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 financial statements includes a reliable analysis of the development and business results and position of Lar España and its subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

Mr José Luis del Valle Doblado (Chairman)

Mr Alec Emmott

Mr Roger Maxwell Cooke

Ms Leticia Iglesias Herraiz

Mr Miguel Pereda Espeso

Mr Laurent Luccioni

Ms Isabel Aguilera Navarro

Madrid, on 26 February 2019

Appendix I

ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY- LISTED COMPANIES

DATA IDENTIFYING THE ISSUER

Financial year end:

31/12/2018

Tax ID no. (CIF):

A-86918307

Registered business name:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Registered office:

Rosario Pino 14-16, Madrid.

English loose translation for information purposes. In case of discrepancy Spanish version shall prevail.

ANNUAL CORPORATE GOVERNANCE REPORT FORM ⁽¹⁾ 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
28/12/2018	186,438,088.00	93,219,044	93,219,044

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

Yes No

Class	Number of shares	Unit par value	Unit no. of voting rights	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	
BLACKROCK INC.	0		2,778,497	3.679%
BRANDES INVESTMENT PARTNERS, L.P.	0		4,555,489	5.031%
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	4,570,501		0	4.934%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		7,322,773	7.905 %
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	9,476,400		0	10%
PIMCO BRAVO II FUND, L.P.	0		18,157,459	19.603%
SANTA LUCIA S.A. CIA DE SEGUROS	1,839,025		1,046,029	3.115%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4,548,507	5.024%

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

In 2018, Lar España has carried out an expansion and a reduction of capital: The first on May 7, 2018, which has been fully subscribed and paid by its management company, Grupo Lar Inversiones Inmobiliarias, S.A. ("Grupo Lar"), by disbursing the amount received as performance fee and divestment fee, net of taxes, which left the share capital set at € 189,527,068, which was divided into 94,763,534 ordinary shares with a par value of €2 each. a. The second was carried out on December 28, 2018 and left a share capital of €186,438,088 represented by 93,219,044 shares with a par value of two euros each.

Name or company name of shareholder	Transaction date	Transaction background
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	07/05/2018	Increased its shareholding by capital increase

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
		Number of direct voting rights	Number of direct voting rights	
José Luis del Valle Doblado	0	Eugemor, SICAV, S.A.	22,425	0.025%
Isabel Aguilera Navarro	1,200		1,200	0.001%
Alec Emmott	1,155		1,155	0.001%
Roger Maxwell Cooke	2,500		2,500	0.003%
Miguel Pereda Espeso	20,905		20,905	0.023%

% of total voting rights held by the board of directors	0.053%
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Complete the following table detailing the directors who have stock options 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	

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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
Miguel Pereda y Grupo Lar Inversiones Inmobiliarias, S.A.		Miguel Pereda is part of the Pereda family, owner of Grupo Lar Inversiones Inmobiliarias, S.A.

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 (PIMCO)	Contractual “Subscription Agreement”	Right of first refusal in relation to certain opportunities to jointly invest in service and residential properties.
Grupo Lar Inversiones Inmobiliarias, S.A	Contractual “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

Shareholders bound by agreement	% of share capital affected	Brief description of agreement

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. If so, describe briefly.

Yes No

Parties to the concerted actions	% of share capital affected	Brief description of the concerted action

Expressly indicate any change in, or break-up of, said concerted actions or agreements during the year.

A.7 Indicate whether any natural or legal persons currently exercise or may exercise control over the company pursuant to article 5 of the Spanish Securities Market Act. If so, identify them.

Yes No

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
164,925	0	0.177%

(*) Held through:

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

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 authorize the derivative acquisition of own shares.

At the Annual General Meeting held in May, 2017, 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	70%
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- A.10** Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

Indicate whether there are any legal restrictions on the exercise of voting rights:

Yes No

Description of the restrictions
Pursuant to section 7.2.2 of the management agreement entered into between Lar España Real Estate and Grupo Lar, the shares acquired 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

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

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

Yes No

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

B GENERAL MEETING

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

Yes No

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

B.2 Indicate and detail any differences between the rules governing the adoption of corporate resolutions and the regime set forth in the Spanish Corporate Enterprises Act:

Yes No

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

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

B.3 Indicate the rules governing the amendment of the company's bylaws. Specifically, indicate the majorities required to amend the bylaws and any rules in place for protecting shareholders' rights in these instances.

There are no specific rules governing the amendment of the company's Articles of Association.

B.4 Indicate the attendance figures for the shareholder meetings held during the year to which this report relates and during the prior year:

General meeting date	Attendance data				Total
	% attending in person	% attending by proxy	% correspondence voting		
			Votes cast electronically	Other	
19/04/2018	5.893	68.518	0.005	0	74.415

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

Yes No

B.6 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-2017/>

C CORPORATE GOVERNANCE STRUCTURE

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or company name of director	Representative	Director class	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis del Valle		Independent	Chairman	05/02/2014	29/05/2017	Not applicable
Alec Emmott		Independent	Director	05/02/2014	29/05/2017	Not applicable
Roger Cooke		Independent	Director	05/02/2014	29/05/2017	Not applicable
Miguel Pereda		Proprietary	Director	05/02/2014	29/05/2017	Not applicable
Laurent Luccioni		Proprietary	Director	29/05/2017	29/05/2017	Not applicable
Isabel Aguilera		Independent	Director	29/05/2017	19/04/2018	Cooptation ratified by the Board
Leticia Iglesias Herraiz		Independent	Director	16/10/2018	16/10/2018	Cooptation

Total number of directors	7
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Indicate any members who stepped down during the reporting period:

Name or company name of director	Class of director upon resignation	Date of departure
Pedro Luís Uriarte Santamarina	Independent director	16/10/2018

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

EXECUTIVE DIRECTORS

Name or company name of director	Position at the company

Total number of executive directors	
% of total board members	

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Name or company name of the significant shareholder represented or proposing the appointment
Miguel Pereda Espeso	Grupo Lar Inversiones Inmobiliarias, S.A.
D. Laurent Luccioni	LVS II LUX XII, S.A.R.L.(PIMCO)

Total number of proprietary directors	2
% of total board members	28.57%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Background
José Luis, del Valle	<p>Mr. José Luis del Valle Doblado is an Independent External Director of Lar España and Chairman of the Board. He was appointed Director of Lar España by Grupo Lar Inversiones Inmobiliarias, SA, by then the sole shareholder of the Company, on February 5, 2014, and re-elected as an Independent External Director, at the proposal of the Appointments and Remuneration Committee and after receiving a favourable report of the Board of Directors, by the Annual General Meeting held on May 29, 2017. On February 6, 2014 the Board of Directors of the Company appointed Mr. del Valle Doblado its Chairman and President of the Audit and Control Committee, the position he held until May 29, 2017, when he tendered his resignation to the Board as President of the Committee. Since then Mr. del Valle Doblado is a Member of the Committee.</p> <p>Mr. del Valle has extensive experience in the banking and energy sector. From 1988 to 2002 he held various positions with Banco Santander, one of the most relevant financial entities in Spain. In 1999 he was appointed General Manager and Financial Manager of the bank (1999-2002). Subsequently he was Development and Strategy Manager of Iberdrola, one of the main Spanish energy companies (2002-2008), Managing Director of Scottish Power (2007-2008), Strategy and Research Manager of Iberdrola (2008-2010) and Advisor to the Chairman of the aerogenerator manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Director of the insurance group Ocaso; Director of Abengoa, S.A., which provides innovative technological solutions for sustainable development; Director of Verditek Plc, an investor in clean technologies; and Director of the Instituto de Consejeros-Administradores. He is also President of the Mining and Minerals Hall (MMH) Scientific Committee.</p> <p>Mr. del Valle is a Mining Engineer from Universidad Politécnica (Madrid, Spain), number one of his class, Master of Science and Nuclear Engineer from the Massachusetts Institute of Technology (Boston, USA). Furthermore, Mr. del Valle holds an MBA with high honours from Harvard Business School (Boston, USA).</p>
Leticia Iglesias	<p>Mrs. Leticia Iglesias is an independent external Director of Lar España. She was appointed by cooption by the Board of Directors, on the proposal of the Appointments and Remuneration</p>

	<p>Committee, on October 16, 2018. Likewise, on that date, the Board of Directors of the Company appointed him a member and Chair of the Committee of Audit and Control.</p> <p>Mrs. Iglesias has a wide experience in both the regulation and supervision of securities markets and in financial services. She started her professional career in 1987, in the audit division of Arthur Andersen. Then from 1989 to 2007 she further developed her career in the Securities Exchange Commission of Spain (the “CNMV”). From 2007 to 2013 she was CEO of the Spanish Institute of Chartered Accountants (ICJCE). Additionally from 2013 to 2017 she was an independent member of the Board of Directors at BMN, member of the Executive Committee, Chair of the Global Risk Committee and member of the Audit Committee. From 2017 to 2018, she was an independent member of Board of Directors at Abanca Services and Chair of the Audit and Risk Committee. Since May 2018, she has been an independent member of the Board of Directors of Abanca Bank, Chair of the Audit and Compliance Committee, member of the Global Risk Committee and member of the Comprehensive Risk Committee.</p> <p>Ms. Leticia has a degree in Economics and Business Studies from Universidad Pontificia Comillas (ICADE) and is member of the Official Registry of Auditors of Spain (ROAC).</p>
Alec Emmott	<p>Mr. Alec Emmott is an independent non-executive director of Lar España. He was appointed as a director of Lar España by Grupo Lar Inversiones Inmobiliarias S.A., the then sole shareholder of the Company, on 5 February 2014 and re-elected as external independent director, at the prior proposal of the Appointments and Remuneration Committee and following the favourable report from the Board of Directors, by the Ordinary General Shareholders' Meeting held on 29 May 2017. The Board of Directors of the Company appointed him as a member of the Appointments and Remuneration Committee on 6 February 2014. Mr. Emmott has a wide career in the listed and unlisted real estate sector in Europe, and is based in Paris. He served as CEO of Société Foncière Lyonnaise (SFL) from 1997 to 2007 and subsequently as senior advisor to SFL until 2012.</p> <p>He is currently the Principal of Europroperty Consulting, and since 2011, is a Director of CeGeREAL S.A. (representing Europroperty Consulting). He is also member of the advisory committee of Weinberg Real Estate Partners (WREP I and II). He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. Mr. Emmott holds an MA from Trinity College (Cambridge UK).</p>
Roger Cooke MBE	<p>Mr. Roger Maxwell Cooke MBE is an independent non-executive director of Lar España. He was appointed as a director of Lar España by Grupo Lar Inversiones Inmobiliarias S.A., the then sole shareholder of the Company on 5 February 2014 and re-elected as external independent director, at the prior proposal of the Appointments and Remuneration Committee and following the favourable report from the Board of Directors, by the Ordinary General Shareholders' Meeting held on 29 May 2017. The Board of Directors of the Company appointed him as a member and Chairman of the Appointments and Remuneration Committee on 6 February 2014. Mr. Cooke is an experienced professional with more than 35 years of experience in the real estate sector. Mr.</p>

	<p>Cooke joined Cushman & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as Chief Executive Officer of Cushman & Wakefield Spain, leading the company to attain a leading position in the sector and between 2014 and 2018 he was Senior Advisor at EY.</p> <p>In the 2017 New Year's honours' list, Mr. Cooke was awarded an MBE for his services to British businesses in Spain and to Anglo-Spanish trade and investment</p> <p>Mr. Cooke holds an Urban Estate Surveying degree from Trent Polytechnic University (Nottingham, UK) and is currently a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Until May 2016, he was the President of the British Chamber of Commerce in Spain. Since September 2017, he is Chairman of the Editorial Council of Iberian Property.</p>
Isabel Aguilera	<p>Mrs. Isabel Aguilera Navarro is an independent external director of Lar España. She was appointed as a director of Lar España by the Board of Directors through the co-option system, at its meeting held on 29 May 2017, date on which the Board of Directors also appointed her as member of the Audit and Control Committee, being her appointment ratified by the general meeting of shareholders held on 19 April 2018. Mrs. Isabel Aguilera Navarro developed her professional career at various companies across several sectors. She served as President for Spain and Portugal at General Electric, General Manager for Spain and Portugal at Google, General Operations Director at NH Hoteles Group, CEO for Spain, Italy and Portugal at Dell Computer Corporation and director of Indra Sistemas, BMN bank, Aegon España and Laureate, Inc.. Mrs. Isabel is currently a member of the Board of Directors at Grupo Cemex, Banca Farmafactoring, Oryzon Genomics and Grupo Egasa.</p> <p>Mrs. Isabel has a degree in Architecture and Urbanism from the ETSA of Seville, a master's degree in Commercial and Marketing Management from IE, and completed the General Management Programme at IESE and the Executive Management of Leading Companies and Institutions Programme at San Telmo Institute. Mrs. Isabel is currently Associate Professor at ESADE.</p>

Total number of independent directors	5
% of total board members	71.43%

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

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

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

OTHER EXTERNAL DIRECTORS

Identify the other external directors and list the reasons why they cannot be considered proprietary or independent and the links they maintain with 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			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	1	0	0	40%	20%	0	0
Other external	0	0	0	0	0	0	0	0
Total:	2	1	0	0	29%	14%	0	0

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.

On December 27, 2017, article 8.6 of the Regulations of the Board of Directors were amended to specify that the Board will ensure that the selection of its members favors boardroom diversity in terms of experience, knowledge, training, age, disability and gender and that no implicit bias leads to any form of discrimination. In particular, the Board is to facilitate the selection of female board members by establishing the relevant diversity policy and guidelines.

In addition, Lar España drew up a director selection and appointment policy, approved by the Board of Directors on January 20, 2016, which fosters boardroom diversity in terms of knowledge, skills, experience, and gender. The policy, reviewed and approved again by the Board of Directors on December 20, 2018, emphasises the provisions that would foster diversity in the Board and

pursues the target of having at least 30% of all Board members be female by 2020.

C.1.6 Indicate whether the nomination committee has taken any measures to ensure the process of filling board vacancies is not implicitly biased against female candidates, and whether the company makes a conscious effort to seek out female candidates that match the required profile:

Lar España has a director selection and appointment policy (which was approved by the Appointments and Remuneration Committee and the Board of Directors on 20 January 2016). That policy is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. This policy, reviewed and approved again by the Board of Directors on December 20, 2018, emphasises the provisions that would foster diversity in the Board and pursues the target of having at least 30% of all board members be female by 2020.

Following the appointment of a new female director in 2018, the Company is very close to delivering that target. Indeed, female directors currently account for 29% of all board membership.

The Appointments and Remuneration Committee verifies compliance with this policy annually and reports on its findings in the Annual Corporate Governance Report. Moreover, that Committee strives 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.

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. The selection policy was also reviewed in 2018 with the aim of emphasising the provisions that would foster the diversity in the Board, among others.

In 2018, a female independent director was appointed to the board with a view to delivering the target set by the Appointments and Remuneration Committee. Female boardroom representation is currently at 29%, compared to the targeted 30%.

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

Name or company name of shareholder	Explanation

C.1.9 Indicate whether a director has resigned from office before their term of office expired, whether any such director has stated their reasons to the board and how, and, if in writing to the entire board, explain the reasons given:

Yes No

Name of director	Reasons for resignation
Pedro Luis Uriarte	Pedro Luis Uriarte informed the Board in writing about his decision to resign from his position of Director. His resignation was due to personal and family reasons only. The communication was made through a letter addressed to the members of the board sent on June 15, 2018 and ratified on October 16, 2018.

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

Yes No

Name or company name of shareholder	Brief description

C.1.11 Name any directors who are also executives or directors of other companies that form part of the listed company group:

Name or company name of director	Registered name of the group company	Position	Do they have executive duties?
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 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 VIDANOVA PARC, S.L.U. (before LE RETAIL SAGUNTO, 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	LE RETAIL SAGUNTO II, S.L.U. (before LAR ESPAÑA OFFICES VI, S.L.U.)	Joint and Several Director	No
Miguel Pereda Espeso	LE RETAIL VILLAVERDE, 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	LE RETAIL ABADÍA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS I, S.L.U	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS II, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS III, S.L.U	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL RIVAS, S.L.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 Maxwell 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. Wizink bank	Independent Director Chairman and Independent Director
Leticia Iglesias	Abanca Corporación Bancaria	Member of the Board, President of the Audit and Control Committee and Member of the Integral Risk Committee
Isabel Aguilera	Oryzon Genomics	Independent 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)	504
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	

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 and CFO
Susana Guerrero Trevijano	Legal Director
Hernán San Pedro López de Uribe	Director of Investor Relations
Sergio Criado Cirujeda (*)	CFO
Total senior management remuneration (in thousands of euros)	437

(*) January – October 2018

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
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias, S.A	Director
Laurent Luccioni	Pimco Europe, Ltd	Director

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

Name or company name of related director	Name or company name of related significant shareholder	Description of relationship
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias, S.A	Director Miguel Pereda is part of the Pereda family, owner of Grupo Lar Inversiones Inmobiliarias, S.A.

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

Yes No

Description of the amendments

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.

Lar España has a director selection policy, which was approved by the Appointments and Remuneration Committee on 20 January 2016. It was 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 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.

The criteria set down in that policy are the following:

1. Director aptitudes

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

They combine professional and commercial honourability, having shown a personal, commercial and professional conduct that casts no doubt on their ability to perform a sound and prudent management of the company.

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. Fostering the diversity in the Board of Directors

The composition of the Board and its Committees must also be taken into account during the selection process, being necessary to consider Directors with sufficient diversity in education, experience and knowledge, gender, age or disability in order to comply with the legal requirements as well as the good governance recommendations in relation to the composition.

In this regard, the Board of Directors will ensure that procedures are in line with the above and will promote the 2020 goal of being at least 30% of the Board female, ensuring at the same time the cultural diversity and international experience.

3. Director selection and appointment procedure

The process of selecting and appointing directors is articulated around four key steps:

3.1. Proposal

The Appointments and Remuneration Committee must first analyse the Board of Director's needs, setting out its findings in an explanatory report which it will publish on the occasion of the call to the Annual General Meeting at which the shareholders will be asked to ratify the appointment or re-election of each director, to which end:

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors. Against this backdrop, it will 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.

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.

3.2. Candidacy presentation

Candidates must present the information itemised below at Lar España's head office. The documents must be either original or certified copies and the information package should be addressed to the Appointments and Remuneration Committee.

- i. Natural persons: a photocopy of their national identity card or passport and information about their effective place of residence, e-mail address and contact telephone number(s).
- ii. Legal persons: a photocopy of the corresponding deeds of incorporation, the consolidated text of the prevailing bylaws, e-mail address and contact telephone number(s).
- iii. Certification of familiarity with the company's Articles of Association and other internal rules and regulations and acceptance of their terms and conditions.
- iv. Certification of possession of adequate expertise and experience.
- v. Certification of readiness and ability to govern the company well.
- vi. Certification of the reputation and professional standing required in this policy.

3.3. Evaluation of the candidacy

Having verified the documentation received and once the seven working day period for correcting or clarifying the information furnished has elapsed, if required, the Appointments and Remuneration Committee has seven working days at most to issue its explanatory report and follow the procedure described next:

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

3.4. Appointment

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

In the event of director appointments by means of co-option, the procedure described above 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.

4. Director evaluation and removal

Director evaluation shall take two forms:

i. Annual assessment of director qualifications

Every year, in the month of January, the Appointments and Remuneration Committee will send all the directors a questionnaire, the purpose of which is to verify that they continue to meet the aptitudes required of the post. The directors have 15 calendar days to fill out, sign and return the form. The Appointments and Remuneration Committee will then analyse the answers received and proceed as follows in the event it detects an incident in this respect.

ii. Ad-hoc assessment in the event of special circumstances

Each director is individually responsible for notifying the Appointments and Remuneration Committee immediately, in writing and in detail of any event or circumstances that could have a significant impact on the assessment of his or her suitability for the post in terms of the aptitude requirements defined in this policy and in prevailing legislation. The directors are liable for any damages to the company caused by any failure to report or delay in reporting any circumstances affecting his or her suitability.

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

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

Description of changes:

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.

Article 18 of the Board Regulations states that the board should conduct an annual evaluation of its performance, adopting, where necessary, an action plan to correct weakness detected in:

- The quality and efficiency of the board's operation;
- The diversity of board membership and competences;
- The performance of the board's chairman;
- The performance and contribution of each individual director, with particular attention to the chairs of various board committees; and
- The performance and composition of the board committees.

Item 3 of that same article stipulates that every three years the board must engage an external facilitator to aid in the evaluation process.

The following assessment of the activity of the Board in 2017 was carried out in 2018:

- The evaluation carried out in 2018 focused on the following areas: (i) quality and efficiency of the work carried out by the Board of Directors of Lar España; (ii) diversity of experience and skills represented in the Board; (iii) performance of the Chairman of the Board of Directors; (iv) performance and contribution of each member of the Board; (v) composition, quality and efficiency of the operation of the Audit and Control Committee; and (vi) the composition, quality and efficiency of the operation of the Appointments and Remuneration Committee.
- Regarding the methodology used in the evaluation, the Chairman of the Board directed the evaluation process of the Board, its members and its Commissions, with the collaboration of the Secretary of the Board and the Deputy Secretary in a part of the process in order to guarantee its objectivity and confidentiality. In the first place, each member of the Board, as well as the Secretary, completed some questionnaires - prepared with the support of EY as external consultants - with questions related to the different areas mentioned above; then the Secretary of the Board and the Deputy Secretary systematized the information extracted from the questionnaires along with the information coming from the minutes of the Board and its Committees for the year 2017, the experience gained by attending the meetings of these bodies and the review of the conclusions of the 2016 evaluation and its action plan. Based on this process of analysis, the Secretary of the Board and the Deputy Secretary made their conclusions, gathering all this in the "Evaluation Report on the Functioning of the Board and its Commissions in 2017", which includes recommendations and the action plan foreseen in view of the results.
- It was found that, generally speaking, the Board and the Commissions had been efficient in 2017. In particular, the composition (diversity, knowledge and experience of the members of the Board and its Commissions and, in particular, of its Chairman, dedication and critical attitude) as well as the functioning of the Board and the Commissions (frequency, duration and efficiency of their meetings, attendance at meetings of the members, meeting agenda, exercise of their competences, and advice, including external advice if necessary) were valued very positively. There were several areas of improvement detected within: succession plans, managers training plans, gender diversity, shareholders engagement strategy, implementation of the new technical guidelines of the CNMV concerning the Commissions, and a goal to reach a

50% of the Appointments and remuneration Committee Members to be independent in 2018.

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.

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. When they become members of more than four boards of directors of other companies (other than the Company).
 - f. 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

Describe the differences, if any:

C.1.24 Explain if there are other specific requirements, other than those established for directors, for being appointed chairman of the board.

Yes No

Description of the requirements

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

Yes No

Matters for which the chairman has the casting vote
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).
The quorum for validly calling Audit and Control Committee meetings to order shall be half plus one of the directors who sit on this Committee and resolutions shall be carried by majority vote. In the event of a draw, the Chairman has the casting vote (Article 42.2 of the Articles of Association, Article 14.5 of Board Regulation and article 8.2 of Audit and Control Committee's Regulation).
Likewise, the Chairman of the Appointments and Remuneration Committee, which is independent, has a casting vote in the event of a draw (Article 15.7 of the Regulations of the Board)

C.1.26 Indicate whether the bylaws or the board regulations set any age limit for directors:

Yes No

Age limit for chairman

Age limit for CEO

Age limit for directors

C.1.27 Indicate whether the bylaws or board regulations set any limit on the term of office of independent directors different from that stipulated by law:

Yes No

Maximum term of office (years)	
--------------------------------	--

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.

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

Number of board meetings	16
Number of board meetings held without the chairman in attendance	0

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

Number of meetings	
---------------------------	--

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	7
Number of appointments and remuneration committee meetings	9
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:

In 2018 11 board meetings were held and during 5 meetings resolutions were adopted following the procedure of vote in writing without holding a meeting.

Out of these 11 meetings, all the members attended 9 meetings in person. In the meetings on March 15 and November 7, Mr. Jose Luis del Valle (in accordance with the

proxy containing specific voting instructions he was granted with) represented Mr. Laurent Luccioni and Ms. Isabel Aguilera respectively (even though Ms. Aguilera joined the meeting via teleconference to discuss some of the points of the agenda).

Number of meetings held with all members in attendance	11
% 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

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.

The Audit and Control Committee's Regulation indicates in article 5.1.iii that the Audit and Control Committee will ensure that the Board of Directors submits the financial statements to the General Shareholders' Meeting without any limitations or reservations in the auditing report and that, in the exceptional cases in which there are reservations, both the President of the Audit and Control Committee and the auditors will clearly explain to the shareholders the content and scope of these limitations or reservations.

C.1.33 Is the secretary of the board also a director?

Yes No

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

Name or company name of the secretary	Representative
Juan Gómez-Acebo	

C.1.34 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 14.3 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, among other, 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.point C 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.

The Audit and Control Committee is governed by a set of specific regulations that was approved by the Board of Directors on 27 December 2017. In addition to detailing that committee's composition, member duties and modus operandi, they expound on the relationship with the external auditor in detail (article 5.1.C.).

Regarding financial analysts, investment banks and rating agencies, any contracting is subject to controls to avoid any problem of independence and/or

conflicts of interest. Especially relevant is the procedure followed for the hiring of asset appraisers, which requires the approval of these contracts from the Audit and Control Committee.

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

Yes No

Outgoing auditor	Incoming auditor

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

Yes No

Explanation of the disagreements

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the fees it receives for such work and the percentage they represent of total fees invoiced to the company and/or its group.

Yes No

	Company	Group	Total
Fees for non-audit work (thousands of euros)	250*	4	254
Fees for non-audit work / total amount invoiced by the audit firm (%)	61%	2%	38%

(*) All of these fees correspond to non-recurring services provided by Deloitte Digital exceptionally in 2018 in the context of the strategy of differentiation of the commercial centers of the Company.

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. If so, indicate the account given to shareholders by the chairman of the audit committee of their scope and content.

Yes No

Explanation of the reasons

C.1.39 State the number of consecutive years the current audit firm has been auditing the annual financial statements of the company and/or its group. Likewise, indicate how many years the current audit firm has been

auditing the annual financial statements as a percentage of the total number of years for which the financial statements have been audited:

	Company	Group
Number of consecutive years	5	5

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

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

Yes No

Details of the procedure:

Article 26 of the Board Regulations stipulates:

1. In order to help them fulfil their duties, any of the directors may seek the assistance they need from the Company. To this end, the Company will enable the appropriate channels, which, in special circumstances, may include external advisory services whose cost would be borne by the Company. Any such engagement must necessarily relate to specific problems of a certain scale and complexity arising in the performance of their duties.

2. The decision to hire external advisers at a cost to the Company must be notified to the Chairman and may be vetoed by the Board of Directors if it can certify that:

- a. It is not necessary to due performance of the duties incumbent upon the external directors;
- b. Its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues; or
- c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

C.1.41 Indicate whether there are procedures for providing directors with the information they need to prepare for the meetings of the governing bodies sufficiently in advance:

Yes No

Details of the procedure:

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly 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.

Article 23 of the Board Regulations establishes as well the circumstances under which directors are obliged to resign. See section 1.21.

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 2018.

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

Name	Position	Job category
Leticia Iglesias Herraiz	Chairman	Independent
José Luis del Valle	Member	Independent
Isabel Aguilera	Member	Independent
Juan Gómez-Acebo	Secretary	Non-board member

% of proprietary directors	0
% of independent directors	100
% 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, article 14.3 of its Board Regulations and article 5.1 of the Audit and Control Committee's Regulation, 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) monitoring of the information and internal control systems; (iii) the supervision of the management and risk control; (iv) the supervision of the fulfilment of the legal requirements and internal regulations of corporate governance of the Company; (v) and the transmission of the information to the Board of Directors, prior to the adoption by the Board of relevant decisions on related transactions.

Organisation and operation

The Audit and Control Committee shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external or non-executive members. The Board shall determine who shall serve as Committee chair, an appointment made with regard to the members' knowledge and experience in accounting, auditing and risk management matters; a majority of committee places shall be held by independent directors. The Chairman of the Committee must be replaced every three years, although he or she may be reappointed one year after stepping down from the post. The Secretary of the Board shall also serve as the Secretary of the Audit and Control Committee.

The Audit and Control Committee shall meet ordinarily on a quarterly basis and, at any rate, whenever deemed necessary to ensure due performance of its duties.

The quorum for validly calling Audit and Control Committee meetings to order shall be the majority of its members, present or duly represented. Resolutions shall be ratified by means of the majority of votes of attending members, present or duly represented.

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

In 2017, matters falling under the remit of the Audit and Control Committee were reorganized to align them with CNMV Technical Guide 3/2017.

In addition, in order to incorporate the basic principles and criteria set out in CNMV Technical Guide 3/2017 regarding the Committee's composition, responsibilities, and functioning, new Audit and Control Committee Regulations were developed in 2017.

On December 27, 2017, a Regulation on the Audit and Control Committee operations was approved. In this Regulation, in addition to the foregoing matters, it was established that the members of the Audit and Control Committee shall exercise their office for a maximum period of three years, with the possibility of being re-elected one or more times for periods of equal maximum duration and, in any case, members of the Commission shall cease to hold their office when they cease in their condition of Directors or when the Board of Directors so agrees.

Activities

The Audit and Control Committee met 7 times during 2018.

The main activities carried out by the Audit and Control Committee during the financial year 2018 were the following:

- Review of the periodic financial information
- Review of the annual statements:
 - Review of the statements of the Company and the Group.
 - Monitor compliance with legal requirements and the correct application of generally accepted accounting principles.
 - Review of the periodic financial information that the Board must provide to the markets and its supervisory bodies.
- Supervision of the internal audit, control and risk system
- Supervision of the relationships and independence of the External Audit
- Appointment of a new member and President due to the cease of the previous one and of the President.

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

Name of the director with specialist expertise	Leticia Iglesias
No. of years the committee chair has held the post	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Class of director
Roger Maxwell Cooke	Chairman	Independent
Alec Emmott	Member	Independent
Miguel Pereda	Member	Proprietary
Laurent Luccioni	Member	Proprietary
Juan Gómez-Acebo	Secretary	Non-board member

% of proprietary directors	50
% of independent directors	50
% of other external directors	0

The Board Regulations establish, in line with the Recommendation 47, that the majority of the members should be independent. The Company seeks to comply with this requirement as soon as there are vacancies in the Board, and therefore has not amended the Board Regulation in this regard. In that respect, the Company has pursued a different composition of the Appointments and Remuneration Committee and of the Audit and Control Committee (composed of the other three independent directors) in order to achieve the independence of the two bodies and a higher participation of all the external directors in different Committees. Notwithstanding, the independence of the decisions made by the Commission is guaranteed as long as there are no executive directors and the President of the Appointments and Remunerations Committee, who is independent, has a casting vote in the event of a draw.

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; 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; 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; 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) analyzing and organizing 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.

In 2017, the new responsibilities of the Appointments and Remuneration Committee relating to compliance with boardroom diversity criteria were included, as well as new responsibilities related to corporate social responsibility.

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.

Activities

During 2018 the Appointments and Remuneration Committee has held 9 meetings and completed the following assignments:

- Analysis of the possible incompatibilities of one of its Directors before being appointed Member of the Board of another entity, concluding that there was no impediment in view of the absence of conflict of interest and not reaching the Director the maximum number of Boards of which he can be a part, according to the Articles of Association. The Committee paid special attention to the fact that the selection of female directors was not impeded and that the criteria of diversity in the composition of the Board of Directors were met, with the collaboration of the consulting firm Korn Ferry.
- Attendance to the event by several members of the Board of Directors and members of the Committee of "Challenges of the Appointments and Remuneration Committee", commenting on issues such as gender diversity, the succession plan of the President or the relationship with proxy advisors and investors.
- Preparation of a succession plan of the Chairman of the Board where the Commission analysed the Chairman's Succession Policy proposal prepared with the support of Uría Menéndez for its final approval by the Board and the suitability of appointing Vice President in the medium term to be assessed.
- Review and approval of the Commission's Report on the appointment of Mrs. Isabel Aguilera as independent Director of the Company, with its referral to the Board of

Directors for final approval and subsequently the report was presented at the Annual General Meeting.

- The selection process of a new Director was carried out within the framework of the resignation of Mr. Pedro Luis Uriarte as a Director of the Company and member and Chairman of the Audit and Control Committee. Various interviews were carried out following the criteria and procedures set forth in the Company's Selection Policy for Directors, as well as the recommendations given by the firm Korn Ferry, hired for the process. After that, the Commission agreed to propose to the Board the appointment by co-optation of Mrs. Leticia Iglesias as new independent Director, member and Chairman of the Audit and Control Committee.
- A report was made and issued to the Board of Directors on the proposal to modify the procedure for the evaluation of the Board of Directors, its members and its Committees and on the Policy for the selection, appointment, re-election and evaluation of directors and diversity of the Board of administration
- During the evaluation of the financial year 2017, the following areas were focused on: (i) quality and efficiency of the work carried out by the Board of Directors of Lar España; (ii) diversity of experience and skills represented in the Board; (iii) performance of the Chairman of the Board of Directors; (iv) performance and contribution of each member of the Board; (v) composition, quality and efficiency of the operation of the Audit and Control Committee; and (vi) the composition, quality and efficiency of the operation of the Appointments and Remuneration Committee.
- The Board of Directors was proposed to review the remuneration of the Directors of the Company for the year 2018 and following years. Eventually it was agreed to approve a new remuneration policy for Directors that was submitted to the Board for approval and subsequent disposal to the shareholders at the Annual General Meeting as well as the report of the Committee on the Policy.
- The Committee also carried out a review and approval of the Annual Report on Remuneration of Directors for the year 2017 that was prepared at the Annual General Meeting.
- Approved the submission to the Board of the proposal on (i) the pay rise of the Company's executives for 2018, (ii) the degree of compliance with the goals set for 2017 and the corresponding variable compensation, as well as (iii) the goals applicable to the remuneration for 2018.
- As the result of the changes produced after the departure of the Chief Financial Officer, a biannual evaluation of the executives was performed and the conclusion was made of reviewing the remuneration packages and the establishment of an incentive plan: fixed, annual variable and supplements.
- In terms of Corporate Social Responsibility, in 2018 the Commission supervised and dealt with various issues that the Corporate Social Responsibility Policy is related to and the approved action plan, promoting the development of it. In addition, new initiatives have been carried out in this respect, among others:
 - Evaluation of the CSR indices in which the Company should participate and the cost of adhering to them. In 2018 it was agreed that the Company would adhere to GRESB.
 - The BREEAM certifications obtained during the year were analysed.

• **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			
	2018 Number %	2017 Number %	2016 Number %	2015 Number %
Executive committee	N/A	N/A	N/A	N/A
Audit committee	2-67%	1-33%	0	N/A
Appointments and remuneration committee	0	0	0	N/A
Nomination committee	N/A	N/A	N/A	N/A
Remuneration committee	N/A	N/A	N/A	N/A
___committee	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 rule on the operation of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). Furthermore, the Audit and Control Committee has its own operating regulations approved on December 27, 2017. The Board Regulations and the Audit and Control Committee's Regulation are available on the corporate website under the following link:

<http://larespana.com/gobierno-corporativo/normas-internas-de-gobierno/>

In 2018, the remuneration policy was rounded out with a document on the Company's "Director Remuneration Policy" which is similarly available from the corporate website using the following link:

<http://larespana.com/gobierno-corporativo/normas-internas-de-gobierno/>

Each year Lar España draws up reports on the performance, composition and activities of the various board committees and makes them available to shareholders on the General Meeting.

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, and its renewal and modification carried out on January 19, 2018, and made effective January 1, 2018, specifies that, without prejudice to the prerogatives and powers that the Manager has to act on behalf of the Company in the framework of said contract, will require prior express approval in writing by the Board of Directors of Lar España, among others, "*transactions and situations with related parties that may give rise to a conflict of interest situation in relation to the Manager and the Management Team, including any transaction with third parties under which the Manager is entitled to receive any compensation, commission or retribution*"(clause 5 (ix))

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.	Grupo Lar Inversiones Inmobiliarias S.A.	Contract	Management contract	35,204
Grupo Lar Inversiones Inmobiliarias S.A	Gentalia 2006, S.L	Contract	Management contract	2,516

D.3. List transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's directors and/or officers:

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

D.4. Report any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose purpose or terms fall outside the company's ordinary course of business:

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

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

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

Grupo Lar Inversiones Inmobiliarias, S.A. – 19,023 thousand euros

Gentalia 2006, S.L. - 2,136 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 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.

D.7. Is more than one group company listed in Spain?

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

Indicate whether the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies, have been publicly and accurately defined:

Yes No

Define any business dealings between the parent company and the listed subsidiary, as well as between the listed subsidiary and other group companies:

E.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
- Regular asset valuations/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 or of the business unit

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:

- Supervising the effectiveness of the internal control and risk management systems and, in particular, reviewing them to make sure the main risks are properly identified, managed and disclosed.
- Supervising the internal risk control and management function.
- *“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 2017, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- Management of REIT regime-related requirements
- The sale-purchase of real estate assets: Planning, information and execution.
- Property valuations
- Socio-economic and political changes. Factors such as: changes in the behaviour of consumers, increasing digitization and changes in sales channels, legal and regulatory impacts derived from political changes, etc.
- Dependence on the investment/asset manager
- Internal talent retention
- Financing activities
- Investor and media relation
- Reputation
- Cybersecurity and privacy management of the business assets
- Security and access control of commercial assets

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 2018.

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, new risks, 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 and/or the responsible of the business units 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 different activities of 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, and any other person which could be related to Lar España even if they are not employees.

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.b.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

On 24 February 2015, the Board of Directors of Lar España approved the set of rules governing the operation of this Whistle-blowing Channel, by virtue of which any party bound by Lar España's Code of Conduct or by any prevailing legislation or other body of internal rules who believes they are being breached can present a complaint or claim with the aim of making the issue known and having it resolved.

The Whistle-blowing Channel applies to Lar España and other professionals bound by the Code of Conduct and may be used by the Company's internal or external stakeholders.

Lar España has the following channels for lodging complaints/claims:

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: canaldenuncia@larespana.com
- A confidential explanatory letter

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received
- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee of Lar España is made up of the person who heads up the internal audit function, the Secretary of the Board of Directors and the Chairman of the Audit and Control Committee.

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 2018, it reviewed the documentation prepared in prior years, updating it and complementing it with new processes deemed significant in relation to the Group's consolidated financial information. 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 information for these and other processes related with the financial reporting function has been rounded out and fine-tuned.
- **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.

In recent years, Lar España has documented the organisation's General Controls and the most significant processes, specifically those itemised below:

- Period-end closings and consolidation, including a specific review of critical judgements and estimates
- Asset valuations
- Revenue recognition (rental income)
- Acquisition of properties
- Cash management
- Financing
- Management of accounts payable (including the development of new centres)
- Management and registration of Manager fees
- Disposals

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 2018, 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.

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 or other advisors are 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 works by processes 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 2018, identifying the most critical accounts and processes and working to document them in detail. Lar España reviewed the asset valuation, revenue recognition, period-end closing and consolidation processes, among others, without detecting any significant incidents. 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 or other advisors 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.

G**DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE
RECOMMENDATIONS**

Indicate the degree to which the company is in compliance with the recommendations of the Good Governance Code 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 Explain

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

Compliant Partially compliant Explain Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) **Changes taking place since the previous annual general meeting.**
- b) **The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant Partially compliant Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant Explain

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant Partially compliant Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Compliant Partially compliant Explain

7. The company should broadcast its general meetings live on the corporate website.

Compliant Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant Partially compliant Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant Partially compliant Explain Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant Partially compliant Explain Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant Partially compliant Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable;
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant Partially compliant Explain

15. Proprietary and independent directors should 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 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

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 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 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 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 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 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 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 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 Partially compliant Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant Partially compliant Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant Partially compliant Explain

27. Director absences should be kept to 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 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 Partially compliant Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant Partially compliant Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant Partially compliant Explain

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant 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 X

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant X Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.**
- b) The performance and membership of its committees.**
- c) The diversity of board membership and competences.**
- d) The performance of the chairman of the board of directors and the company's chief executive.**
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant 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 Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant Partially compliant Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant Partially compliant Explain Not applicable

42. The audit committee should have the following functions over and above those legally assigned.

1. With respect to internal control and reporting systems:

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 Partially compliant Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant Partially compliant Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant Partially compliant Explain Not applicable

45. Risk control and management policy should specify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant Partially compliant Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant Partially compliant Explain

47. Appointees to the appointments and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant Partially compliant Explain

The Company fully complies with the first part of the recommendation, given that the members of the Appointments and Remuneration Committee are designated making sure that they have appropriate knowledge, skills and experience to the functions they are called upon to carry out. When it comes to if the majority of these members are independent directors, the Board Regulations establishes that the majority of the members should be independent. The Company seeks to comply with this requirement as soon as there are vacancies in the Board, and therefore has not amended the Board Regulation in this regard. In that respect, the Company has pursued a different composition of the Appointments and Remuneration Committee and of the Audit and Control Committee (composed of the other three independent directors) in order to achieve the independence of the two bodies and a higher participation of all the external directors in different Committees. Notwithstanding, the independence of the decisions made by the Commission is guaranteed as long as there are no executive directors and the President of the Appointments and Remunerations Committee, who is independent, has a casting vote in the event of a draw.

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Compliant Explain Not applicable

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant Partially compliant Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant Partially compliant Explain

51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant Partially compliant Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be minuted and a copy made available to all board members.**

Compliant Partially compliant Explain Not applicable

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 Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) **The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) **The corporate strategy with regard to sustainability, the environment and social issues.**
- c) **Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**
- d) **The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) **Channels for stakeholder communication, participation and dialogue.**
- g) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant Partially compliant Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant Partially compliant Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant Partially compliant Explain Not applicable

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

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

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

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain Not applicable X

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable X

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant Partially compliant Explain Not applicable X

H**OTHER INFORMATION OF INTEREST**

- 1. If you consider that there is any material corporate governance related matter relating to your company or its group that has not been addressed anywhere else in this report that is necessary to provide a more comprehensive and substantiated picture of corporate governance structure or practices at your company or its group, outline them briefly here.**
- 2. You may include in this section other relevant, but not reiterative, information, clarification or qualification related to the earlier sections of this report.**

The breakdown of the indirect and direct holders of significant interests in Lar España reported in section A.2 corresponds with the breakdown gleaned from the CNMV's shareholder records as of year-end.

This annual corporate governance report was approved by the Company's Board of Directors on February 26th 2018.

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).**

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Assurance' report on the 2018
"Information Relating to the system
of internal control over financial
reporting (ICFR)".

*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 2018 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2018

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 January 28th 2019, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for fiscal year finished on December 31st 2018, 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 the Entity 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 the Entity 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 2018 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.

In addition, since this special engagement does not constitute an audit of financial statements and is not subject to 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 5/2013 of June 12th 2013, subsequently modified by CNMV Circular 7/2015 of December 22nd 2015 and CNMV Circular 2/2018 of June 12th 2018.

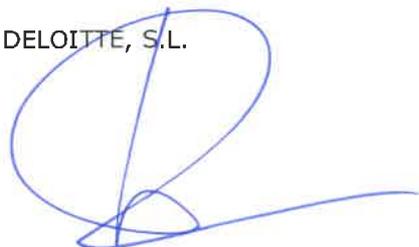
Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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 Circulars 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 26th, 2019