

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

Consolidated Financial Statements for
year then ended on 31 December 2019,
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 32). 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.:

Opinión

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 2019, 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 2019, 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 2019, the portfolio of investment property was valued at EUR 1,551 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 a review of the practical totality of valuations, assessing in conjunction with our internal experts, the most significant risks, including the occupancy rates and expected returns on the real estate assets. While carrying out this review we have taken into consideration available industry information and transactions with property assets similar to those in the Group's real estate portfolio.

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, 7 and 10 to the accompanying consolidated financial statements for 2019.

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, 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 requirement will result in the loss of entitlement to the special tax regimen 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 other, obtaining and reviewing the documentation prepared by Group management relating to compliance with the obligations associated with this special tax regime and we involved our internal experts from the tax area, who assisted us in analyzing 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, 21 and 22 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 2019, 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 2019 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 13 February 2020.

Engagement Period

The Annual General Meeting held on 25 April 2019 appointed us as auditors of the Group for a period of one year from the year ended 31 December 2018.

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

DELOITTE, S.L.

Registered in R.O.A.C. under no. S0692



Carmen Barrasa Ruiz

Registered in R.O.A.C. under no. 17962

13 February 2020

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.



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

Consolidated financial statements for the 2019 period

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

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

CONTENTS

(1)	NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP	10
(2)	BASIS OF PRESENTATION	12
(a)	Regulatory framework on financial information	12
(b)	Functional and presentation currency	13
(c)	Comparative information	13
(d)	Relevant accounting estimates, assumptions and judgements used when applying accounting principles	13
(e)	Standards and interpretations adopted since 01 January 2019	14
(f)	Impact assessment of the adoption of IFRS 16	15
(g)	Standards and interpretations issued but not effective at 1 January 2019	15
(3)	DISTRIBUTION OF PROFIT	16
(4)	CONSOLIDATION PRINCIPLES	16
(a)	Subsidiaries	17
(b)	Joint Ventures	17
(c)	Business combinations	18
(d)	Harmonisation of account items	18
(e)	Consolidated group	18
(f)	Changes to the composition of the Group	22
(5)	ACCOUNTING PRINCIPLES	24
(a)	Investment property and intangible assets	24
(b)	Leases	24
(c)	Financial instruments	25
(d)	Derivative financial instruments and accounting of hedging transactions	27
(e)	Measurement techniques and assumptions applicable to fair value measurement	28
(f)	Treasury shares of the Parent Company	29
(g)	Distributions to shareholders	30
(h)	Cash and cash equivalents	30
(i)	Employee benefits	30
(j)	Payments based on shares	30
(k)	Provisions	30
(l)	Revenue recognition	31
(m)	Lease of investment property to third parties	31
(n)	Profit/ (loss) from the disposal of investment property	32
(o)	Income tax	32
(p)	Segment reporting	33

(q)	Classification of assets and liabilities as current and non-current	33
(r)	Environmental information	33
(s)	Statement of cash flows	33
(t)	Non-current assets held for sale and liabilities connected to non-current assets held for sale	34
(6)	SEGMENT REPORTING	34
(a)	Operating segments	34
(b)	Geographical segments	41
(7)	INVESTMENT PROPERTY	42
(8)	OPERATING LEASES – LESSOR	48
(9)	EQUITY-ACCOUNTED INVESTEEES	50
(10)	NON-CURRENT ASSETS HELD FOR SALE AND LIABILITIES CONNECTED TO ASSETS HELD FOR SALE	50
(11)	FINANCIAL ASSETS BY CATEGORY	53
(a)	Classification of financial assets by category	53
(b)	Classification of financial assets by maturity	54
(12)	TRADE AND OTHER RECEIVABLES	54
(a)	Impairment	55
(13)	CASH AND CASH EQUIVALENTS	55
(14)	NET EQUITY	55
(a)	Capital	55
(b)	Issue premium	57
(c)	Other reserves	57
(d)	Value adjustments	59
(e)	Treasury shares	59
(f)	Paid dividends and return of issue premium	60
(15)	EARNINGS PER SHARE	60
(i)	Basic	60
(ii)	Diluted	61
(16)	FINANCIAL LIABILITIES BY CATEGORY	62
(a)	Classification of financial liabilities by category	62
(b)	Classification of financial liabilities by maturity	63
(17)	FINANCIAL LIABILITIES FROM BORROWINGS	63
(a)	Main characteristics of debt from bonds	63
(b)	Main characteristics of bank borrowings	64
(c)	Derivatives	67
(d)	Movements of cash under financial liabilities from borrowings	69
(18)	OTHER NON-CURRENT FINANCIAL LIABILITIES	70

(19)	TRADE AND OTHER PAYABLES	70
(20)	INFORMATION ON THE AVERAGE NUMBER OF DAYS PAYABLE OUTSTANDING	70
(21)	PUBLIC ENTITIES AND TAXATION	71
(a)	Balances with Public Entities	71
(b)	Reconciliation of accounting profit and taxable income	72
(c)	Reconciliation between the accounting result and the corporate income tax result	74
(d)	Periods pending verification and inspections	75
(e)	Reporting requirements for SOCIMIs pursuant to Law 11/2009 amended by Law 16/2012	75
(22)	RISK MANAGEMENT POLICY	75
(a)	Financial risk factors	75
(23)	REVENUE	81
(24)	OTHER OPERATING EXPENSES	81
(25)	FINANCE PROFIT	82
(26)	EMPLOYEE BENEFITS EXPENSE	82
(27)	PROFIT FOR THE PERIOD	83
(28)	RELATED PARTY BALANCES AND TRANSACTIONS	84
(a)	Related party balances and transactions	84
(b)	Information on the Parent Company's directors and senior management personnel of the Group	85
(c)	Transactions other than ordinary business or under terms differing from market conditions carried out by the Directors	86
(d)	Investments and positions held by Directors and their related parties in other companies	86
(29)	EMPLOYEE INFORMATION	86
(30)	AUDIT FEES	87
(31)	EVENTS AFTER THE REPORTING PERIOD	87
(32)	EXPLANATION ADDED FOR TRANSLATION TO ENGLISH	87

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
31 December 2019

(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>31.12.2019</u>	<u>31.12.2018</u>
Intangible assets		2	8,556
Investment property	7	1,449,344	1,363,646
Equity-accounted investees	9	5,100	4,627
Non-current financial assets	11	13,149	11,426
Trade and long-term other receivables	11, 12	3,857	2,733
Total non-current assets		1,471,452	1,390,988
Non-current assets held for sale	10	103,790	78,081
Trade and other receivables	11, 12	14,644	13,762
Other current financial assets	11	189	3,268
Other current assets		2,650	4,176
Cash and cash equivalents	13	160,527	191,328
Total current assets		281,800	290,615
Total assets		1,753,252	1,681,603

The accompanying Notes 1 to 32 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
31 December 2019

(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>31.12.2019</u>	<u>31.12.2018</u>
Capital	14	175,267	186,438
Issue premium	14	475,130	476,301
Other reserves and other contributions	14	254,358	220,289
Retained earnings	14, 15	80,730	129,308
Treasury shares	14	(762)	(1,228)
Value adjustments	14	<u>(1,943)</u>	<u>(2,610)</u>
Total net equity		982,780	1,008,498
Financial liabilities from issue of bonds and other marketable securities	16, 17a	139,376	139,077
Bank borrowings	16, 17b	506,641	428,400
Deferred tax liabilities	16, 21	17,201	19,405
Derivatives	16, 17c	2,846	1,892
Other non-current liabilities	16, 18	<u>19,593</u>	<u>17,240</u>
Total non-current liabilities		685,657	606,014
Liabilities connected to non-current assets held for sale	10	1,570	810
Financial liabilities from issue of bonds and other marketable securities	16, 17a	3,482	3,482
Bank borrowings	16, 17b	41,127	6,461
Derivatives	16, 17c	2,393	2,179
Short-term debt with Group companies and associates	28a	3,199	-
Trade and other payables	19	<u>33,044</u>	<u>54,159</u>
Total current liabilities		84,815	67,091
Total equity and liabilities		<u>1,753,252</u>	<u>1,681,603</u>

The accompanying Notes 1 to 32 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Comprehensive Income for the period ended
31 December 2019

(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>2019</u>	<u>2018</u>
Revenue	6	81,128	77,841
Other income		3,274	3,733
Employee benefits expense	26	(424)	(502)
Depreciation charges		-	(307)
Other operating expenses	24	(25,726)	(55,148)
Changes to the fair value of investment property	7, 10	40,037	70,471
Profit/(loss) from the disposal of investment property	7, 10	1,008	28,541
Profit/(loss) from operating activities		99,297	124,629
Financial income	25	12	27,927
Financial costs	25	(18,977)	(16,786)
Inclusion of financial expenses in assets	7, 25	659	-
Changes in the fair value of financial instruments	25	(1,836)	(1,024)
Share in profit/(loss) for the period of equity-accounted companies	9	473	(899)
Profit for the period from continuing operations		79,628	133,847
Income tax	21	1,102	(4,539)
Profit for the period		80,730	129,308
Basic earnings per share (in Euros)	15	0.90	1.38
Diluted earnings per share (in Euros)	15	0.90	1.37

<u>Consolidated Statement of Comprehensive Income</u>		<u>2019</u>	<u>2018</u>
Profit for the period (I)	27	80,730	129,308
Other comprehensive income directly recognised in net equity (II)	14d	(821)	(1,952)
Other amounts transferred to the income statement (III)	14d	1,488	1,005
Total Comprehensive Income (I)+(II)+(III)		81,397	128,361

The accompanying Notes 1 to 32 and Appendix I form an integral part of the Consolidated Statement of Comprehensive Income for the period ended 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Changes in Net Equity for the period ended
31 December 2019

(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	Value adjustments (Note 14d)	Total net equity
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 equity holders or owners:								
Capital increases	4,279	16,645	-	-	-	-	-	20,924
Capital decreases	(3,089)	-	(9,865)	-	-	12,954	-	-
Distribution of profit:								
To reserves	-	-	118,333	-	(118,333)	-	-	-
To dividends	-	-	-	-	(17,273)	-	-	(17,273)
Return of the issue premium	-	(27,693)	-	-	-	-	-	(27,693)
Treasury shares	-	-	(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
First application of IFRS 16 (Note 2f)	-	-	5,146	-	-	-	-	5,146
Balance at 01 January 2019	186,438	476,301	225,195	240	129,308	(1,228)	(2,610)	1,013,644
Total income and expenses recognised in the period	-	-	-	-	80,730	-	667	81,397
Transactions with equity holders or owners:								
Capital increases (Notes 14 a and b)	1,243	5,182	-	-	-	-	-	6,425
Capital decreases (Note 14a)	(12,414)	-	(34,011)	-	-	46,425	-	-
Distribution of profit:								
To reserves	-	-	63,061	-	(63,061)	-	-	-
To Dividends (Note 14f)	-	-	-	-	(66,247)	-	-	(66,247)
Return of the issue premium (Note 14f)	-	(6,353)	-	-	-	-	-	(6,353)
Treasury shares (Note 14e)	-	-	(16)	-	-	(45,959)	-	(45,975)
Other operations	-	-	(111)	-	-	-	-	(111)
Balance at 31 December 2019	175,267	475,130	254,118	240	80,730	(762)	(1,943)	982,780

The accompanying Notes 1 to 32 and Appendix I form an integral part of the consolidated statement of changes in equity for the period ended 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Cash Flows for the period ended
31 December 2019

(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	2019	2018
A) Cash flows from operating activities		<u>16,797</u>	<u>19,102</u>
<i>Profit/(loss) before tax</i>		79,628	133,847
<i>Adjustments to the profit/(loss)</i>		(21,150)	(108,113)
Profit/(loss) from adjustments to fair value of investment property	7, 10	(40,037)	(70,471)
Amortisation of fixed assets		-	307
Impairment adjustments	24	226	(190)
Financial income	25	(12)	(27,927)
Financial costs	25	18,977	16,786
Inclusion of financial expenses in assets	7, 25	(659)	-
Changes in the fair value of financial instruments	25	1,836	1,024
Share in associates' profit/(loss) for the period	9	(473)	899
Profit/(loss) from the disposal of investment property	7	(1,008)	(28,541)
<i>Changes in operating assets and liabilities</i>		(26,247)	6,508
Trade and other receivables		(1,061)	(2,820)
Other current and non-current assets		(981)	(2,873)
Trade and other payables		(24,205)	12,201
<i>Other cash flows from operating activities</i>		(15,434)	(13,140)
Interest paid	17	(15,446)	(13,140)
Interest collected		12	-
B) Cash flows from investing activities		<u>(53,114)</u>	<u>139,536</u>
<i>Payments for investments</i>		(134,373)	(161,281)
Outflow of liquid in business acquisitions		-	(33,331)
Investment property	7, 10	(134,373)	(127,950)
<i>Proceeds from sales on investments and dividends</i>		81,259	300,817
Other financial assets		-	3,448
Associates		-	50,295
Inflow of cash in business sales	2g	3,000	52,929
Disposal of investment property	7	78,259	194,145
C) Cash flows from financing activities		<u>5,613</u>	<u>(16,009)</u>
<i>Payments made and received for equity instruments</i>		(39,551)	6,884
Cash proceeds from issuing capital	16	6,425	20,924
Acquisition/disposal of equity instruments	16	(45,976)	(14,040)
<i>Receivables and payments for financial liability instruments</i>		117,764	22,073
Issue of:			
Bank borrowings	17	156,955	83,540
Debt with Group companies and associates	28	3,100	-
Refunds and amortization of:			
Bank borrowings	17	(42,291)	(61,467)
<i>Payments for dividends and remuneration from other equity instruments</i>			
Dividends paid	14f	(72,600)	(44,966)
D) Cash and cash equivalents in non-current assets held for sale	13	<u>(97)</u>	<u>3,082</u>
E) Net increase/decrease in cash or cash equivalents		<u>(30,801)</u>	<u>145,711</u>
F) Cash and cash equivalents at the beginning of the period		191,328	45,617
G) Cash and cash equivalents at the end of the period		<u>160,527</u>	<u>191,328</u>

Notes 1 to 32 and Appendix I form an integral part of the consolidated statement of cash flows for the period ended 31 December 2019.

(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 SOCIMIs Law.
- The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November on collective investment undertakings or the rule that replaces in the future.
- In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not amount to more than 20% of the total earnings of the Group in each tax period or those which can be considered complementary pursuant to prevailing legislation.

Lar España Real Estate SOCIMI, S.A. and its subsidiaries and associates (hereinafter the "Group"), the details of which are discussed in Note 4e, have as their main activity the acquisition and management of shopping centres and may invest to a lesser extent in other assets for rent or for direct sale (commercial premises, industrial premises, logistics centres, offices, residential products).

Lar España Real Estate SOCIMI, S.A. has been listed on the Spanish Stock Exchanges and the Spanish automated quotation system since 05 March 2014 (Note 14).

The Parent Company and the companies in which it participates (except Inmobiliaria Juan Bravo 3, S.L., LE Offices Marcelo Spínola 42, S.L.U. and Lar España Inversión Logística IV, S.L.U.) are regulated by Law 11/2009 of 26 October, amended by Law 16/2012 of 27 December governing SOCIMIs, which determines the requirements for filing under this tax regime, including the following:

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 Parent 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.

2. Furthermore, at least 80% of income for the tax period and for financial year, excluding that derived from the transfer of those investments and properties held for 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 referenced in which Article 2.1 of the above Law.

3. The properties that comprise 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. This 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. Otherwise, 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.

4. SOCIMIs and Spanish resident investees that have chosen to avail themselves of the special SOCIMI tax regime, after having satisfied any relevant trade obligations, shall be obligated to distribute the profit received in the period as dividends to their shareholders, where the distribution must be adopted within six months after each year-end, as follows:
 - a) All profits deriving from dividends or shares of profits distributed by the entities referred to in Article 2.1 of Law 11/2009.

- b) 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.
- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month following the date of the distribution agreement.

Likewise, as set forth in Article 3 of the Law 11/2009, 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:

- It is excluded from trading on regulated markets or in a multi-lateral trading system.
- It substantially breaches the information obligations referenced in Article 11 of said Law, unless the report for the following period corrects such breach.
- It fails to adopt 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 earned.
- It waives the application of this special tax regime.
- It fails to fulfil any other requirements stipulated in said Law in order for the entity/entities to be able 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.

(2) BASIS OF PRESENTATION

(a) Regulatory framework on financial information

The accompanying consolidated financial statements for the period ended 31 December 2019 have been prepared on the basis of the accounting records of Lar España Real Estate SOCIMI, S.A. and subsidiaries, and in accordance with:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

- 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
- Any mandatory regulations approved by Spain's Accounting and Audit Institute to implement the Spanish General Chart of Accounts and its supplementary rules
- All other applicable Spanish accounting principles
- Law 11/2009 of 26 October, as amended by Law 16/2012 of 27 December, which governs SOCIMIs.

In order to accurately present the consolidated equity and consolidated financial position of Lar España Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2019 and the consolidated financial performance, changes in consolidated cash flows and consolidated changes in net equity for the 2019 period, these consolidated financial statements have been prepared applying the regulations in force at 31 December 2019.

(b) Functional and presentation currency

The figures disclosed in the consolidated financial statements for the period ended 31 December 2019 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 2018 is presented for comparative purposes together with the information related to the 2019 period.

The application of the main accounting policies in 2019 and 2018 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, except for the first-time impact of IFRS 16 described in Note 2f.

(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 Directors of the Group's Parent Company.

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 7)
- Measurement of assets and liabilities held for sale (see Note 10)
- Compliance with the requirements that regulate SOCIMIs (Notes 1 and 22)
- Measurement adjustment for customer insolvencies. (Note 22)
- Assessment of provisions and contingencies (Note 5k)
- Financial risk management (see Note 22)
- Determination of the fair value and nature of derivative financial instruments (Note 17).

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's Directors based on the best information available at 31 December 2019, future events may require changes be made 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 01 January 2019

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2019 and, where applicable, have been used by the Group to prepare the accompanying consolidated financial statements for 2019:

- IFRS 16 - Leases. This substitutes IAS 17 and the associated interpretations. The main change is a sole accounting model for tenants that includes all leases in the balance sheet.
- Amendment to IFRS 9 Prepayment Features with Negative Compensation. This amendment permits the measurement at amortised cost of certain financial assets that can be cancelled in advance for an amount less than the outstanding amount of principal and interest on such principal.
- IFRIC 23 Uncertainty over Income Tax Treatments (published in June 2017). This interpretation describes 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.
- Amendment to IAS 28 Long-term Interest in Associates and Joint Ventures. 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.
- Changes to IFRS 3 Business combinations – Annual improvement cycle 2015-2017. Acquisition of joint control over a joint operation that constitutes a business.
- Changes to IFRS 11 Joint ventures – Annual improvement cycle (2015-2017). Acquisition of joint control over a joint operation, which constitutes a business.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

- Changes to IFRS 12 Income tax – Annual improvement cycle 2015-2017. Recognition of the tax impact of the remuneration of financial instruments classified as equity.
- Changes to IAS 23 Borrowing costs – Annual improvement cycle 2015-2017. Capitalisation of interest on outstanding financing, specific to a ready-to-use asset.
- Amendment to IAS 19 Amendment, reduction or settlement of a plan. 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 or settlement of a defined benefit plan.

According to the Directors' best estimate, the aforesaid standards and interpretations have not significantly affected these consolidated financial statements, with the exception of IFRS 16, which is discussed further below.

(f) Impact assessment of the adoption of IFRS 16

- IFRS 16 - Leases

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases. This standard supersedes IAS 17, and applies to annual periods that have begun on or after 01 January 2019.

IFRS 16 has introduced 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 used for past financial leases. In relation to the lessor's accounting, the accounting requirements previously in force under IAS 17 are substantially maintained. The directors did not consider that there had been a significant impact on the consolidated financial statements and, accordingly, there was no first-time application of this concept.

The other main change was the amendment of IAS 40 as a result of the entry into force of IFRS 16, which implies that the rights of use that the Group operates under a lease have been classified and, therefore, valued, like other investment property, at fair value in accordance with the criteria established in IAS 40. This change led the Group to classify the right to use the area where the Megapark Barakaldo recreation area is located under "investment property". This right was classified under "intangible assets" until 31 December 2018 for a carrying amount of EUR 8,554 thousand. The effect of this regulatory change is that said asset is recorded at a greater amount in that it is now measured at its fair value, which at 01 January 2019 was EUR 5,146 thousand. This figure was recorded as a change in the opening balance of "other reserves" under Consolidated Net Equity.

(g) Standards and interpretations issued but not effective at 1 January 2019

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:

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

- IFRS 17 Insurance Contracts (published in May 2017). This replaces IFRS 4, which includes the principles for the recognition, measurement, presentation and disclosure of insurance contracts with the objective of ensuring that the entity provides relevant and accurate information that allows financial information users to determine the effect insurance contracts have on the financial statements.

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

- Amendment to IFRS 3 Definition of “business” (published October 2018). Improvements to the definition of “business”.
- Changes to IFRS 9, IAS 39 and IFRS 7 Interest rate benchmark reform (published in September 2019). Changes to la IFRS 9, IAS 39 and IFRS 7 pertaining to the current benchmark indices reform.

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

- Amendments to IAS 1 and IAS 8 Definition of “material”. Amendments to IAS 1 and IAS 8 to align the definition of “material” with that used in the Conceptual Framework.

According to the Directors’ best estimate, the aforesaid standards and interpretations would not significantly affect the Group’s consolidated financial statements.

(3) DISTRIBUTION OF PROFIT

The proposal for allocating the Parent Company’s profits for the 2019 period to be presented to the General Shareholders’ Meeting is the following:

	<u>Euros</u>
<u>Basis of allocation</u>	
Profit for the period	61,111,111
<u>Distribution</u>	
Legal reserve	6,111,111
Dividends	<u>55,000,000</u>

The dividend per share to be distributed resulting from the proposal for allocating the profit is EUR 0.6276 per share.

(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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

The Group companies have been consolidated using the financial statements for the annual period ended 31 December 2019.

(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.

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 their relevant information are presented in Appendix I to the Notes to 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 profit/ (loss) 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.

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 2019, 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) Consolidated group

The companies included in the consolidated Group and the consolidation method used at 31 December 2019 and 31 December 2018 are as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

2019 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 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
LE Retail Lagoh, S.L.U. (formerly Lar España Shopping Centres VIII, S.L.U.)	On incorporation	Leasing of property	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
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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Company	Inclusion	Activity	% stakes	Consolidation method
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
LE Retail Cordoba Sur, S.L.U. (formerly Global P�rgamo, S.L.U.)	On acquisition	The acquisition and development of properties for lease	100%	Global

2018 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 Mir� 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
LE Retail Lagoh, S.L.U. (formerly Lar Espa�a 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 Espa�a Inversi�n Log�stica 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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Company	Inclusion	Activity	% stakes	Consolidation method
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
LE Retail Rivas, 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(f) Changes to the composition of the Group

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

Additions to the scope of the consolidation for the 2019 period

- On 15 January 2019, the Parent Company acquired 100% of the shares of the company LE Retail Cordoba Sur, S.L.U. (formerly Global Pergamo, S.L.U.), a newly-constituted company which had only the amount paid as share capital for EUR 4 thousand from Latorre & Asociados Consultoría, S.L. for a total amount of EUR 4 thousand.

Exclusions from the scope of the consolidation for the 2018 period

- On 16 January 2018, the Parent 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 floating price of EUR 2,124 thousand linked to the measurement of the asset at 31 December 2018. This floating price was accrued in its entirety in the 2018 period and was collected in 2019. 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 “Profit/(loss) from the disposal of investment property” of the 2018 Consolidated Statement of Financial Position. The value of the investment property and the treasury at the time of sale totalled EUR 76,673 thousand and EUR 369 thousand, respectively.

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

- On 27 September 2017, the Parent Company sold 100% of the company shares in its subsidiary LE Offices Arturo Soria, S.L.U. to Inmobiliaria Colonial, SOCIMI, S.A., with EUR 876 thousand pending collection at 31 December 2018, corresponding to the variable price accrued in such year and recognised under the “Income/loss from sale of real estate investments” on the consolidated statement of financial position for the year.

Business combinations carried out since 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

	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 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

The total amount paid by the Parent Company was 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 correspond to investment property. The main asset of the acquired company was the Rivas Futura Business 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 fair 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 from 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 carrying amount 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 identified 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 01 January 2018 (the beginning date of each accounting period of the acquired company), the results and income, both contributed to the Group, would have changed by EUR 93 thousand and EUR 551 thousand. The Directors have used the income received from 01 January 2018 when determining said amounts.

On 6 February 2018, the Company changed its name to LE Retail Rivas, S.L.U. Likewise, on 10 August 2018 the company requested the ability to avail itself of the special tax regime for SOCIMIs, said taxation being retroactive to 01 January 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

The net cash flow in the acquisition would be:

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

(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, except those assets discussed in the adjoined Note 10.

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 with to appraise all of its assets at least on 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.

(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.

(c) Financial instruments

(i) Classification of financial instruments

Financial instruments are recognised when the Group becomes party to the contract or legal transaction, in accordance with the terms set out therein and 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 reclassifies financial assets when the business model for the management thereof is changed. The Group does not reclassify financial liabilities.

At 31 December 2019 the Group mainly has the following financial assets and liabilities: deposits, receivables, treasury, financial debt, hedging derivatives and payables. With the exception of the derivatives, which are discussed in Note 5d, all financial assets and liabilities are measured at amortised cost.

Financial assets and liabilities measured at amortised cost

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

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

These financial assets liabilities at amortised cost are initially recognized at their fair value, approximately the directly attributable transaction costs incurred, and they are subsequently measured at amortised cost, using the effective interest rate method.

(ii) Impairment and uncollectibility of financial assets

The Group recognises a value adjustment for credit losses expected of the financial assets measured at amortised cost.

At each year-end the Group measures the value adjustment as the equivalent of the credit losses expected in the following twelve months, for financial assets whose credit risk has not significantly increased since their initial recognition or when the Group believes that the credit risk of a financial asset is no longer significantly greater.

Expected credit losses comprise the difference between the contractual cash flows and the expected cash flows, both in terms of amount and duration.

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 considers cash and cash equivalents to have low credit risk pursuant to the credit rankings of the banks where the cash and the deposits are deposited.

The Group calculates expected credit losses for trade receivables for the entire life of the financial assets as a group, given that all of these assets are receivables from leases. Expected credit losses are estimated based on all receivables once same pass maturity by more than 90 days, based on the projected and past information that is reasonably available.

After outstanding receivables pass maturity by more than 90 days they are considered irrecoverable and are derecognised, regardless of whether the Group continues to actively manage the collection thereof through negotiations or the legal system. Any subsequent recovery of derecognised amounts is recognised as credit risk gains.

(iii) Derecognitions, changes and cancellations 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 substantially transferred all the risks and benefits of ownership thereof.

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

(v) 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.

(d) Derivative financial instruments and accounting of hedging transactions

Derivative financial instruments are initially recognised as explained above for financial assets and liabilities. Derivative financial instruments that do not meet the criteria for accounting hedges explained below are classified and measured as financial assets and liabilities at fair value through profit or loss. Derivative financial instruments that meet the criteria for accounting hedges are initially recognised at fair value through net equity. In both cases the specific profit, loss or cash flow component related to the hedging instrument that is excluded from the measurement of the hedging efficiency is recognised as financial income or expense, as appropriate.

The Group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are susceptible. These risks are mainly changes in interest rates.

At the beginning of the hedges, the Group formally documents and designs the hedging relationships and the target and the strategy the Group uses for said hedges. Such documentation includes identification of the hedging instrument, the hedged item, the nature of the hedged risk and how the Group measures the effectiveness of the hedge.

Hedging transactions are only accounted for when there is an economic relationship between the hedged item and the hedging instrument, when the credit risk does not have a dominant effect on the value adjustments stemming from such economic relationship and when the hedging ratio of the hedging relationship is the same as the ratio of the amount of the hedged item that the Group actually uses to hedge such amount of the hedged item. Nonetheless, such designation must not represent an imbalance between the weights of the hedged item and the hedging instrument that results in an ineffective hedge, regardless of whether such effectiveness is recognised, that could lead to an accounting result that contradicts the purpose of the hedge accounting.

At the beginning of the hedging relationship and on an ongoing basis, the Group evaluates whether the relationship meets the effectiveness requirements prospectively. The Group evaluates the effectiveness at the close of each accounting period or when there are major changes that affect the effectiveness requirements.

The Group performs a qualitative evaluation of the effectiveness, provided the fundamental conditions of the instrument and the hedged item coincide. When the fundamental conditions do not fully coincide, the Group uses a hypothetical derivative with fundamental conditions that are identical to those of the hedged item to evaluate and measure the ineffectiveness.

In order to measure the ineffectiveness, the Group considers the time value of money, such that the hedged item is determined in terms of present value and therefore the change in the value of the hedged item includes the effect of the time value.

(i) Discontinued posting of hedges

If a hedging relationship ceases to meet the effectiveness requirements associated with the hedging ratio, but the risk management target for this relationship has not changed, the Group adjusts the hedging ratio so the hedging relationship criteria can be met (rebalancing). Rebalancing is done by adjusting the amount of the hedged item or the hedging instrument in an existing hedging relationship in order to maintain a hedging relationship that meets the effectiveness requirements. The Group posts rebalancing as a continuation of the hedging relationship. On the rebalancing date, the Group determines the ineffectiveness of the relationship and recognises any ineffectiveness in profit or loss.

The Group ceases to post the hedging prospectively only when all or part of the hedging relationship ceases to meet the relevant requirements. This includes situations in which the hedging instrument expires or is sold, terminated or exercised. To this end, the substitution or renewal of a hedging instrument is not considered the expiration or termination thereof, provided the transaction is consistent with the documented risk management target of the Group. At that time, any cumulative profit or loss corresponding to the hedging instrument that has been recognised under net equity remains in net equity until the envisaged transaction takes place. When the hedged transaction is not expected to take place, the cumulative net profit or loss recognised in net equity is transferred to the consolidated statement of comprehensive income.

At 31 December 2019, after evaluating previous periods, the hedging relationships corresponding to the interest rate hedging financial instruments contracted by the Group companies LE Retail El Rosal, S.L.U., LE Retail As Termas, S.L.U. and LE Retail Hiper Ondara, S.L.U., were classified as ineffective. Therefore, the Group recognised the change in fair value of said instruments in the amount of EUR 711 thousand on the Consolidated Statement of Comprehensive Income. In addition, at 31 December 2019, 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., and LE Retail Hiper Ondara, S.L.U., totalled EUR 1,125 thousand (Note 17c).

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

(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 assets 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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 specific 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 2019 are as follows:

	Thousands of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial liabilities (see Note 17c)	-	5,239	-	5,239
	-	5,239	-	5,239

The Group's financial assets and liabilities measured at fair value at 31 December 2018 are as follows:

	Thousands of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial liabilities (see Note 17c)	-	4,071	-	4,071
	-	4,071	-	4,071

Additionally, Note 7 includes information regarding the determination of the fair value of investment property, pursuant to the 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 decrease 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 decrease 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 equity instruments are accounted for as a decreased net equity.

(g) Distributions to shareholders

Dividends are in cash and are recognised as a decrease 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, as per the terms discussed in Note 1. 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.

(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.

(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.

(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

In preparing the consolidated financial statements, the Parent Company's Directors differentiate between:

(i) Provisions: balances payable covering present obligations arising from past events, the cancellation of which is likely to cause an outflow of resources, but are uncertain as to amount and/or time of cancellation.

(ii) Contingent liabilities: possible obligations that arise from past events and whose future existence depends on the occurrence or non-occurrence of one or more future events not under the control of the Company.

The consolidated financial statements include all the relevant provisions that are more likely than not to entail an obligation. Unless they are considered remote, contingent liabilities are not recognised in the consolidated financial statements, but information on same is provided in the notes to the report.

Provisions are measured at the present value of the best possible estimate of the amount that will be required to settle or transfer the liability, taking into account the information available on the event and the consequences thereof; the adjustments that arise due to updating said provisions are recognised as financial expenses as they accrue.

The compensation to be received from a third party on settlement of the obligation, provided that there is no doubt that said reimbursement will be received, is recognised as an asset, except when there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount in which the corresponding provision, where appropriate, will be stated.

(l) Revenue recognition

Revenue 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.

(m) Lease of investment property to third parties

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

Revenue derived from the lease of investment property is recognised in accordance to the stage of completion at the reporting date when the outcome of the transaction can be reliably estimated. The Group companies recognise revenue from leases on a monthly basis in accordance with the terms and amounts agreed in the different agreements with their tenants. This revenue 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, revenue is recognised only to the extent that the recognised expenses are recoverable.

Invoices issued to tenants include EUR 24,533 thousand (EUR 20,689 thousand at 31 December 2018) rebilled for communal charges (shared utility costs, services related to the management of the property, taxes, etc.). This amount is presented, according to its nature, compensated the relevant expense under "Other operating expenses" in the accompanying Consolidated Statement of Comprehensive Income at 31 December 2019.

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

(n) Profit/ (loss) from the disposal of investment property

Income from disposals of investment property is recognised on an accruals basis, i.e. when the goods or services in question are provided rather than when the cash is actually received or disbursed. Said income is measured at the fair value of the consideration received, less any sales costs, rather than the carrying amount of the transferred asset.

Income from sales is recognised when the risks and benefits inherent to the ownership of the sold property are transferred to the purchaser and the day-to-day management and effective control over said asset are not retained.

(o) 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 decrease in current tax.

Deferred tax income or expenses derived from the recognition and cancellation of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable originating from the differences between the carrying amounts of the assets and liabilities and their tax values, as well as the tax-loss carryforwards pending compensation and any receivables due to tax deductions that have not been fiscally applied. 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.

The Group companies availing themselves of the general corporate income tax regime are Inmobiliaria Juan Bravo 3, S.L.U. (included using the equity method), LE Offices Marcelo Spínola 42, S.L.U. and Lar España Inversión Logística IV, S.L.U.

(ii) Tax regime for SOCIMIs

The Parent Company and the subsidiaries (with the exception of Inmobiliaria Juan Bravo 3, S.L., LE Offices Marcelo Spínola 42, S.L.U. and Lar España Inversión Logística IV, S.L.U.) 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 zero percent, provided certain requirements are met (Note 1).

Pursuant to the ninth article 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 among shareholders with an interest in the entity exceeding 5%, when such dividends are tax-exempt or are taxed at a rate of less than 10% at the shareholders' seat of economic activity. 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.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue 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.

(q) 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 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.

(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.

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

(a) Operating segments

At 31 December 2019 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, Hipermercado Portal de la Marina, El Rosal, VidaNova Parc, Lagoh, Gasolinera As Termas, Parque Comercial Megapark Barakaldo, Parque Comercial Vistahermosa, Gran Vía de Vigo, Parque Comercial y Galería Abadía, Portfolio Supermercados and Parque Comercial Rivas.
- Logistics bays and office buildings: In 2019 and 2018, all the Group's offices and logistics bays were sold as they were not core assets in accordance with the latest approved business plan (see Note 7 and 10).
- Residential: Shareholding in Inmobiliaria Juan Bravo 3, S.L., the developer of a housing block on Calle Juan Bravo in Madrid, which have been delivered virtually in full as of the date these financial statements were drawn up.

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 with which to assess the profits generated by specific segments as compared with other groups that operate in these businesses.

Information broken down by segment of these activities in 2019 and 2018 are as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Consolidated Statement of Comprehensive Income

	Thousands of Euros				
	2019				
	Shopping centres	Logistics and office buildings	Residential (Stakes in associates)	Head Office and Central Services *	Total
Revenue from external customers:					
Revenue from leases	80,900	228	-	-	81,128
Total revenue	80,900	228	-	-	81,128
Other income	2,469	77	-	728	3,274
Changes to the fair value of investment property	40,037	-	-	-	40,037
Employee benefits expense	-	-	-	(424)	(424)
Depreciation charges					
Other operating expenses **	(21,230)	(510)	-	(3,986)	(25,726)
Profit/(loss) from the disposal of investment property	-	1,008	-	-	1,008
Profit/(loss) from operating activities	102,176	803	-	(3,682)	99,297
Net finance cost **	(19,860)	10	-	(292)	(20,142)
Profit/(loss) for the period of joint ventures accounted for using the equity method	-	-	473	-	473
Profit for the period from continuing operations	82,316	813	473	(3,974)	79,628
Income tax expense/income	-	1,102	-	-	1,102
	82,316	1,915	473	(3,974)	80,730

* The line item "Head office and central services" mainly comprises the corporate income and expenses that cannot be assumed by the Group's Parent Company.

** In the 2019 period, the Parent Company rebilled the amount corresponding to "Operating expenses" to the subsidiaries. The amount attributable to shopping centres at 31 December 2019 amounted to EUR 11,425 thousand, EUR 72 thousand to office buildings and the remainder to corporate units. In addition, the Parent Company rebilled the amount corresponding to "Financial expenses accrued on the bonds" to subsidiaries. The amount attributable to shopping centres amounted to EUR 4,364 thousand.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

<u>Consolidated Statement of Comprehensive Income</u>	Thousands of Euros				
	2018				
	Shopping centres	Office buildings	Logistics bays	Residential (Stakes in associates)	Head Office and Central Services *
Revenue from external customers:					
Revenue from leases	73,218	1,582	3,041	-	-
Total revenue	73,218	1,582	3,041	-	-
Other income	3,706	26	1	-	-
Changes to the fair value of investment property	55,601	9,017	5,853	-	-
Employee benefits expense	-	-	-	-	(502)
Depreciation charges	(307)	-	-	-	-
Other operating expenses **	(44,386)	(4,553)	(2,271)	-	(3,938)
Profit/(loss) from the disposal of investment property	3,119	8,400	17,022	-	-
Profit/(loss) from operating activities	90,951	14,472	23,646	-	(4,440)
Net finance cost **	(14,967)	(1,918)	(758)	27,890	(130)
Profit/(loss) for the period of joint ventures accounted for using the equity method	-	-	-	(899)	-
Profit for the period from continuing operations	75,984	12,554	22,888	26,991	(4,570)
Income tax expense/income	(231)	(2,205)	(2,103)	-	-
	<u>75,753</u>	<u>10,349</u>	<u>20,785</u>	<u>26,991</u>	<u>(4,570)</u>
					<u>129,308</u>

* The line item "Head office and central services" mainly comprises the corporate income and expenses that cannot be assumed by the Group's Parent Company.

** In the 2018 period, the Parent Company rebilled 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 rebilled the amount corresponding to "Financial expenses accrued on the bonds" to 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Consolidated Statement of Financial Position

		Thousands of Euros			
		31 December 2019			
	Shopping centres	Logistics and office buildings	Residential (Stakes in associates)	Head Office and other Central Services	Total
Intangible assets	2	-	-	-	2
Investment property	1,449,344	-	-	-	1,449,344
Equity-accounted investees	-	-	5,100	-	5,100
Non-current financial assets	13,149	-	-	-	13,149
Trade and long-term other receivables	3,857	-	-	-	3,857
Total non-current assets	1,466,352	-	5,100	-	1,471,452
Non-current assets held for sale	103,790	-	-	-	103,790
Trade and other receivables	12,321	256	-	2,067	14,644
Other current financial assets	85	-	-	104	189
Other current assets	2,265	40	-	345	2,650
Cash and cash equivalents	93,633	29,191	-	37,703	160,527
Total current assets	212,094	29,487	-	40,219	281,800
Total assets	1,678,446	29,487	5,100	40,219	1,753,252

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Consolidated Statement of Financial Position

	Thousands of Euros				
	31 December 2019				
	Shopping centres	Logistics and office buildings	Residential (Stakes in associates)	Head Office and other Central Services	Total
Liabilities connected to non-current assets held for sale	1,570	-	-	-	1,570
Financial liabilities from issue of bonds and other marketable securities	142,858	-	-	-	142,858
Bank borrowings	547,768	-	-	-	547,768
Deferred tax liabilities	17,201	-	-	-	17,201
Derivatives	5,239	-	-	-	5,239
Other non-current liabilities	19,548	6	-	39	19,593
Debt with Group companies and associates	-	-	3,199	-	3,199
Trade and other payables	29,465	1,422	-	2,157	33,044
Total current and non-current liabilities	763,649	1,428	3,199	2,196	770,472

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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	-	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	136,572	1,681,603

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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 current and non-current liabilities	511,606	4,255	2,799	-	154,445	673,105

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(b) Geographical segments

Revenue and assets by geographical segment are presented on the basis of the location of the assets.

The table below summarises, by geographical area, the revenue, 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 2019						
	Revenue	%	Investment property	Non-current assets held for sale (Note 10)	Intangible assets	%
Basque Country	17,307	21.34	217,336	64,040	-	18.13
Galicia	15,666	19.31	254,980	-	-	16.43
Community of Valencia	14,939	18.41	233,345	-	-	15.04
Castile-La Mancha	9,064	11.17	151,220	-	-	9.75
Castile and León	8,134	10.03	110,900	11,580	-	7.89
Catalonia	5,245	6.47	102,063	-	-	6.58
Community of Madrid	4,463	5.50	67,500	-	-	4.35
Andalusia	4,408	5.43	312,000	-	-	20.11
Balearic Islands	851	1.05	-	11,870	-	0.77
Cantabria	481	0.59	-	6,710	-	0.43
Navarre	372	0.46	-	5,260	-	0.34
La Rioja	198	0.24	-	2,760	-	0.18
	<u>81,128</u>	<u>100.00</u>	<u>1,449,344</u>	<u>102,220</u>	<u>-</u>	<u>100.00</u>

Thousands of Euros						
31 December 2018						
	Revenue	%	Investment property	Non-current assets held for sale (Note 10)	Intangible assets	%
Basque Country	17,408	22.36	273,296	-	8,554	19.46
Galicia	15,315	19.68	260,560	-	-	17.99
Community of Valencia	12,473	16.02	240,932	-	-	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>8,554</u>	<u>100.00</u>

The Group carries out its activity entirely in Spain.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(7) INVESTMENT PROPERTY

At 31 December 2019 the investment property owned by the Group mainly comprises 15 shopping centres and business parks, 2 hypermarkets (Ondara and Albacenter), 2 petrol stations 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 2019 and 31 December 2018:

	Thousands of Euros	
	<u>Investment property</u>	
	<u>31.12.2019</u>	<u>31.12.2018</u>
Shopping centres and single-tenant commercial properties	1,449,344	1,362,339
Logistics bays and other assets	-	1,307
	<u>1,449,344</u>	<u>1,363,646</u>

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 2019 and 2018 were as follows:

	Thousands of Euros	
	<u>31.12.2019</u>	<u>31.12.2018</u>
Balance at the beginning of the period	1,363,646	1,306,350
Additions for the period	133,669	123,000
Inclusion of financial expenses in assets	659	-
Transfers, first application of IFRS 16 (Note 2f)	13,700	-
Non-current assets held for sale (Note 5t)	(102,550)	(169,382)
Change to the scope of consolidation (Note 4f)	-	63,555
Sale of property	(307)	(25,207)
Changes in fair value	<u>40,527</u>	<u>65,330</u>
Balance at the end of the period	<u>1,449,344</u>	<u>1,363,646</u>
Fair value	<u>1,449,344</u>	<u>1,363,646</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Additions and changes to the scope

2019 Period

Type of asset	Company	Thousands of Euros
		Additions
Shopping centre	Lagoh (a)	109,718
Shopping centre	Anec Blau (b)	9,648
Business Park	Megapark Barakaldo (b)	1,866
Shopping centre	Portal de la Marina (b)	2,103
Shopping centre	El Rosal (b)	2,451
Shopping centre	Parque Abadía (b)	1,422
Shopping centre	Hiper Albacenter (b)	1,470
Business Park	Megapark Ocio (b)	1,123
-	Improvements to other assets and fit-outs (c)	3,868
		<u>133,669</u>

- (a) This amount corresponds to the construction of the Lagoh shopping centre in Seville by the company LE Retail Lagoh, S.L.U. (formerly Lar España Shopping Centres VIII, S.L.U.) In 2019 construct costs were incurred in the amount of EUR 111,718 thousand and the shopping centre began operating on 27 September 2019. In addition, the initial purchase price of the land was decreased by EUR 2,000 thousand, as per the agreement reached by the parties.
- (b) The amounts mainly correspond to renovations performed on the Anec Blau, Megapark Ocio, Megapark, Portal de la Marina, El Rosal, Parque Abadía and Hiper Albacenter property assets.
- (c) This amount refers to improvements and fit-outs effected in the period in the rest of the assets in the Group's portfolio.

The investment commitments referencing investment property totalled EUR 3,444 thousand at 31 December 2019.

2018 Period

Type of asset	Company	Thousands of Euros	
		Additions	Changes to the scope
Shopping centre	Abadía (a)	14,352	-
Shopping centre	Rivas (Note 4f)	-	63,555
Shopping centre	Lagoh (b)	51,769	-
Shopping centre	M4-2 (c)	1,000	-
Business Park	VidaNova Parc (d)	27,550	-
Offices	Eloy Gonzalo (e)	3,598	-
Business 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	-
		<u>123,000</u>	<u>63,555</u>

- (a) This amount corresponds to the acquisition of the Shopping Centre in Parque Abadía, Toledo. On 20 February 2018, the Parent 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 LE Retail Lagoh, S.L.U. (formerly Lar España Shopping Centres VIII, S.L.U.). In the 2018 period EUR 47,269 thousand in construction costs were incurred. In addition, the company formalised the acquisition of an adjacent plot of land measuring 12,000 m2 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 VidaNova Parc shopping centre 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 2018 period for 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.

Sale of property

On 01 October 2019, the sale of four plots located in Cheste, Valencia to the company E-Cross Circuito Cheste, S.L.U. was formalised for EUR 1,284 thousand net of VAT, giving rise to gains of EUR 977 thousand, net of the expenses associated with the disposal. Such gains were recognised under "Profit/(loss) from the disposal of investment property" in the Consolidated Statement of Comprehensive Income. At 31 December 2019, the full amount of the sale had been collected. The sale was carried out by the Group company Lar España Inversión Logística IV, S.L.U., which requested its exit from the SOCIMI regime in 2018 and, therefore, began to file tax under the general corporate income tax regime.

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 of EUR 4,618 thousand, net of the expenses associated with said sale, which were recorded under "Profit/(loss) from the disposal of investment property" in the Consolidated Statement of Comprehensive Income, with the 3-year holding 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 in 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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:

Thousands of Euros				
2019				
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment property</i>				
Shopping centres and single-tenant commercial properties				
- Land	312,607	-	-	312,607
- Buildings	1,136,737	-	-	1,136,737
Industrial bays				
- Land	-	-	-	-
Total assets measured recurrently at fair value	1,449,344	-	-	1,449,344

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

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

At 31 December 2019 and 2018, details of the gross leasable area and occupancy rate by line of business are as follows:

Square metres				
	2019 (*)		2018 (**)(***)	
	Gross leasable area	Occupancy rate	Gross leasable area	Occupancy rate
Shopping centres and single-tenant commercial properties	534,398	94.64%	509,755	92.00%

(*) The Huertas and Txingudi shopping centres, as well as the Portfolio supermarkets, which are classified as held for sale, have occupancy rates of 92.4%, 98.9% and 100%, and measure 6,267 square meters, 10,712 square meters and 27,909 square meters, respectively, said square meters having not been included.

(**) The square meters of the Lagoh site have not been taken into account, as at 31 December 2018 it was under construction. At 31 December 2019 the Lagoh site measured 69,720 square meters and the occupancy rate was 99.2%.

(***) The Eloy Gonzalo and Cardenal Marcelo Spínola office buildings, which were 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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 undergoing 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 comprises updating the projections for 10 years' worth of income and expense for each asset, which shall subsequently be updated at the reporting date using a market discount rate. The residual value at the end of year 11 is calculated by 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 2019 and 31 December 2018 are Jones Lang Lasalle España and Cushman & Wakefield.

Fees paid by the Group to the appraisal companies for measurements in the 2019 and 2018 periods are as follows:

	Thousands of Euros	
	2019 Period	2018 Period
Appraisal services	121	208
	121	208

Assumptions used in measurements

In terms of calculating the fair value of investment property, including those classified as "Non-current assets held for sale" (Note 10), the material unobservable input data used to measure the fair value correspond to rental income, the Exit Yield and the discount cash flow rate used in projections. Quantitative information on the material unobservable input data used to measure the fair value is shown below:

	2019		2018	
	Exit Yield	Discount rate	Exit Yield	Discount rate
Shopping centres and single-tenant commercial properties	5.25 – 7.80	7.15–10.75	5.00 - 7.00 (*)	7.49 - 11.02 (*)
Office buildings	-	-	4.21 - 4.32 (**)	5.05 - 7.35 (**)

(*) The data for Lagoh are not included, as at 31 December 2018 they were being developed.

(**) All of these were classified as non-current assets held for sale (Note 10).

In terms of income, the amounts per square meter used in the measurement at 31 December 2019 ranged from EUR 7.7 to EUR 21.7 (EUR 7.7 to EUR 28.4 at 31 December 2018), depending on the type of asset and the location thereof. The income growth rates used in the

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

projections are mainly based on the CPI.

Sensitivity analysis of the assumptions used

The effect on consolidated assets and the 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, including those classified as non-current assets held for sale, would be as follows:

Change in discount rate

Thousands of Euros						
31.12.2019						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Discount rate increase	(25,474)	(52,654)	(102,447)	(25,474)	(52,654)	(102,447)
Discount rate decrease	27,862	56,944	113,679	27,862	56,944	113,679

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

Change in income

Thousands of Euros						
31.12.2019						
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Income increase	1,762	3,368	6,651	1,762	3,368	6,651
Income decrease	(1,558)	(3,373)	(6,561)	(1,558)	(3,373)	(6,561)

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)

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Change in Exit Yield

	Thousands of Euros					
	31.12.2019					
	Assets			Consolidated Comprehensive Income		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Exit Yield increase	(35,975)	(69,149)	(128,029)	(35,975)	(69,149)	(128,029)
Exit Yield decrease	39,360	82,580	182,506	39,360	82,580	182,506

	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

The details of “Changes in fair value of investment property” in the Consolidated Statement of Comprehensive Income at 31 December 2019 and 31 December 2018 are as follows:

	2019		2018	
	Thousands of Euros		Thousands of Euros	
	Investment property	Non-current assets held for sale	Investment property	Non-current assets held for sale
Shopping centres and single-tenant commercial properties	40,527	(490)	55,401	200
Office buildings	-	-	9,929	(912)
Logistics bays	-	-	-	5,853
	40,527	(490)	65,330	5,141

(8) OPERATING LEASES – LESSOR

At 31 December 2019 the Group has the shopping centres and single-tenant commercial properties leased to third parties under operating leases.

Future minimum payments receivable under non-cancellable operating leases, taking into account those assets classified as non-current assets held for sale (Note 10), are as follows:

	Thousands of Euros	
	31.12.2019*	31.12.2018*
Less than one year	88,970	73,429
One to five years	195,748	162,755
Over five years	131,077	131,137
	415,795	367,321

* This does not include the effect of the bonuses in the amount of EUR 2,549 thousand in 2019 (EUR 1,415 thousand in 2018), at less than one year, EUR 1,256 thousand in 2019 (EUR 688 thousand in 2018), at one to five years and EUR 0 in 2019 (EUR 2 thousand in 2018) at more than five years.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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

The following table shows the ten tenants that generated the most income in 2019 and 2018 as well as their main characteristics.

2019 Period

Position	Trade name	Project	% of total rent	% of total accumulated rent	Maturity*	Sector
1	Grupo Inditex	Anec Blau/Albacenter/El Rosal/As Termas/Lagoh/Gran Vía de Vigo/Portal de la Marina	7.64	7.64	2025-2034	Textile/Fashion
2	Centros Comerciales Carrefour, S.A.	El Rosal/Gran Vía de Vigo/Hiper Portal de la Marina	5.29	12.93	2051	Retail/Hypermarket
3	Eroski Sociedad Cooperativa	Hiper Albacenter/Portfolio supermarkets	5.10	18.03	2020-2051	Retail
4	Mediamarkt, S.A.	Megapark/Parque Abadía/Vistahermosa/As Termas/Rivas/Lagoh	3.92	21.95	2021-2044	Technology
5	Decathlon España, S.A.	Megapark/Abadía/VidaNova Parc	3.07	25.02	2036-2043	Retail
6	Leroy Merlin España S.L.U.	VidaNova Parc/Vistahermosa	2.62	27.64	2041-2058	DIY
7	Tendam Retail, S.A.	Albacenter/Anec Blau/As Termas/Abadía/Huertas/Rosal/Gran Vía de Vigo/Vistahermosa/Txingudi/Megapark/VidaNova Parc/Portal de la Marina/Lagoh	2.63	30.27	2020-2030	Textile/Fashion
8	Conforama España, S.A.	Parque Abadía/VidaNova Parc/Rivas/Megapark	2.47	32.74	2028-2038	Home
9	Alcampo, S.A.	Vistahermosa/Parque Abadía	1.99	34.73	2055-2061	Retail/Hypermarket
10	C&A Modas, S.L.U.	Anec Blau/As Termas/Portal de la Marina/Gran Vía de Vigo/Abadía/VidaNova Parc	1.98	36.71	2023-2038	Textile/Fashion

* The information above references the contracts that were in force during the 2019 period, where the effect of income linearisation was not taken into account. Furthermore, the maturity of contracts refers to the final date of the contract, although the contract may have the option for early termination.

2018 Period

Position	Trade name	Project	% of total rent	% of total accumulated rent	Maturity*	Sector
1	Grupo Inditex	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	Mediamarkt, 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 Vía 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 maturity of contracts refers to the final date of the contract, although the contract may have the option for early termination.

(9) EQUITY-ACCOUNTED INVESTEEES

The details by company at 31 December 2019 and 31 December 2018 of equity-accounted investees as well as the result attributable to the Group are as follows:

	Thousands of Euros			
	31 December 2019		31 December 2018	
	Investments	Result attributable to the Group	Investments	Result attributable to the Group
Inmobiliaria Juan Bravo 3, S.L.	5,100	473	4,627	(899)
Total	5,100	473	4,627	(899)

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

(10) 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. Specifically, two shopping centres owned by the Group companies LE Retail Las Huertas, S.L.U. and LE Retail Txingudi, S.L.U. and the commercial premises owned by the Group companies LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U. are in this situation.

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, the change in fair value thereof since being posted under non-current assets held for sale has led to the recognition of a loss, according to the latest appraisals, in the amount of EUR 490 thousand. Such loss is recognised under “Changes to the fair value of investment property” in the attached Consolidated Statement of Comprehensive Income. The assumptions used in the measurement are broken down, along with the other investment property, in Note 7 above. Similarly, the amount of improvements and fit-outs carried out in 2019 on non-current assets held for sale amounted to EUR 704 thousand (EUR 4,950 thousand in 2018).

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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

	Thousands of Euros			
	Assets		Liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LE Retail Las Huertas, S.L.U. (a)	11,832	-	252	-
LE Retail Txingudi, S.L.U. (a)	37,246	-	726	-
LE Retail Hipermercados I, S.L.U. (a)	18,784	-	204	-
LE Retail Hipermercados II, S.L.U. (a)	18,643	-	203	-
LE Retail Hipermercados III, S.L.U. (a)	17,285	-	185	-
LE Offices Eloy Gonzalo 27, S.L.U. (b)	-	41,023	-	705
LE Offices Marcelo Spínola, S.L.U. (c)	-	37,058	-	105
	<u>103,790</u>	<u>78,081</u>	<u>1,570</u>	<u>810</u>

(a) The Group presents the directly related assets and liabilities of LE Retail Las Huertas, S.L.U., LE Retail Txingudi, 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. as non-current assets held for sale, since it expects to sell the shopping centres and commercial premises owned by said companies in the short term.

(b) On 31 January 2019 the sale of the unencumbered Cardenal Marcelo Spínola 42 office building to a subsidiary of Invesco for EUR 36,975 thousand was signed. This sale meant capital gains, net of any expenses associated with said disposal, in the amount of EUR 25 thousand, which were recorded under “Profit/(loss) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income.

The sale was carried out by the Group company LE Offices Marcelo Spínola 42, S.L.U., which requested its exclusion from the SOCIMI regime in 2018 and, therefore, will be taxed under the general corporate income tax regime. At 31 December 2018, a deferred tax liability corresponding to the corporate income tax payable from the remeasurement recorded of Marcelo Spínola in accordance with IAS 40 had been recognised for an amount of EUR 2,204 thousand. Said amount, after the sale of the property was carried out in 2019, has been applied against profit tax results (Note 21).

(c) On 24 April 2019, the sale of the Eloy Gonzalo 27 office building, free of charge, to Swiss Life REF European Properties for EUR 40,000 thousand net of VAT was signed, giving rise to a net loss of EUR 56 thousand on the expenses associated with the disposal, which was recognised under “Profit/ (loss) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income. At the time of the sale, the 3-year holding period required by the SOCIMI Regime had been completed.

(d) 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 “Profit/ (loss) 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 holding period required by the SOCIMI Regime, except that in Cheste, assets owned by Lar España Inversión Logística IV, S.L.U., which is taxed under the general corporate income tax regime. The divested assets were under guarantee through directly associated financial liabilities.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

- (e) 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 “Profit/(loss) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year holding 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.
- (f) 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 “Profit/(loss) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year holding 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.
- (g) 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 “Profit/(loss) from the disposal of investment property” in the Consolidated Statement of Comprehensive Income, with the 3-year holding 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 2019 are as follows:

	LE Retail Las Huertas, S.L.U.	LE Retail Txingudi, S.L.U.	LE Retail Hipermercados I, S.L.U.	LE Retail Hipermercados II, S.L.U.	LE Retail Hipermercados III, S.L.U.	Total
Non-current assets held for sale	11,832	37,246	18,784	18,643	17,285	103,790
Investment property	11,580	36,520	18,580	18,440	17,100	102,220
Non-current financial assets	180	405	204	134	166	1,089
Cash and cash equivalents	72	321	-	69	19	481
Liabilities connected to non-current assets held for sale	(252)	(726)	(203)	(204)	(185)	(1,570)
Other current liabilities	(252)	(726)	(203)	(204)	(185)	(1,570)
Non-current assets held for sale	11,580	36,520	18,581	18,439	17,100	102,220

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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

(11) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

	Thousands of Euros			
	2019		2018	
	Non-current Carrying amount	Current Carrying amount	Non-current Carrying amount	Current Carrying amount
Non-current financial assets	13,149	-	11,426	-
Other financial assets	-	189	-	3,268
Client receivables for sales and rendering of services (Note 12)	3,857	2,531	2,733	2,137
Advances to suppliers	-	1,474	-	784
Public Entities, other receivables (Note 21)	-	10,639	-	10,841
Total	17,006	14,833	14,159	17,030

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 7, which the Group has deposited with the corresponding public bodies.

At 31 December 2019, “Public Entities, other receivables” mainly comprises the Value Added Tax pending return related to the investments made in the Lagoh development in Seville in the amount of EUR 3,884 thousand (Note 21).

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

	2019			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Non-current financial assets	-	17	13,132	13,149
Other financial assets	189	-	-	189
Client receivables for sales and rendering of services	2,531	3,857	-	6,388
Advances to suppliers	1,474	-	-	1,474
Public Entities, other receivables (Note 21)	10,639	-	-	10,639
	<u>14,833</u>	<u>3,874</u>	<u>13,132</u>	<u>31,839</u>

	2018			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Non-current financial assets	-	33	11,393	11,426
Other financial assets	3,268	-	-	3,268
Client receivables for sales and rendering of services	2,137	2,733	-	4,870
Advances to suppliers	784	-	-	784
Public Entities, other receivables (Note 21)	10,841	-	-	10,841
	<u>17,030</u>	<u>2,766</u>	<u>11,393</u>	<u>31,189</u>

(12) TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 31 December 2019 and 2018 are as follows:

	2019		2018	
	Thousands of Euros		Thousands of Euros	
	Current	Non-current	Current	Non-current
Operating lease receivables – issued invoices	1,678	-	1,038	-
Operating lease receivables - invoices pending formalisation	1,273	-	1,346	-
Operating lease receivables - income linearisation	445	3,857	575	2,733
Advances to suppliers	1,474	-	784	-
Public Entities, other receivables (Notes 11 and 21)	10,639	-	10,841	-
Less impairment adjustments	(865)	-	(822)	-
Total	<u>14,644</u>	<u>3,857</u>	<u>13,762</u>	<u>2,733</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(a) Impairment

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

	Thousands of Euros	
	2019	2018
Balance at 31 December 2018	822	772
Impairment losses (Note 24)	688	318
Reversals of impairment losses (Note 24)	(645)	(268)
Balance at 31 December 2019	865	822

In the 2019 period derecognitions were recorded for irrecoverable credits in the amount of EUR 182 thousand (EUR 140 thousand in 2018).

(13) CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Banks	160,527	191,328
Total	160,527	191,328

After ending the treasury share repurchase programs (Note 14), which temporarily suspended the liquidity agreement with a financial intermediary pursuant to 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 relevant regulations, the agreement was renewed with the financial intermediary JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of treasury shares.

On 14 January 2020 a new share repurchase program was formalised leaving the aforementioned liquidity program temporarily suspended (Note 31).

(14) NET EQUITY

(a) Capital

At 31 December 2019 the share capital of Lar España Real Estate SOCIMI, S.A. amounts to EUR 175,267 thousand (EUR 186,438 thousand at 31 December 2018) represented by 87,633,730 registered shares (93,219,044 registered shares at 31 December 2018), represented through book entries, with a par value of EUR 2 each, completely subscribed and paid, all granting the same rights.

On 10 June 2019, by virtue of the resolution adopted by the Board of Directors on 07 June 2019, the Parent Company increased share capital by a nominal amount of EUR 1,243 thousand through the issue of shares (621,337 ordinary shares with a par value of EUR 2 par value) with a share premium of EUR 5,182 thousand. This capital increase has been subscribed by Grupo

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Lar Inversiones Inmobiliarias, S.A. in compliance with the provisions of the Investment Management Agreement, which establishes that the manager must invest the post-tax performance 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. The new shares issued within the framework of said increase shall be subject to a three-year lock-up period imposed by the Lar Group, pursuant to the terms of the Investment Management Agreement subscribed with Lar España.

Similarly, on 10 June 2019, by virtue of the resolution adopted by the Board of Directors on 07 June 2019, the Parent Company reduced capital by EUR 6,506 thousand, corresponding to 3,252,820 shares of EUR 2 par value each, representing 3.5% of share capital. The capital decrease was charged against unrestricted reserves by appropriating to a restricted capital redemption reserve EUR 6,506 thousand, an amount equal to the par value of the redeemed shares. The shares were amortised through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 24,743 thousand.

On 20 December 2019, pursuant to the Board of Directors' resolution in 19 December 2019, the Parent Company reduced capital by EUR 5,908 thousand, corresponding to 2,953,831 shares of EUR 2 par value each and representing 3.2% of share capital. The capital decrease was charged against unrestricted reserves by appropriating EUR 5,908 thousand to a restricted capital redemption reserve, an amount equal to the par value of the redeemed shares. The shares were redeemed through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 21,682 thousand. On 30 December 2019 the deed reflecting the capital decrease carried out on 20 December 2019 was entered at the Commercial Registry.

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 in the amount of EUR 4,279 thousand (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 was subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. in compliance with the provisions of the Investment Management Agreement, which establishes that the manager must invest the post-tax performance 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 performed without a pre-emptive subscription right and by delegating powers to execute the agreement to the Board of Directors.

On 28 December 2018, by virtue of the resolution adopted by the Board of Directors held on 20 December 2018, the Company reduced capital by EUR 3,089 thousand, corresponding to 1,544,490 shares of with a par value of EUR 2 each, representing 1.63% of the share capital. The capital decrease was charged against unrestricted reserves by appropriating an amount equal to the par value of the redeemed shares to a capital redemption reserve. This reserve will be restricted. The shares were amortised through the use of treasury 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.

The quoted price at 31 December 2019 was EUR 7.10 per share and the average price per share in the 2019 period was EUR 7.46. (In the 2018 period the average price per share was EUR 7.45 and the quoted price was EUR 8.91 per share.)

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

The breakdown of the Parent Company's main shareholders at 31 December 2019 is as follows:

	%
LVS II Lux XII S.a.r.l.	20.7%
Grupo Lar Inversiones Inmobiliarias, S.A.	11.5%
Franklin Templeton Institutional, LLC	7.9%
Santa Lucia S.A. Cia de Seguros	5.2%
Brandes Investment Partners, L.P.	5.0%
Blackrock Inc.	3.7%
Other shareholders with an interest of less than 3%	46.0%
Total	100.00%

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

On 25 April 2019, the distribution of dividends from the 2018 period against the share premium was approved for the amount of EUR 6,647 thousand, taking into account all issued shares.

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 2019, the Group's share premium amounted to EUR 475,130 thousand (EUR 476,301 thousand at 31 December 2018).

(c) Other reserves

The breakdown of this category as at 31 December 2019 and 2018 is the following:

	Thousands of Euros	
	31.12.2019	31.12.2018
Legal reserve	10,879	2,968
Amortised capital reserve	15,503	3,089
Other Parent Company Reserves	(42,726)	2,393
Consolidated reserves	270,462	211,599
Other shareholder contributions	240	240
Total	254,358	220,289

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Reserve movements in 2019 and 2018 were as follows:

	Thousands of Euros		
	2019		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	8,690	211,599	220,289
First application of IFRS 16 (Note 2f)	-	5,146	5,146
Balance at 01 January 2019	8,690	216,745	225,435
Profit/(loss) for 2018	75,591	53,717	129,308
Distribution of Dividends for the period	(66,247)	-	(66,247)
Capital decrease	(34,011)	-	(34,011)
Result from treasury shares	(16)	-	(16)
Other operations	(111)	-	(111)
Closing balance	(16,104)	270,462	254,358

	Thousands of Euros		
	2018		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	5,860	105,994	111,854
Profit/(loss) for 2017	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

(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 2019 the Company's legal reserve totals EUR 10,879 thousand (EUR 2,968 at 31 December 2018). Therefore, the legal reserve at 31 December 2019 is not fully provided for.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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 the treasury shares depreciated in the capital decreases carried out on 20 December 2019, 10 June 2019 and 28 December 2018, in the total amount of EUR 15,503 thousand. The provision and availability of this reserve shall be held to the same requirements demanded for the capital decrease, in line with the provisions of Article 335 c) of the Spanish Companies Act, the redacted text of which was approved by Royal Legislative Decree 1/2010, of 02 July (Spanish Companies Act).

(d) Value 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, in thousands of Euros, is presented below:

	Thousands of Euros	
	2019	2018
Opening balance	(2,610)	(1,663)
Changes in fair value of hedges in the period recognised directly in equity	(821)	(1,952)
Other amounts transferred to the income statement	1,488	1,005
Closing balance	(1,943)	(2,610)

(e) Treasury shares

At 31 December 2019, the Company has treasury shares with an acquisition cost of EUR 762 (EUR 1,228 thousand at 31 December 2018).

Movement during the 2019 and 2018 periods was as follows:

2019 Period

	Number of shares	Thousands of Euros
31 December 2018	164,925	1,228
Additions	6,240,541	46,715
Derecognitions	(94,995)	(756)
Capital decreases (Note 14a)	(6,206,651)	(46,425)
31 December 2019	103,820	762

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

2018 Period

	Number of shares	Thousands of Euros
31 December 2017	19,880	175
Additions	3,456,153	30,300
Derecognitions	(1,766,618)	(16,293)
Capital decreases (Note 14a)	(1,544,490)	(12,954)
31 December 2018	<u>164,925</u>	<u>1,228</u>

The average selling price of treasury shares in 2019 was EUR 7.77 per share (EUR 8.33 in 2018). Furthermore, losses for the period ended 31 December 2019 amounted to Euros 16 thousand (EUR 33 thousand in losses at 31 December 2018) and were recognised under “Other Reserves” on the Consolidated Statement of Financial Position.

The dates 28 February 2019 and 18 December 2019 marked the end of the share repurchase programs formalised between the Company and its liquidity supplier, said programs having a target of a maximum of 3,160,000 and 4,660,000 shares, respectively. After ending the treasury share repurchase programs, which temporarily suspended the liquidity agreement with a financial intermediary pursuant to 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 relevant regulations, the agreement was renewed with the financial intermediary JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of treasury shares.

On 14 January 2020 a new share repurchase program was formalised leaving the aforementioned liquidity program temporarily suspended (Note 31).

(f) Paid dividends and return of issue premium

On 25 April 2019, the Parent Company’s General Shareholders’ Meeting approved the distribution of a dividend of EUR 68,353 thousand, at EUR 0.73 per share (taking into account all the shares issued) and recognised in profit and loss for the 2018 period, and of EUR 6,647 thousand, at EUR 0.07 per share (taking into account all the shares issued), charged to the share premium.

The amount distributed totalled EUR 72,600 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Parent Company’s equity), taking into consideration the approved amount per share and the shares in circulation at the time of the approval by the Shareholders’ Meeting held on 25 April 2019. The distributed dividend was paid on 24 May 2019.

(15) EARNINGS PER SHARE

(i) Basic

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

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

	31.12.2019	31.12.2018
Profit for the period attributable to equity instrument holders of the Parent Company (in thousands of Euros)	80,730	129,308
Weighted average number of ordinary shares in circulation (number of shares)	89,879,866	93,404,258
Basic earnings per share (in Euros)	0.90	1.38

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

	31.12.2019	31.12.2018
Ordinary shares at the beginning of the period	93,219,044	92,624,097
Share capital increase (weighted effect)	347,268	1,107,818
Capital decrease (weighted effect)	(2,068,888)	(12,694)
Average effect of treasury shares	(1,617,558)	(314,963)
Weighted average number of ordinary shares in circulation at 31 December (shares)	89,879,866	93,404,258

(ii) Diluted

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

As indicated in Note 28, the Parent Company has entered into an Investment Manager Agreement with the manager, for which a performance fee is payable. The amount of this variable remuneration shall be settled, at the Parent Company's choice, in cash (which the manager shall subsequently use to subscribe any issued shares) or in treasury shares, with cash being the option chosen in all the years in which the fee was accrued. Pursuant to the terms in paragraphs 46 and 47A of IAS 33 and bearing in mind that at 31 December 2019 the manager had completely provided the service, all the potential ordinary shares that the Parent Company could deliver to the manager must be considered diluted. However, given that at 31 December 2019 and based on the Directors' best estimate no performance fee was accrued (Note 28a), the Parent Company does not have potentially dilutive shares at year-end.

The calculation of earnings per diluted share is as follows (in Euros):

	31.12.2019	31.12.2018
Profit after income tax	80,729,544	129,307,528
Weighted shares in circulation	89,879,866	93,404,258
Ordinary potential shares	-	577,721
Earnings per diluted share	0.90	1.37

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(16) FINANCIAL LIABILITIES BY CATEGORY

(a) Classification of financial liabilities by category

The classification of financial liabilities by category at 31 December 2019 and at 31 December 2018 is as follows:

	Thousands of Euros	
	2019	
	Non-current	Current
	Carrying amount	Carrying amount (*)
Carried at fair value:		
Derivatives	2,846	2,393
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	139,376	3,482
Bank borrowings	506,641	41,127
Other financial liabilities	19,593	-
Short-term debt with Group companies and associates	-	3,199
Trade and other payables:		
Trade payables	-	30,656
Public Entities, other payables	-	2,368
Customer advances	-	20
Total financial liabilities	668,456	83,245

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

	Thousands of Euros	
	2018	
	Non-current	Current
	Carrying amount	Carrying amount (*)
Carried at fair value:		
Derivatives	1,892	2,179
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	139,077	3,482
Bank borrowings	428,400	6,461
Other financial liabilities	17,240	-
Trade and other payables:		
Trade payables	-	48,223
Public Entities, other payables	-	5,686
Customer advances	-	250
Total financial liabilities	586,609	66,281

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

At 31 December 2019 and 2018 the carrying amounts of the financial liabilities recorded at amortised cost do not differ significantly from the fair value.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

(b) Classification of financial liabilities by maturity

Details by maturity of financial liabilities at 31 December 2019 and 31 December 2018 are as follows:

	2019						
	Thousands of Euros						
	2020	2021	2022	2023	2024 and subsequent years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,482	-	140,000	-	-	-	143,482
Bank borrowings (a)	41,227	9,722	114,509	173,018	218,697	-	557,173
Derivatives	2,538	-	817	1,884	-	-	5,239
Other financial liabilities	-	-	-	-	-	19,593	19,593
Trade and other payables	33,044	-	-	-	-	-	33,044
Debt with Group companies and associates	3,199	-	-	-	-	-	3,199
Total	83,490	9,722	255,326	174,902	218,697	19,593	761,730

	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
Trade and other payables	54,159	-	-	-	-	-	54,159
Total	66,281	79,247	5,437	250,412	242,597	17,240	661,214

(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 624 thousand and EUR 8,262 thousand, respectively in the 2019 period (EUR 923 thousand and EUR 7,401 thousand in the 2018 period).*

(17) FINANCIAL LIABILITIES FROM BORROWINGS

(a) Main characteristics of debt from bonds

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

In this respect, on 19 February 2015 the Parent Company carried out a placement of bonds amounting to a total of EUR 140 million, each with a nominal value of EUR 100 thousand.

The main characteristics of the issue are therefore as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Amount of the issue: EUR 140,000 thousand.
- Nominal value 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 2019, EUR 299 thousand of these expenses (EUR 289 thousand in 2018) have been charged to the entry “Financial expenses” on the Consolidated Statement of Comprehensive Incomes for the period. Interest accrued at 31 December 2019 totalled EUR 4,060 thousand (EUR 4,060 thousand at 31 December 2018), EUR 3,482 thousand of which was outstanding at 31 December 2019 to be paid in February of 2020.

At 31 December 2019, the investment assets that had been pledged as collateral for bonds have a fair value of EUR 267,983 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.

- An Interest Coverage Ratio equal to or greater than 1.25%, calculated as EBITDA over financial expenses for the period.
- The Loan-to-Value Ratio must be 65% or less, calculated by dividing the consolidated financial debt by the total consolidated value of the 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 2019 without the need for additional guarantees and they believe these ratios will be met in 2020.

(b) Main characteristics of bank borrowings

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements
Annual period ended 31 December 2019

Institution	Effective rate (%)	Maturity	Thousands of euros				Guarantee
			Amount available 31.12.2019	Amount available 31.12.2018	Carrying amount 31.12.2019	Carrying amount 31.12.2018	
LE Retail As Termas, S.L.U.	Euribor 3M + 1.80% spread	25 June 2020	37,345	37,345	37,245	37,210	As Termas shopping centre (b)
LE Retail El Rosal, S.L.U.	Euribor 3M + 1.75% spread	7 July 2030	50,000	50,000	49,441	49,304	El Rosal shopping centre (b)
LE Retail Hiper Ondara, S.L.U.	Euribor 3M + 1.7% spread	24 February 2023	97,000	97,000	96,319	95,990	Megapark shopping centre (a)(b)(c)
LE Retail Hiper Ondara, S.L.U.	Euribor 3M + 1.7% spread	24 February 2023	60,000	60,000	58,646	58,240	Portal de la Marina shopping centre (a)(b)(c)
LE Retail Gran Vía de Vigo, S.A.U.	Euribor 3M + 1.75% spread	14 March 2022	82,400	82,400	81,204	80,779	Gran Vía de Vigo shopping centre (a)(b)(c)
LE Retail Vistahermosa, S.L.U.	Euribor 3M + 1.85% spread	2 March 2022	21,550	21,550	21,340	21,225	Vistahermosa business park (a)(b)
LE Retail Abadía, S.L.U.	1.80 (until 23/11/20) - Euribor 3M + 1.75% spread	23 May 2024	34,750	34,750	34,122	34,092	Abadía business park (a)(b)
LE Retail Abadía, S.L.U.	1.93 (until 23/11/20) - Euribor 3M + 1.75% spread	23 May 2024	7,310	8,685	7,230	7,068	Abadía shopping centre (a)(b)
LE Retail Hiper Ondara, S.L.U.	Euribor 3M + 1.7% spread	24 February 2023	8,250	8,250	4,786	4,741	Megapark shopping centre (a)(b)(c)
LE Retail VidaNova Parc, S.L.U.	Euribor 12M + 2.10% spread	14 September 2020	-	24,000	-	18,359	VidaNova Parc
LE Retail VidaNova Parc, S.L.U.	Euribor 3M + 1.85% spread	31 December 2024	28,000	-	27,248	-	VidaNova Parc
LE Retail Rivas, S.L.U.	1.90	20 December 2024	34,500	27,500	34,286	27,432	Rivas business park (b)
LE Retail Lagoh, S.L.U.	Euribor 3M +2 (+2.25 until September 2019)	29 June 2025	98,500	98,500	95,889	-	Lagoh shopping centre (b)
LE Retail Lagoh, S.L.U.	Euribor 3M + 2.25% spread	30 June 2020	4,000	4,000	-	421	Lagoh shopping centre
Lar España Real Estate SOCIMI, S.A.	Euribor 12M + 1.20% spread	16 May 2020	25,000	25,000	-	-	-
Lar España Real Estate SOCIMI, S.A.	1.25	25 October 2025	70,000	70,000	12	-	Lagoh shopping centre (b)
			658,605	648,980	547,768	434,861	

- (a) In addition to the mortgage security of the loan, the Group companies have 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 de Ondara, S.L.U., LE Retail Villaverde, S.L.U., LE Retail Vistahermosa, S.L.U., LE Retail Gran Vía de Vigo, S.A.U., LE Retail Abadía, S.L.U., LE Retail Lagoh, S.L.U., LAR España Real Estate SOCIMI, S.A. 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

The financial expenses accrued on these loans in the 2019 period totalled EUR 10,862 thousand (EUR 9,715 thousand in 2018). Accrued, unpaid interest at 31 December 2019 totalled EUR 1,038 thousand (EUR 1,039 thousand at 31 December 2018).

The main changes that occurred in the period ended 31 December 2019 are as follows:

- In 2019, the Group company LE Retail Lagoh, S.L.U. (formerly Lar España Shopping Centres VIII, S.L.U.) drew down EUR 98,500 thousand associated with the syndicated loan agreement signed on 29 June 2018 with Banco Santander, S.A. acting as agent bank. 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 2.0% spread.

The effect of accounting at amortised cost at the date the debt was contracted was EUR 3,473 thousand, which at 31 December 2018 were recorded under “Other current assets” as the debt had not been drawn down. Following its disposal, the Company reclassified these amounts under “Bank Borrowings”.

- On 19 December 2019, the Group company LE Retail Rivas, S.L.U. requested a EUR 7,000-thousand increase for the loan that the company holds with Banco Bilbao Vizcaya Argentaria, S.A., which as of this date has a total nominal amount of EUR 34,500 thousand. In addition, the novation stipulated a bullet for the loan, which matures five years after the date of the signing. 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. Interest, after the novation, shall be calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying a fixed interest rate of 1.90%. The effect of posting the additional formalisation expenses after the novation was signed at amortised cost totalled EUR 185 thousand.
- On 20 December 2019, the Group company LE Retail VidaNova Parc, S.L.U. refinanced the current debt associated with the loan agreement the company held with Caixabank, S.A for a total amount of EUR 24,000 thousand. In 2019, EUR 3,372 thousand of this total amount was drawn down, with the total amount drawn down being EUR 22,208 thousand. After said loan was cancelled the company signed a new agreement with Banco Bilbao Vizcaya Argentaria, S.A. for a total amount of EUR 28,000 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. Interest of the new loan shall be calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying the Euribor 3M calculation plus a 1.85% spread. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 759 thousand.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

- On 16 May 2019, the Company renewed the credit facility with Bankinter in the amount of EUR 25,000 thousand. Withdrawals may be made up to the limit established at any time by virtue of cheques, transfer orders, account charges or any other order of payment accepted by Bankinter. The maturity date on which the amount drawn down must be fully repaid is 16 May 2020. Interest accrues quarterly and the interest rate is 12-month Euribor plus a spread of 1.20%. It has commissions for having a 4.5% balance surplus. The fee for not withdrawing from the facility is 0.02% of the average balance that is not withdrawn and returned in the quarter. At 31 December 2019 the balance of said credit facility was not negative, with EUR 20,083 thousand having been withdrawn and repaid during the year.

The financing agreements signed by the Group require compliance with certain financial ratios. The Directors believe that they are complied with at 31 December 2019 and expect them to be satisfactorily complied with while the agreements remain in force.

(c) Derivatives

The details of the derivative financial instruments as at 31 December 2019 and 31 December 2018 are as follows:

	Thousands of Euros	
	2019	2018
Non-current		
Interest rate	2,846	1,892
Current		
Interest rate	2,393	2,179
	<u>5,239</u>	<u>4,071</u>

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

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

Derivatives contracted by the Group at 31 December 2019 and 31 December 2018 and their fair values at said dates are as follows (in thousands of Euros):

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

	Thousands of Euros				
	Contracted interest rate	Fair value at 31/12/2019	Fair value at 31/12/2018	Notional	Maturity
LE Retail El Rosal, S.L.U.	0.44%	325	643	50,000	2030
LE Retail As Termas, S.L.U.	0.53%	177	459	37,345	2020
LE Retail Hiper Ondara, S.L.U. (Megapark)	0.22%	1,642	870	97,000	2023
LE Retail Hiper Ondara, S.L.U. (Portal de la Marina)	0.31%/0.39%	1,250	769	60,000	2023
LE Retail Hiper Ondara, S.L.U. (Megapark Ocio)	0.35%	100	69	4,675	2023
LE Retail Gran Vía de Vigo, S.A.U.	0.29%	1,244	1,088	82,400	2022
LE Retail Vistahermosa, S.L.U.	0.12%	247	173	21,550	2022
LE Retail VidaNova Parc, S.L.U.	0.00%	254	-	28,000	2024
		5,239	4,071		

On 20 December 2019 the Group company LE Retail VidaNova Parc, S.L.U. signed the refinancing discussed in Note 17b alongside an IRS hedging derivative. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The reference interest rate applied is made up of a fixed component of 0.00% and a variable component based on the three-month Euribor. The notional amount of the derivative totalled EUR 28,000 thousand and the maturity date is 31 December 2024, as per the terms signed under the hedged bank borrowings. After the documentation regarding the hedging effectiveness of the financial instrument has been reviewed, the Company's Directors, based on their best estimate, have determined that the hedge is effective. The derivative is posted at fair value with changes in net equity (Note 5d).

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 de Ondara, S.L.U. were classified as ineffective as at 31 December 2019. In this respect, the Group recognised the change in fair value of said instruments in the negative amount of EUR 711 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., LE Retail As Termas, S.L.U., and LE Retail Hiper Ondara, S.L.U., for EUR 1,125 thousand.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

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	Net Equity	Consolidated profit before tax
50-point interest rate increase	3,564	(1,869)	(1,695)
50-point interest rate decrease	(5,599)	3,863	1,736

(d) Movements of cash under financial liabilities from borrowings

In the 2019 and 2018 periods the movement of cash of the Group's financial debt is as follows:

2019 Period

	Opening balance	New debt	Initial amortised cost	Principal paid	Interest paid	Interest accrual (Note 25)(*)	Changes in fair value	Closing balance
	Cash flow			Cash flow	Cash flow			
Financial liabilities from issue of bonds	142,559	-	-	-	(4,060)	4,359	-	142,858
Bank borrowings	434,861	156,955	(4,417)	(42,291)	(9,022)	11,682	-	547,768
Debt with Group companies	-	3,100	-	-	(23)	122	-	3,199
Derivatives	4,071	-	-	-	(2,341)	2,341	1,168	5,239
	581,491	160,055	(4,417)	(42,291)	(15,446)	18,504	1,168	699,064

2018 Period

	Opening balance	Balance of Liabilities linked to non-current assets held for sale (Note 10)	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				
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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

(18) OTHER NON-CURRENT FINANCIAL LIABILITIES

At 31 December 2019 the Group includes under “Other non-current financial liabilities” EUR 19,593 thousand (EUR 17,240 thousand at 31 December 2018) 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.

(19) TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Trade payables (a)	29,364	38,413
Trade payables, associated companies (b)	1,173	9,694
Customer advances	20	250
Salaries payable	119	116
Public Entities, other payables (Note 21)	2,368	5,686
	<u>33,044</u>	<u>54,159</u>

(a) The item “Trade payables” at 31 December 2019, includes EUR 17,792 thousand that correspond to outstanding amounts stemming from the development and renovations associated with the investment property owned by the Group. Of this amount EUR 10,902 thousand correspond to outstanding amounts related to the development of the Lagoh shopping centre owned by LE Retail Lagoh, S.L.U. (formerly Lar España Shopping Centres VIII, S.L.U.), which began operations on 27 September 2019.

(b) “Trade payables, related companies” includes EUR 646 thousand related to the fixed remuneration and the variable remuneration to be paid to the Manager and accrued in the period (Note 28).

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

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

	2019	2018
	Days	Days
Average number of days payable outstanding to suppliers	34	25
Ratio of paid operations	21	25
Ratio of operations pending payment	95	49
	Thousands of Euros	Thousands of Euros
Total effected payments	321,785	240,888
Total pending payments	23,371	61,153

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 exclusively to the Spanish institutions included in the consolidable Group.

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

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

(21) PUBLIC ENTITIES AND TAXATION

(a) Balances with Public Entities

	Thousands of Euros	
<u>Receivables</u>	31.12.2019	31.12.2018
Taxation authorities, VAT recoverable	7,137	8,965
Taxation authorities, other withholdings	1,186	1,876
Taxation authorities, other recoverable	2,316	-
	<u>10,639</u>	<u>10,841</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

<u>Payables</u>	Thousands of Euros	
	31.12.2019	31.12.2018
Taxation authorities, VAT payable (Note 16)	1,194	3,276
Taxation authorities, personal income tax payable (Note 16)	87	71
Taxation authorities, corporate income tax payable (Note 21b)	1,082	2,335
Social Security contributions payable	5	4
Deferred tax liabilities (Note 2)	17,201	19,405
	<u>19,569</u>	<u>25,091</u>

The amounts posted under “Taxation authorities, VAT payable” mainly refer to the deductible VAT accrued in the development of the Lagoh shopping centre (Note 11), EUR 3,884 thousand of which was pending return at 31 December 2019.

The amount under “Taxation authorities, other recoverable” corresponds to the amount paid by the company LE Logistic Alovera I y II, S.A.U. in respect of a contested tax assessment relating to transfer tax and stamp duty on the acquisition in 2014 of the logistics warehouses owned by this company. On 17 April 2019, the Company lodged an economic-administrative appeal against the above assessment decision and, at the date of authorisation for issue of these accounts no administrative decision had yet been received in this regard. Nonetheless, with the assistance of the Group’s tax advisors, the directors simultaneously filed a ruling request with the Directorate-General of Taxes in response to which they received a non-binding favourable ruling on 25 September 2019. Based on their best estimate, the above amount is thus considered recoverable.

(b) Reconciliation of accounting profit and taxable income

At 31 December 2019, the Parent Company and the subsidiaries were taxed under the SOCIMI tax regime, with the exception of LE Offices Marcelo Spínola, S.L.U and Lar España Inversiones Logísticas IV, S.L.U. which requested their exclusion from the SOCIMI tax regime in 2018. Similarly, LE Retail Córdoba Sur, S.L.U., acquired by the Group on 15 January 2019 (Note 2g), requested to avail itself of the special SOCIMI tax regime on 26 July 2019, so that the application thereof will be retroactive to 01 January 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

At 31 December 2019 and 31 December 2018, the taxable fiscal base comprises the following items:

	Thousands of Euros		Thousands of Euros	
	Tax regime for SOCIMIs	General regime	Tax regime for SOCIMIs	General regime
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Profit before tax from continuing operations		79,628		133,847
Consolidation adjustments:		31,092		8,208
Aggregated profit from continuing operations before tax	100,311	10,409	134,873	7,182
<i>Permanent differences</i>	(1,994)	7	(2,806)	-
<i>Temporary differences</i>	3,342	(4)	1,666	(4)
Generation/(Offset) of negative tax bases	-	(5,140)	-	2,162
Tax base	101,659	5,272	129,194	9,340
Tax payable (0%/25%)	-	1,318	-	2,335
Withholdings/deductions	-	-	-	-
Instalment payments	-	(236)	-	-
Corporate income tax payable	-	1,082	-	2,335

At 31 December 2019, the current corporate income tax payable for the period corresponds to the tax payable by the company LAR España Inversión Logística IV, S.L.U. after the 2019 sale of the plots it owned in Cheste, as well as to the amount payable by the company LE Offices Marcelo Spínola 42, S.L.U., after the sale in 2019 of the Cardenal Marcelo Spínola 42 office building (Note 10).

Deferred tax assets and liabilities

At 31 December 2019, 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 the 0% tax rate for all the companies included under the SOCIMI regime.

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

Regarding the deferred tax liability in the amount of EUR 17,201 thousand, it stemmed from the purchase of the companies 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. as a result of the change to fair value of its assets at the time of the business combination, given that at the time of the acquisition the companies at hand were not taxed under the special SOCIMI regime. The change in the 2019 balance corresponds to the application of the deferred tax liability corresponding to LE Offices Marcelo Spínola 42, S.L.U. after the sale of the property owned by the company (Note 10).

(c) Reconciliation between the accounting result and the corporate income tax result

The reconciliation of the corporate income tax result at 31 December 2019 and 31 December 2018 is as follows:

	Thousands of Euros		Thousands of Euros	
	Tax regime for SOCIMIs	General regime	Tax regime for SOCIMIs	General regime
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Profit before tax from continuing operations		79,628		133,847
Consolidation adjustments		31,092		8,208
Aggregated profit from continuing operations before tax	100,311	10,409	134,873	7,182
Unrecognised tax losses incurred / (offset)	-	(5,140)	-	2,162
<i>Permanent differences</i>	(1,994)	7	(2,806)	-
<i>Temporary differences</i>	3,342	(4)	1,666	(4)
Notional tax payable (0% -25%)	-	1,318	-	2,335
Previous years' corporate income tax correction	-	(210)	-	(7)
Mov. PID consolidated (Notes 10 and 21b)	-	(2,211)	-	2,211
Corporate income tax expense/income	-	(1,102)	-	4,539

The details of the current and deferred corporate income tax result, respectively, are as follows:

	Thousands of Euros	
	2019	2018
Current corporate income tax result	1,109	2,328
Deferred corporate income tax result	(2,211)	2,211
	(1,102)	4,539

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

(d) 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 2019 reporting date, the last four fiscal years of the Group are open to inspection.

On 11 December 2019, partial inspection and verification proceedings began regarding Corporate Income Tax, Value Added Tax, Work and Professional Income Withholdings, Investment Income Withholdings, and Non-resident Tax Withholdings for the periods from 2015-2019 for the company Lar España Real Estate Socimi, S.A. The scope of this procedure is strictly limited to properly verifying the taxation percentages of the Regional Taxation Authorities.

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.

(e) 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.

(22) RISK MANAGEMENT POLICY

(a) Financial risk factors

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

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

(i) Market risk

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

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

- 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 507 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	
		2019	2018
Non-current financial assets	11	13,149	11,426
Other current financial assets	11	189	3,268
Other current assets	11	2,650	4,176
Trade and other receivables	12	14,644	13,762
Cash and cash equivalents	13	160,527	191,328
		<u>191,159</u>	<u>223,960</u>

Group policy for impairment of trade receivables stipulates that a provision must be made for debt lasting more than 90 days for the full amount outstanding, less any security deposits and guarantees pledged by the debtor.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

	Thousands of Euros				
	2019				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Total
Operating lease receivables (Note 12)	102	131	377	1,068	1,678
Total assets	102	131	377	1,068	1,678

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

At 31 December 2019 and 2018, 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:

	2019	2018
Community of Valencia	345	311
Basque Country	55	201
Galicia	84	140
Castilla La Mancha	116	94
Catalonia	38	73
Castile and León	227	3
	<u>865</u>	<u>822</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

Cash and cash equivalents

At 31 December 2019 the Group has cash totalling EUR 160,527 thousand (EUR 191,328 thousand at 31 December 2018), which represents its maximum exposure to the risk associated with these assets. Cash is held at banks and financial institutions.

(iii) Liquidity risk

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

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

The Group's exposure to liquidity risk at 31 December 2019 and 31 December 2018 is shown below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

	2019					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	1,570	-	-	-	-	1,570
Financial liabilities from issue of bonds	-	3,482	-	139,376	-	142,858
Bank borrowings	-	-	41,127	515,946	-	557,073
Derivatives	-	-	2,393	2,846	-	5,239
Other non-current liabilities	-	-	-	-	19,593	19,593
Deferred tax liabilities	-	-	-	-	17,201	17,201
Trade and other payables	779	1,313	30,952	-	-	33,044
Debt with Group companies	-	3,199	-	-	-	3,199
Total	2,349	7,994	74,472	658,168	36,794	779,777

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

	2018					
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	Total
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
Debt with Group companies	-	-	-	-	-	-

In addition, the Group has securities granted for the amount of EUR 1,885 thousand (EUR 8,396 thousand at 31 December 2018), mostly related to investment property under construction in 2019. In their best estimate, the Group Directors do not expect any obligation to materialise as a result thereof.

(iv) Cash flow and fair value interest rate risks

At 31 December 2019 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 mostly unaffected by fluctuations in market interest rates.

(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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

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 queries raised by different companies. In this sense, the Group's Management, with the support of its tax consultants, has verified that regime requirements have been satisfied and concluded that at 31 December 2019 all requirements have been satisfied. Management considered the income test non-compliance in 2018 to have since been corrected. This non-compliance was an extraordinary situation caused by the positive result after having returned the loan granted to Inmobiliaria Juan Bravo 3, S.L. (Note 28a). Therefore, the Group shall continue to avail itself of the SOCIMI tax regime, and this has been taken into account when drawing up these consolidated financial statements.

Should the Group not satisfy the requirements established in the Regime or the Shareholders' Meeting of said Companies not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements set forth in the aforementioned law, the companies would be in breach of said law and, consequently, would have to file their tax returns under the general tax regime rather than that applicable to SOCIMIs (Note 1).

(vi) 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

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

	Thousands of Euros	
	31.12.2019	31.12.2018
Total financial debt (Notes 11 and 17)	695,865	581,491
Less, Cash and cash equivalents (Note 13)	(160,527)	(191,328)
Net debt	535,338	390,163
Total capital (capital + premium)	650,397	662,739
Total	1,185,735	1,052,902
Leverage ratio	45.15%	37.10%

(23) REVENUE

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

(24) OTHER OPERATING EXPENSES

Details of other expenses are as follows:

	Thousands of Euros	
	2019	2018
Independent professional services	16,499	45,597
Insurance premiums	534	590
Bank fees and commissions	60	180
PR and advertising	2,096	1,129
Taxes	4,908	5,415
Impairment losses and uncollectibility of trade and other receivables (Note 12a)	225	190
Remuneration of the Board of Directors (Note 28b) (*)	590	590
Other expenses	814	1,457
	25,726	55,148

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

The decrease in the amount recorded under “Independent professional services” is mainly due to the failure in 2019 to accrue the Performance Fee and Divestment Fee associated with the agreement held with the manager, Grupo LAR (Note 28a).

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

(25) FINANCE PROFIT

The details of the finance profit at 31 December 2019 and 31 December 2018 are as follows:

	Thousands of Euros	
	2019	2018
Financial income		
Financial income from loans (Note 28a)	-	27,921
Financial income from deposits	12	6
Financial costs		
Financial expenses due to bank borrowings (Note 17b)	(11,862)	(8,088)
Financial expenses due to bonds (Note 17a)	(4,359)	(4,350)
Financial expenses due to bonds (Note 17c)	(2,341)	(2,736)
Financial expenses from debt with Group companies and associates (Note 28a)	(122)	-
Other financial expenses	(293)	(1,612)
Inclusion of financial expenses in assets	659	-
Changes in the fair value of financial instruments (Note 17c)	(1,836)	(1,024)
	<u>(20,142)</u>	<u>10,117</u>

(26) EMPLOYEE BENEFITS EXPENSE

Details of employee benefits expense at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Salaries and wages	368	437
Other benefits and taxes	56	65
	<u>424</u>	<u>502</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

(27) PROFIT FOR THE PERIOD

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

	Thousands of Euros	
	2019*	2018*
Lar España Real Estate SOCIMI, S.A.	(6,338)	67,153
LE Logistic Alovera I y II, S.A.U.	(23)	(3,765)
LE Retail Hiper Albacenter, S.A.U.	2,408	(287)
LE Offices Egeo, S.A.U.	-	(61)
LE Retail Alisal, S.A.U.	6	(632)
LE Offices Eloy Gonzalo 27, S.A.U.	(426)	7,802
LE Retail As Termas, S.L.U.	2,235	2,573
LE Retail Portal de la Marina, S.L.U.	-	-
LE Logistic Alovera III y IV, S.L.U.	14	(1,062)
LE Logistic Almussafes, S.L.U.	177	3
LE Retail Hiper Ondara, S.L.U.	(4,527)	9,655
LE Offices Joan Miró 21, S.L.U.	1	3,826
LE Retail Megapark, S.L.U.	-	-
LE Retail VidaNova Parc, S.L.U.	(2,342)	6,748
LE Retail El Rosal, S.L.U.	2,509	1,502
LE Retail Galaria, S.L.U.	(84)	(777)
LE Retail Lagoh, S.L.U.	70,304	23,046
LE Retail Vistahermosa, S.L.U.	1,490	564
LE Retail Sagunto II, S.L.U.	424	(219)
LE Retail Las Huertas, S.L.U.	(654)	147
LE Retail Gran Vía de Vigo, S.A.U.	(859)	10,013
LE Offices Marcelo Spínola 42, S.L.U.	187	(2,856)
LE Retail Anec Blau, S.L.U.	(2,912)	2,120
LE Retail Albacenter, S.L.U.	360	1,769
LE Retail Txingudi, S.L.U.	527	(1,024)
Lar España Inversión Logística IV, S.L.U.	1,382	(393)
LE Retail Villaverde, S.L.U.	6	(873)
Inmobiliaria Juan Bravo 3, S.L.	4,020	(899)
LE Retail Abadía, S.L.U.	5,766	4,843
LE Retail Hipermercados I, S.L.U.	1,706	120
LE Retail Hipermercados II, S.L.U.	1,767	168
LE Retail Hipermercados III, S.L.U.	138	268
LE Retail Rivas, S.L.U.	2,380	4,375
LE Retail Cordoba Sur, S.L.U.	(14)	-
Profit before income tax	79,628	133,847
Income tax	1,102	(4,539)
Profit after income tax	80,730	129,308

* The elimination of amounts the Parent Company rebilled to subsidiaries is not included.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

(28) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party balances and transactions

Management agreement with Grupo Lar

On 19 February 2018, the Parent Company entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the “Management Company”), for the purpose of renewing the terms of the Investment Management 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) was modified. 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.

The base fee accrued by the manager totalled EUR 9,877 thousand in 2019 (EUR 8,740 thousand in 2018) (net of the expenses discounted as per the management agreement formalised between the parties, which amounted to EUR 398 thousand) recorded under “Other operating expenses” on the Consolidated Statement of Comprehensive Income. At 31 December 2019, the amount of EUR 646 thousand was pending payment (EUR 756 thousand at 31 December 2018).

Likewise, the performance fee to be paid to the Management Company shall be 16% of any increase the Group sees in its EPRA NAV above 10% and 4% of any increase the Parent Company sees in its market capitalisation above 10%. Both figures shall be corrected pursuant to the circumstances described in the IMA and the fee shall be subject to an overall limit equal to 3% of the Group’s EPRA NAV at 31 December of the previous period. Pursuant to Clause 7.2.2 of the management agreement, 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.

In terms of the floating amount, no figures were recorded at 31 December 2019, such that the Directors of the Parent Company believe that developments of the EPRA NAV and market capitalisation at year-end did not reach either minimum established in the IMA for the accrual thereof (EUR 8,566 thousand at 31 December 2018).

In addition, 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, in 2018 the manager accrued EUR 17,898 million derived from the sales that took place in said year. Said amount was settled as at 31 December 2018.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

Other contracts with related parties

The Group has also signed a contract with a related company, Gentalia 2006, S.L., (a wholly-owned subsidiary of Grupo Lar Inversiones Inmobiliarias, S.A.) for the provision of services related to the administration of the property assets. At 31 December 2019 the expense incurred in this connection amounted to EUR 3,544 thousand (EUR 2,516 thousand at 31 December 2018), of which EUR 527 thousand had not yet been paid at 31 December 2019 (EUR 390 thousand at 31 December 2018).

Other balances and transactions with related parties

On 01 April 2019, a liquidity facility was arranged between Lar España Real Estate SOCIMI, S.A., the Parent of the Group, and Inmobiliaria Juan Bravo 3, S.L., whereby Lar España Real Estate SOCIMI, S.A. may dispose of a maximum amount of EUR 7,000 thousand, maturing on 31 March 2020. This liquidity facility yields a fixed interest rate of 5.95% of the drawn capital payable on the due date. In 2019 interest accrued in the amount of EUR 122 thousand, EUR 99 thousand of which is pending payment. At 31 December 2019, the amount drawn down totalled EUR 3,100 thousand.

Also in 2018, the Company received repayment for two loans granted to Inmobiliaria Juan Bravo 3, S.L. The first was for a nominal amount of EUR 61,303 thousand, having been acquired in 2015 for EUR 40,000 thousand due to the insolvency of the investee. The second, granted on 11 January 2016, amounted to EUR 2,000 thousand. Following the repayment of both loans, the Company recorded positive finance income of EUR 21,303 thousand, corresponding to the difference between the price for which it purchased the first loan from a financial institution and its nominal value.

Likewise, in 2018, the finance income accruing on the loans amounted to EUR 6,618 thousand, in respect of both fixed and variable interest, calculated based on the estimated free cash flow of Inmobiliaria Juan Bravo 3, S.L. No finance income of any kind has accrued for these items in 2019.

(b) Information on the Parent Company's 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 2019 and 2018, classified by item, is as follows:

Thousands of Euros						
	2019			2018		
	Salaries	Allowances	Insurance premiums	Salaries	Allowances	Insurance premiums
Board of directors	-	590	120*	-	590	194*
Senior management personnel	368	-	-	437	-	-

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

*The amount of civil liability insurance premiums for damages from acts or omissions corresponds to the company's Board of Directors and Senior Management.

Allowances for the Board of Directors include EUR 85 thousand for the non-executive Secretary of the Board of Directors (EUR 85 thousand at 31 December 2018).

At 31 December 2019 the Company had 7 Board Members: 5 men and 2 women. (At 31 December 2018 the company had 7 Board members: 5 men and 2 women.)

At 31 December 2019 and 2018 the Group has no pension, life insurance, stock options or compensation obligations with former or current members of the Board of Directors or Senior Management personnel of the Parent Company.

At 31 December 2019 and 2018 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 2019 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.

(29) EMPLOYEE INFORMATION

The average headcount of the Group at 31 December 2019 and 2018, distributed by category, is as follows:

Professional category	2019	2018
Senior management personnel	3	4
Total	3	4

The distribution of Group personnel by sex at 31 December 2019 and 2018 is as follows:

	Number			
	2019		2018	
	Female	Male	Female	Male
Senior management personnel	1	2	1	3
Total	1	2	1	3

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Notes to the annual financial statements
Annual period ended 31 December 2019
(Expressed in thousands of Euros)

In the 2019 and 2018 periods the Company had no employees with a 33% or greater disability.

(30) AUDIT FEES

During 2019 and 2018, 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 for the entities related thereto through control, shared property or management were as follows (in thousands of Euros):

	Thousands of Euros	
	31.12.2019	31.12.2018
Audit and related services		
Audit services	309	326
Other verification services	137	81
Professional services		
Other services	-	254
Total	446	661

(31) EVENTS AFTER THE REPORTING PERIOD

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider, aimed at a maximum of 4,500,000 shares, representing 5% of the share capital, which may be acquired for a price not exceeding (a) the price of the last independent transaction or (b) the highest independent offer at that date at the trading venue where the purchase takes place. This programme will last until 14 October 2020 at the latest. The former programme temporarily suspends the liquidity agreement with a financial intermediary per the provisions of the Spanish National Securities Market Commission Circular 3/2007 of 19 December 2007 on liquidity contracts for the purposes of their acceptance as market practice and other applicable regulations, according to which it maintains a restricted amount of Euros 500 thousand in cash and a maximum of 63,000 shares for the sale-purchase of treasury stock.

(32) 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.a). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

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

Information on Group companies

31 December 2019

a) Subsidiaries

			% of Participation		Thousands of euros					
Company	Activity	Type of entity	Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)
LE Logistic Alovera I y II, S.A.U.	Leasing of property	Subsidiary	100	100	60	(44)	(24)	-	3,579	3,615
LE Retail Hiper Albacenter, S.A.U.	Leasing of property	Subsidiary	100	100	60	36	36	(32)	14,004	14,068
LE Retail Alisal, S.A.U.	Leasing of property	Subsidiary	100	100	60	(1)	6	(5)	2,278	2,339
LE Offices Eloy Gonzalo 27, S.A.U.	Leasing of property	Subsidiary	100	100	60	20,395	20,427	(15,079)	344	5,752
LE Retail As Termas, S.L.U.*	Leasing of property	Subsidiary	100	100	4	3,126	2,031	(1,828)	32,480	32,687
LE Logistic Alovera III y IV, S.L.U.	Leasing of property	Subsidiary	100	100	4	10	14	(12)	646	652
LE Logistic Almussafes, S.L.U.	Leasing of property	Subsidiary	100	100	4	169	177	(159)	2,969	2,991
LE Retail Hiper Ondara, S.L.U.*	Leasing of property	Subsidiary	100	100	4	9,279	2,683	(2,415)	135,742	136,014
LE Offices Joan Miró 21, S.L.U.*	Leasing of property	Subsidiary	100	100	4	(7)	1	(1)	798	802
LE Retail VidaNova Parc, S.L.U.*	Leasing of property	Subsidiary	100	100	4	2,151	1,217	(1,095)	28,433	28,559
LE Retail El Rosal, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,675	423	(381)	23,079	23,124
LE Retail Galaria, S.L.U.	Leasing of property	Subsidiary	100	100	4	(6)	(84)	-	504	424
LE Retail Lagoh, S.L.U.*	Leasing of property	Subsidiary	100	100	3	930	(210)	-	115,665	115,458
LE Retail Sagunto II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(16)	(16)	-	1,532	1,519
LE Retail Vistahermosa, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,408	867	(781)	21,490	21,579
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	1,377	1,246	-	697	1,946
LE Retail Villaverde, S.L.U.	Leasing of property	Subsidiary	100	100	3	-	6	(5)	1,758	1,762
LE Retail Anec Blau, S.L.U.*	Leasing of property	Subsidiary	100	100	3	39	39	(35)	82,980	82,987
LE Retail Albacenter, S.L.U.	Leasing of property	Subsidiary	100	100	3	1,009	1,009	(908)	33,724	33,828
LE Retail Txingudi, S.L.U.	Leasing of property	Subsidiary	100	100	3	893	893	(804)	32,482	32,574
LE Retail Las Huertas, S.L.U.	Leasing of property	Subsidiary	100	100	3	220	220	-	12,588	12,811
LE Offices Marcelo Spínola, S.L.U.	Leasing of property	Subsidiary	100	100	3	9,029	8,058	-	(1,499)	6,562
LE Retail Gran Vía de Vigo, S.A.U.*	Leasing of property	Subsidiary	100	100	502	5,731	3,538	-	26,958	30,998
LE Retail Abadía, S.L.U.*	Leasing of property	Subsidiary	100	100	7,204	3,258	2,298	(1,861)	16,926	24,567
LE Retail Hipermercados I, S.L.U.	Leasing of property	Subsidiary	100	100	3	674	674	(606)	14,808	14,879
LE Retail Hipermercados II, S.L.U.	Leasing of property	Subsidiary	100	100	3	679	679	(611)	14,936	15,007
LE Retail Hipermercados III, S.L.U.	Leasing of property	Subsidiary	100	100	3	615	615	(554)	13,684	13,748
LE Retail Rivas, S.L.U.*	Leasing of property	Subsidiary	100	100	3	2,372	1,697	(1,528)	27,361	27,533
LE Retail Cordoba Sur, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	4	(14)	(14)	-	947	937
					8,023	64,987	48,506	(28,700)	661,893	689,722

* 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 2019

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Thousands of euros				
					Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50	50	3,483	4,375	6,060	-	(3,151)

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Information on Group companies
31 December 2018

a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit/(loss)	Thousands of euros			
			Direct	Total			Profit/(loss)	Dividends	Other equity	Total equity (a)
LE Logistic Alovera I y II, S.A.U.	Leasing of property	Subsidiary	100	100	60	31,642	31,670	(16,050)	169	15,849
LE Retail Hiper Albacenter, S.A.U.	Leasing of property	Subsidiary	100	100	60	200	200	(111)	12,432	12,581
LE Retail Alisal, S.A.U.	Leasing of property	Subsidiary	100	100	60	4,145	4,110	(2,098)	2,162	4,234
LE Offices Eloy Gonzalo 27, S.A.U.	Leasing of property	Subsidiary	100	100	60	(1,783)	(1,783)	-	19,314	17,591
LE Retail As Termas, S.L.U.*	Leasing of property	Subsidiary	100	100	4	1,815	630	-	28,227	28,861
LE Logistic Alovera III y IV, S.L.U.	Leasing of property	Subsidiary	100	100	4	5,724	5,725	(2,935)	97	2,891
LE Logistic Almussafes, S.L.U.	Leasing of property	Subsidiary	100	100	4	4,238	4,239	(2,185)	2,525	4,583
LE Retail Hiper Ondara, S.L.U.*	Leasing of property	Subsidiary	100	100	4	5,559	657	-	122,115	122,776
LE Offices Joan Miró 21, S.L.U.*	Leasing of property	Subsidiary	100	100	4	6,081	5,496	-	13,794	19,294
LE Retail VidaNova Parc, S.L.U.*	Leasing of property	Subsidiary	100	100	4	373	(236)	-	22,796	22,564
LE Retail El Rosal, S.L.U.*	Leasing of property	Subsidiary	100	100	3	(438)	(1,805)	-	23,246	21,444
LE Retail Galaria, S.L.U.	Leasing of property	Subsidiary	100	100	4	3,310	3,261	(1,665)	(1)	1,599
LE Retail Lagoh, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	(3,036)	(3,184)	-	94,344	91,163
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
LE Retail Vistahermosa, S.L.U.*	Leasing of property	Subsidiary	100	100	3	413	(167)	-	20,169	20,005
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	7,676	5,575	(5,165)	(9)	404
LE Retail Villaverde, S.L.U.	Leasing of property	Subsidiary	100	100	3	3,161	3,054	(1,598)	1,651	3,110
LE Retail Anec Blau, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,025	1,025	(554)	77,989	78,463
LE Retail Albacenter, S.L.U.	Leasing of property	Subsidiary	100	100	3	220	220	-	30,638	30,861
LE Retail Txingudi, S.L.U.	Leasing of property	Subsidiary	100	100	3	(21)	(21)	-	30,637	30,619
LE Retail Las Huertas, S.L.U.	Leasing of property	Subsidiary	100	100	3	1	1	-	11,960	11,964
LE Offices Marcelo Spínola, S.L.U.	Leasing of property	Subsidiary	100	100	3	(2,158)	(2,158)	-	28,590	26,435
LE Retail Gran Vía de Vigo, S.A.U.*	Leasing of property	Subsidiary	100	100	502	2,430	226	-	21,831	22,559
LE Retail Abadía, S.L.U.*	Leasing of property	Subsidiary	100	100	7,204	2,151	1,199	(827)	14,617	22,193
LE Retail Hipermercados I, S.L.U.	Leasing of property	Subsidiary	100	100	3	346	346	(343)	13,929	13,935
LE Retail Hipermercados II, S.L.U.	Leasing of property	Subsidiary	100	100	3	370	370	(317)	14,064	14,120
LE Retail Hipermercados III, S.L.U.	Leasing of property	Subsidiary	100	100	3	262	262	(215)	12,803	12,853
LE Retail Rivas, S.L.U.*	Leasing of property	Subsidiary	100	100	3	422	(185)	-	25,593	25,411
					8,019	74,132	58,731	(34,063)	647,214	679,901

* 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 2018

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Thousands of euros			
					Direct	Total		Operating profit/(loss)	Profit/(loss)	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)

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

Management report for the period ended 31 December 2019

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 fifty 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 implemented 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 implemented 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 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

Management report for the period ended 31 December 2019

investment plans as forecast.

2 Evolution and result of the businesses

2.1 Introduction

At the 2019 reporting date, the Group's ordinary revenue amounted to EUR 81,128 thousand, corresponding to the business in which the Group is engaged: the rental business.

During 2019 the Group incurred "Other expenses" amounting to EUR 25,726 thousand, corresponding essentially to the fees for management provided by Grupo Lar Inversiones Inmobiliarias, S.A. to the Group (EUR 9,877 thousand), and recurrent services that are directly linked to the everyday management of the assets (supplies, IBI -propertytax-, etc.) by the amount of EUR 10,263 thousand.

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 EUR 59,260 thousand.

The appreciation in value during 2019 of the assets held by the Group at 31 December 2019, according to the independent valuation conducted by Cushman & Wakefield and JLL at the close of the financial year is EUR 40,037 thousand.

The financial result was negative amount of EUR 20,142 thousand.

The Group's profit for the period was EUR 80,730 thousand.

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 99.7% of total revenue, as opposed to 0.3% from offices.
- Around 38% of rental revenue is generated by the Megapark, Gran Vía de Vigo and Portal de la Marina.

As at 31 December of 2019, the Group occupied across its whole business 94.6% the gross leasable area (GLA), the occupancy rate at retail centres being 94.7%. Retail parks occupancy stands at 96.4% and 100% at the retail units. Anec Blau's data has not been taken into account because the asset is going through a comprehensive refurbishment project.

As at 31 December of 2019, the Group has a portfolio of real estate rental projects covering shopping centres (392,490 sqm), retail parks (158,887sqm) and retail units (27,909 sqm). The overall total gross leasable area of 579,286 sqm.

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

Management report for the period ended 31 December 2019

2.2 Other financial indicators

As at 31 December of 2019, the Group revealed the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 196,986 thousand (EUR 223,524 thousand as at 31 December 2018).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 3.3 (4.3 as of 31 December 2018).
- Solvency ratio (calculated as the quotient of the sum of net assets and non-current liabilities in the numerator and denominator, non-current assets) → 1.1 (1.2 as of 31 December 2018).

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 8.21% (13.42% as of 31 December 2018). 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 4.70% (8.03% as of 31 December 2018). 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 2019", 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.

Personnel

As at 31 December of 2019 the Group has 3 employees (2 men and 1 woman). Said employees are classified as Senior Management. In the 2019 period the Company has had no employees with a 33% or greater disability.

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

Management report for the period ended 31 December 2019

3 Liquidity and capital resources

3.1 Liquidity and capital resources

At 31 December 2019, the Group's financial debt amounted to EUR 695,865 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, Rivas Futura and VidaNova Parc shopping center, 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 of 2019, the Group's short-term financial debt stands at EUR 47,002 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 31 January 2019, the unencumbered sale of an office building at Calle Cardenal Marcelo Spinola 42 Madrid was signed with an INVESCO company named IRE-RE Espinola, S.L.U. for an amount of EUR 37,000 thousand, and a net loss of EUR 25 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 24 April 2019, the unencumbered sale of an office building at Calle Eloy Gonzalo 27 Madrid was signed with an SwissLife company named CARFEN SPV 2018, S.L., for an amount of EUR 40,000 thousand, and a net gain of EUR 56 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 1st October 2019, the unencumbered sale of fourth plots intended for logistical use in Cheste (Valencia) was signed with an E-Cross Circuito Cheste, S.L.U., for an amount of EUR 1,284 thousand, and a net gain of EUR 977 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 19 December 2019, the Group company LE Retail Rivas, S.L.U. requested a EUR 7,000-thousand increase for the loan that the company holds with Banco Bilbao Vizcaya Argentaria, S.A., which as of this date has a total nominal amount of EUR 34,500 thousand. In addition, the novation stipulated a bullet for the loan, which matures five years after the date of the signing. 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. Interest, after the novation, shall be calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying a fixed quarterly interest rate of 1.95%. The effect of posting the additional formalisation expenses after the novation was signed at amortised cost totalled EUR 185 thousand.

On 20 December 2019, the Group company LE Retail VidaNova Parc, S.L.U. refinanced the current debt associated with the loan agreement the company held with Caixabank, S.A for a total amount of EUR 24,000 thousand. In 2019, EUR 3,372 thousand of this total amount was drawn down, with the total amount drawn down being EUR 17,208 thousand. After said loan was cancelled the company signed a new agreement with Banco Bilbao Vizcaya Argentaria, S.A. for a total amount of EUR 28,000

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

Management report for the period ended 31 December 2019

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. Interest of the new loan shall be calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying the Euribor 3M calculation plus a 1.85% spread. The effect of posting at amortised cost as at the date the borrowing was formalized totalled EUR 759 thousand.

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

As at 31 December 2019, the Group has investment commitments referencing investment property totalled EUR 3,444 thousand, over and above those mentioned in point 3.1 or in the explanatory notes of the consolidated report.

As at 31 December of 2019, 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 is informed by the Audit and Control 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.

With the appropriate reservations given the current situation, we believe that the Group will be in a position to continue making progress in 2020 and in subsequent years.

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

Management report for the period ended 31 December 2019

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 4,660,000 shares, representing 5% 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 was 25 December 2019.

The aforesaid programme suspends 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.

On 28 February 2019 and 17 December 2019 marked the end of the share repurchase programs formalised between the Company and its liquidity supplier, said programs having a target of a maximum of 3,160,000 and 4,660,000 shares, respectively. After ending the treasury share repurchase programs, which temporarily suspended the liquidity agreement with a financial intermediary pursuant to 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 relevant regulations, the agreement was renewed with the financial intermediate JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of 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 2019, the share price was EUR 7.10.

As of 31 December 2019, the Company holds a total of 103,820 shares, representing 0.1% of total issued shares.

On 10 June 2019, pursuant to the Board of Directors' resolution in 7 June 2019, the Parent Company reduced capital by EUR 6,506 thousand, corresponding to 3,252,820 shares of EUR 2 par value each and representing 3.5% of share capital. The capital reduction was charged against unrestricted reserves by appropriating to a capital redemption reserve an amount equal to the par value of the redeemed shares. This reserve will be restricted. The shares were redeemed using treasury shares, the value of which at the capital reduction date was EUR 24,743 thousand.

On 20 December 2019, pursuant to the Board of Directors' resolution in 19 December 2019, the Parent

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

Management report for the period ended 31 December 2019

Company reduced capital by EUR 5,908 thousand, corresponding to 2,953,831 shares of EUR 2 par value each and representing 3.5% of share capital. The capital decrease was charged against unrestricted reserves by appropriating EUR 5,908 thousand to a restricted capital redemption reserve, an amount equal to the par value of the redeemed shares. The shares were redeemed through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 21,682 thousand. On 30 December 2019 the deed reflecting the capital decrease carried out on 20 December 2019 was entered at the Commercial Registry.

9 Other relevant information

9.1 Stock exchange information

The initial share price at the start of the year was EUR 7.33 and the nominal value at the reporting date was EUR 7.10. During 2019, the average price per share was EUR 7.46.

It is important to take into consideration that in April 2019, 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 621,337 shares with a nominal value of EUR 2 plus an issue premium of EUR 8.34 per share.

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

9.2 Dividend policy

On 25 April 2019, the General Shareholders' Meeting approved the distribution of a dividend of EUR 68,353 thousand, at EUR 0.73 per share (considering all the shares issued) with a charge to 2018 profit, and a dividend of EUR 6,647 thousand or EUR 0.07 per share (considering all outstanding shares) with a charge to the share premium.

The amount distributed totalled EUR 72,600 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Parent Company's equity), taking into consideration the approved amount per share and the shares in circulation at the time of the approval by the Shareholders' Meeting held on 25 April 2019. The distributed dividend was paid on 24 May 2019.

9.3 Average number of days payable outstanding to suppliers

The average number of days payable outstanding to suppliers is 33, complying with the maximum legal payment period applicable to the Company in the year 2019 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 2019 Annual Corporate Governance Report forms part of this Director's Report.

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

Management report for the period ended 31 December 2019

11 Events after the reporting period

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider, aimed at a maximum of 4,500,000 shares, representing 5% of the share capital, which may be acquired for a price not exceeding (a) the price of the last independent transaction or (b) the highest independent offer at that date at the trading venue where the purchase takes place. This programme will last until 14 October 2020 at the latest. The former programme temporarily suspends the liquidity agreement with a financial intermediary per the provisions of the Spanish National Securities Market Commission Circular 3/2007 of 19 December 2007 on liquidity contracts for the purposes of their acceptance as market practice and other applicable regulations, according to which it maintains a restricted amount of Euros 500 thousand in cash and a maximum of 63,000 shares for the sale-purchase of treasury stock.

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

Preparation of the consolidated financial statements Yearly period ended on 31 December 2019 and statement of compliance of LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 13 February 2020, 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”) drew up the consolidated financial statements and consolidated management report for the period ended 31 December 2019. The consolidated financial statements comprise the adjoined documents that precede this writ and are labelled on the adjoined folios of ordinary paper. All of said folios have been endorsed by the Vice-Secretary of the Board of Directors and this last sheet has been signed by all the members of the Board of Directors.

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 of Lar España and its subsidiaries for the annual period ended 31 December 2019, 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 an accurate analysis of the development and business results and position of the Company and the companies included in its consolidation perimeter as a whole, along with a description of the main risks and uncertainties that they face.

Signatories:

Mr José Luis del Valle Doblado (Chairman)

Mr. José Luis del Valle Doblado (on behalf
of Mr. Alec Emmott)

Mr Roger Maxwell Cooke

Ms Leticia Iglesias Herraiz

Mr Miguel Pereda Espeso

Mr. José Luis del Valle Doblado (on behalf of
Mr. Laurent Luccioni)

Ms Isabel Aguilera Navarro

Madrid, 13 February 2020

*The Director Mr Laurent Luccioni and the Director Mr. Alec Emmott attended the meeting via telephone and approved the financial statements. As such, the financial statements were drawn up and Mr José Luis del Valle Doblado was expressly authorised to sign the statements on behalf of Mr Luccioni and Mr Alec Emmott.

Appendix I

ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY- LISTED COMPANIES

DATA IDENTIFYING THE ISSUER

Financial year end:

31/12/2019

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 FOR PUBLICLY LISTED COMPANIES
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A	OWNERSHIP STRUCTURE
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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
20/12/2019	175,267,460	87,633,730	87,633,730

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	FTIF-Franklin European Small Mid Cap Growth Fund FGT-Franklin International Small Cap Growth Fund	7,322,773	7.905 %
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	9,476,400		0	10.000%
PIMCO BRAVO II FUND, L.P.	0	LVS II LUX XII S.À.R.L.	18,157,459	20.044%
SANTA LUCIA S.A. CIA DE SEGUROS	3,624,593		1,237,890	5.216%
BLACKROCK INC.	0		2,778,497	3.679%

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

In 2019, Lar España has carried out an increase and two capital reductions, in addition to continuing with its share buyback program.

The capital increase was approved at the General Shareholders' Meeting on April 25, 2019 and was presented to the public on June 10, 2019. The operation has been fully subscribed and paid up by its management company, Grupo Lar Inversiones Inmobiliarias, S.A. ("Grupo Lar"), through the disbursement of the amount received as a performance fee. The share capital was increased by an amount of 1,242,674.00 euros through the issuance of 621,337 registered shares of two euros of nominal value each, at a unit issuance rate of 10.34 euros.

The first capital reduction was made through amortization of own shares that was approved by the Board of Directors of the Company, dated June 7, 2019. The share capital of Lar España has been reduced by 6,505,640.00 euros as a consequence of the amortization of 3,252,820 own shares of two euros of nominal value each.

The second capital reduction was made on December 20 and approved on December 19 by the Board of Directors, under the delegation made by the ordinary General Meeting of shareholders of the Company held on May 29, 2017. This operation has reduced the capital stock by 5,907,662 euros as a result of the amortization of 2,953,831 own shares of two euros of nominal value each.

Following the execution of the capital reduction, the Company's share capital has been set at 175,267,460 euros, represented by 87,633,730 registered shares of two euros of nominal value each.

The share buyback program is explained in sections A.8 and A.9 of this report.

In addition, during 2019 there has been a variation in shareholders with significant holdings, which according to article 8 of the bylaw are those with a percentage equal to or greater than 5%. Santa Lucia S.A. reached a significant participation quota of 5.216% dated March 12, 2019. Threadneedle Asset sold its holdings that reached a participation quota of 5.024%. The sale has been carried out in a phased manner in several sessions of sale of shares.

On July 8, 2019 PIMCO BRAVO II Fund. L.P. stated that he had crossed the 20% threshold as a result of the change in voting rights of the issuer. This fact was notified to the CNMV, notifying that the date on which said threshold was crossed was June 7, 2019, reached 20.044%.

Name or company name of shareholder	Transaction date	Transaction background
SANTA LUCÍA S.A.	12/03/2019	Purchase of shares above the threshold of "Significant Participation" in the company.
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	10/06/2019	Increase in participation due to capital increase.
LAR ESPAÑA S.A.	10/06/2019	Reduction of shares due to amortization of own shares.
PIMCO BRAVO II FUND L.P.	10/06/2019	Increase in share percentage due to the amortization of shares owned by LAR España S.A.
THREADNEEDLE ASSET	several	Sale of shares. Previously it had a quota higher than the threshold of "Significant

		Participations”.
LAR ESPAÑA S.A.	20/12/2019	Reduction of shares due to amortization of own shares.

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	0	Eugemor, SICAV, S.A.	22,425	0.025%
Isabel Aguilera	2,620		2,620	0.003%
Alec Emmott	1,155		1,155	0.001%
Roger Maxwell Cooke	2,500		2,500	0.003%
Miguel Pereda	29,905		29,905	0.032%
Leticia Iglesias	350		350	0.000%

% of total voting rights held by the board of directors	0.064%
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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		Number of equivalent shares	% of total voting rights
		Name of the direct shareh older	Number of voting rights		

A.4 Where applicable, list family, commercial, contractual or corporate relationships between significant shareholders, to the extent that the company is aware of them, unless they are scanty material or derive from the company’s ordinary course of business:

Name or company name of related party	Type of relationship	Brief description
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
103,820	0	0.12%

(*) 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 established in article 5.n of the Regulations of the General Shareholders' Meeting, it is the responsibility of the Board to authorize the derivative acquisition of own shares.

At the General Meeting of Ordinary Shareholders held in May 2017, it was agreed to delegate to the Board of Directors, for a term of five years, the authorization for the derivative acquisition of own shares in accordance with the limits and requirements established in the Law on Capital Companies, expressly empowering you to reduce, where appropriate, the share capital once or several times in order to proceed with the amortization of the own shares acquired. Delegation of powers to the Board for the execution of the indicated agreement.

During 2019, the Board of Directors has carried out the acquisition and amortization of own shares according to the power delegated by the General Meeting of Ordinary Shareholders.

- A.9 bis** Estimated free float:

Estimated free float	67.7 %
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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 signed 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.

The general legal regime is applicable. There is no specific rule that contemplates the modification of the Articles of Association.

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

	Attendance data				
General meeting date	% attending in person	% attending by proxy	% correspondence voting		Total
			Votes cast electronically	Other	
19/04/2018	5.893	68.51	0.005	0	74.415
25/04/2019	12.829	64.00	0.005	0.278	77.111

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.

<https://www.larespana.com/gobierno-corporativo/junta-general-ordinaria-2019>

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		Independent	Director	16/10/2018	25/04/2019	Cooptation ratified by the Board

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

There have been no cessations in the period.

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
Mr. 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, S.A., the then sole shareholder of the Company, the February 5, 2014, and re-elected as an independent external director, at the proposal of the Appointments and Remuneration Committee and following a favorable report from the Board of Directors, by the Ordinary General Shareholders Meeting of May 29, 2017. On February 6, 2014 the Board of Directors of the Company appointed him as Chairman and member and Chairman of the Audit and Control Committee, a position he held until May 29, 2017, date on which he submitted to the Board his resignation as Chairman of the Committee, since then Vocal of it.</p> <p>Mr. del Valle has extensive experience in the banking and energy sectors. From 1988 to 2002 he held various positions at Banco Santander, one of the largest financial institutions in Spain. In 1999 he was appointed Senior Executive Vice President and CFO of the bank (1999-2002). Subsequently he was Chief Strategy and Development Officer of Iberdrola, one of the main Spanish energy companies (2002-2008), Chief Executive Officer of Scottish Power (2007-2008), Chief Strategy and Research Officer of Iberdrola (2008-2010) and Advisor to the President from the wind turbine manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Wizink Bank Administrator Board Chairman; Director of Abengoa, S.A., which provides innovative technological solutions for sustainable development; Director of the insurance group Ocaso and Counselor of the Instituto de Consejeros-Administradores.</p> <p>Mr. José Luis is a Mining Engineer from the Polytechnic University (Madrid, Spain), number one of his promotion, and Master in Science and Nuclear Engineer from the Massachusetts Institute of Technology (Cambridge, USA). Furthermore, Mr. del Valle holds a MBA with High Distinction from Harvard Business School (Boston, USA).</p>
Mrs. Leticia Iglesias	Leticia Iglesias Herraiz is an independent external director of Lar España. She was appointed director of Lar España by the Board of Directors of the Company, by the co-optation system, at its meeting of October 16, 2018, date on which the Board of Directors also appointed her as a member of the Audit and Control Committee and

	<p>President of the same, being ratified his appointment by the General Meeting of Shareholders held on April 25, 2019.</p> <p>Mrs. Leticia Iglesias has extensive experience in regulation and supervision of securities markets and financial services. He began his career in 1987 in the Audit Division of Arthur Andersen. Between 1989 and 2007, he developed his professional career in the National Securities Market Commission (CNMV). From 2007 to 2013 he was CEO at the Sworn Account Census Institute of Spain (ICJCE). Also, between 2013 and 2017 she was an independent director of the Board of Directors of Banco Mare Nostrum (BMN), as well as a member of the Executive Committee, President of the Global Risk Commission and a member of the Audit Committee. During 2017 and 2018 he served as an independent director at Abanca Servicios Financieros, EFC, as well as Chairman of the Joint Audit and Risk Committee. Since May 2108 he has been a member of the Board of Directors of Abanca Corporación Bancaria, Chairman of the Audit and Compliance Committee and a member of the Comprehensive Risk Committee. Since April 2019, she is Independent Director and Chairman of the Audit Committee of AENA SME, S.A.</p> <p>Mrs. Leticia has a degree in Economics and Business Administration from the Universidad Pontificia de Comillas (ICADE). He is a member of the Official Registry of Auditors of Spain (ROAC), Patron of Fundación PRODIS Special Employment Center as well as a member of the Board of Directors of the ICADE Business Club.</p>
Mr. Alec Emmott	<p>Mr. Alec Emmott is an independent external director of Lar España. He was appointed director of Lar España by Grupo Lar Inversiones Inmobiliarias SA, the then sole shareholder of the Company, on February 5, 2014 and re-elected independent external director, at the proposal of the Appointments and Remuneration Committee and after a favorable report from the Board of Directors, by the ordinary General Meeting of shareholders of May 29, 2017. The Board of Directors of the Company appointed him as a member of the Appointments and Remuneration Committee on February 6, 2014.</p> <p>Mr. Alec Emmott has a broad professional career in real estate listed and unlisted in Europe and resides in Paris. He worked as CEO (CEO) of Société Foncière Lyonnaise (SFL) between 1997 and 2007, and subsequently as an executive advisor to SFL until 2012.</p> <p>He is currently Director of Europroperty Consulting, and since 2011 he is Director of CeGeREAL S.A. (on behalf of Europroperty Consulting). He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I / II). He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He has an MA from Trinity College (Cambridge, United Kingdom).</p>

Mr. Roger M. Cooke	<p>Mr. Roger Maxwell Cooke MBE is an independent external director of Lar España. He was appointed director of Lar España by Grupo Lar Inversiones Inmobiliarias SA, the then sole shareholder of the Company, on February 5, 2014 and re-elected independent external director, at the proposal of the Appointments and Remuneration Committee and after a favorable report from the Board of Directors, by the ordinary General Meeting of shareholders on May 29, 2017. The Board of Directors of the Company appointed him as member and Chairman of the Appointments and Remuneration Committee on February 6, 2014.</p> <p>Mr. Roger M. Cooke is a professional with more than 30 years of experience in real estate. In 1980 he joined the London office of Cushman & Wakefield, where he participated in the drafting of the valuation standards (Red Book). From 1995 until the end of 2013 he held the position of CEO of Cushman & Wakefield Spain, placing the company in a leading position in the sector.</p> <p>In 2017, Mr. Roger was awarded by Queen Elizabeth II with an MBE for his services to British companies in Spain and to Anglo-Spanish trade and investment.</p> <p>D. Roger holds a degree in Urban Estate Surveying from Trent Polytechnic University (Nottingham, United Kingdom) and is currently a member of the Royal Institution of Chartered Surveyors (FRICS). Until May 2016, he chaired the British Chamber of Commerce in Spain. Also, since September 2017, Mr. Roger Maxwell is Chairman of the Editorial Board of Iberian Property and since January 2020 is Chairman of RICS in Spain.</p>
Mrs. Isabel Aguilera	<p>Mrs. Isabel Aguilera Navarro is an independent external director of Lar España. She was appointed director of Lar España by the Board of Directors of the Company, by the co-optation system, at its meeting on May 29, 2017, date on which the Board of Directors also appointed her as a member of the Audit and Control Committee, his appointment being ratified by the General Meeting of Shareholders held on April 19, 2018.</p> <p>Mrs. Isabel Aguilera has developed her professional career in different companies in various sectors and has been President of Spain and Portugal of General Electric, General Director in Spain and Portugal of Google, Chief Operating Officer of the NH Hoteles Group, Chief Executive Officer for Spain, Italy and Portugal from Dell Computer Corporation. He has also been part of the Board of Directors of various companies such as Indra Sistemas, Mare Nostrum Bank, Aegon Spain, Laureate Inc or Egasa Group. Doña Isabel Aguilera is currently a director of Grupo Cemex, Banca Farmafactoring, Oryzon Genomics, HPS (Hightech Payment Systems) and Making Science.</p> <p>Mrs. Isabel has a degree in Architecture, Building and Urban Planning from the Higher Technical School of Architecture in Seville, has completed the Master's Degree in Commercial Management and Marketing at IE, the IESE General Management Program and the Program for Senior Business Management and Leading Institutions of the San Telmo Institute. She is currently an Associate Professor at ESADE and a Strategy and Innovation Consultant.</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			
	2019	2018	2017	2016	2019	2018	2017	2016
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	2	1	0	40%	40%	20%	0
Other external	0	0	0	0	0	0	0	0
Total:	2	2	1	0	29%	29%	14%	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.

Likewise, both the Committee and the Board reviewed this issue at the end of 2019; and finally, a modification of the Regulations of the Board of Directors and a new regulation for the Appointments and Remuneration Committee were approved, with the objective of compiling in the internal regulations of the Company both the recommendations of the CNMV contained in both the Technical Guide 1 / 2019 on Appointments and Remuneration Committees as in Law 11/2018, of December 28, among others, regarding diversity.

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%, practically the targeted 30%.

Likewise, as mentioned in the upper section C.1.6, at the end of the year 2019, the Regulations of the Board of Directors were revised and a new own Regulation for the Appointments and Remuneration Committee was approved, with the objective of collecting in the internal regulations of the Company, both the recommendations of the CNMV contained both in Technical Guide 1/2019 on Appointments and Remuneration Committees and in Law 11/2018, of December 28, among others, regarding diversity.

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 ☒

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 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. (previously 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	LE RETAIL LAGOH, S.L.U. (previously 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. (previously LAR ESPAÑA OFFICES VI, S.L.U.)	Chairman of the Board of Directors	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	LE RETAIL CORDOBA SUR, S.L.U. (previously GLOBAL PERGAMO, 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.	Independent Director
Isabel Aguilera	Oryzon Genomics	Independent Director
Leticia Iglesias	Abanca Corporación Bancaria	Independent Director Chairman of the Audit and Control Committee and Member of the Integral Risk Committee
	AENA SME, S.A.	Independent Director Chairman of the Audit Committee

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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 and deputy secretary of the board
Hernán San Pedro López de Uribe	Director of Investor Relations
Total senior management remuneration (in thousands of euros)	368

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	CEO

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	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:

Articles 5 (“Competences of the Board”), 8 (“Qualitative composition”), 15 (“Appointments and Remuneration Committee. Composition, competencies and operation”), 19 (“Appointment of directors”) and 28 (“General Obligations of the Director”) of the Regulations of the Board of Directors of Lar España Real Estate SOCIMI, SA have been modified.

The modification of the Regulations of the Board of Directors of the Company is intended to incorporate, first, the basic principles and criteria of the Technical Guide of the CNMV 1/2019 on Appointments and Remuneration Committees and, in connection therewith, incorporate expressly certain Recommendations of the Code of Good Governance that the Company complies with and, secondly, collect the novelties introduced in the Capital Companies Law by Law 11/2018 in relation to diversity in the composition of the Board and with the competences non-delegable of this body.

Likewise, it is proposed to introduce certain modifications of a technical nature, replacing the reference to a norm repealed by the current Law 3/2015, of March 30, regulating the exercise of the high position of the General State Administration, and eliminating article 28 ("General obligations of the director") the reference to the directors who must provide their strategic vision are "to a greater extent the independent", since all directors must provide such strategic vision from their unique capacity, whatever their category.

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, and updated by Board agreement of December 20, 2018. 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 re-election of directors, the Board of Directors will evaluate, before proposing the re-election of directors to the General Meeting of Shareholders and with the abstention of the affected directors, the quality of the work and the dedication of the directors proposed during the preceding mandate.

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 first Annual General Meeting celebrated after the appointment. 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.

At the time of appointment of a new director, he must follow a training program for new directors established by the Company, so that he can acquire a quick and sufficient knowledge of the Company, as well as its corporate governance rules.

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:

As a consequence of the evaluation process carried out, and in accordance with the best Corporate Governance practices, the recommendations of the CNMV in section 3 of the Third Section of Technical Guide 1/2019, the general requests of stakeholders and , as provided in article 5 of the new Regulations of the Appointments and Remuneration Committee, the Appointments Committee has been working during 2019, in coordination with all the members of the Board, in the analysis of the composition of the Board, as well as in the preparation of a matrix that defines the necessary competences of the Board for the proper functioning of the Company and the main skills and knowledge of the Directors. In this context, at the end of the year, the following competency matrix was approved that summarizes in a very synthetic way the capacities that the Board considers most relevant for the management of the Company, pointing out the most outstanding aspects of the profile of each of the Directors. This matrix in no way reflects the entire capacity of the members of the Board, but only those in each of the Directors can be considered expert, among those previously defined as essential.

Capability Matrix on the Board of Directors of Lar España

	Position/ Committees	Nationality	Sectorial: Real Estate / Retail / Ratings	Sectorial: Architecture/ Town planning/ Engineering	IT	Finance	Audit / Risks
Jose Luis Del Valle (Chairman)	Non-Executive Chairman - Independent / A&CC Member	Spanish		X		X	X
Leticia Iglesias	Independent Director / Chairman A&CC	Spanish				X	X
Isabel Aguilera	Independent Director / A&CC member	Spanish		X	X	X	
Roger Cooke	Independent Director / Chairman A&RC	British	X				
Miguel Pereda	Proprietary Director / A&RC member	Spanish	X			X	
Laurent Luccioni	Proprietary Director / A&RC member	French	X			X	
Alec Emmot	Independent Director / A&RC member	British	X				

Capability Matrix on the Board of Directors of Lar España (continuation)

	International market	Other Directors	Investor / stakeholder knowledge	Team and talent management	ESG	Functions of first executive / CEO
Jose Luis Del Valle (Chairman)	X	X	X		X	X

Leticia Iglesias	X	X	X	X		X
Isabel Aguilera	X	X		X		X
Roger Cooke	X			X	X	X
Miguel Pereda	X		X	X	X	X
Laurent Luccioni	X	X	X			X
Alec Emmot	X	X	X		X	X

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 Regulations of the Board of Directors establishes that the Board will evaluate its performance once a year and adopt, if necessary, an action plan that corrects deficiencies in:

- The quality and efficiency of the functioning of the Board
- Diversity in the composition and competences of the Board.
- The performance of the Chairman of the Board.
- The performance and contribution of each director, paying special attention to those responsible for the different committees of the Board.
- The operation and composition of the Board committees.

In addition, article 18 of the Regulations of the Board of Directors, pt.3 states that every three years the Board will be assisted to carry out such evaluation by an external consultant.

In this context, in 2019 the Board, after requesting three different proposals from independent experts, approved the hiring of an external consultant to carry out the evaluation of the functioning of the Board in 2018, all under the coordination and supervision of the Chairman of the Board and in coordination with the Appointments and Remuneration Committee.

- First, the Appointments Committee analyzed that there were no conflicts of interest with the selected consultant (Georgeson) that could undermine its independence. After verifying that Georgeson provides advisory services to the Department of Investor and Shareholder Relations of Lar España in matters of identification of shareholders, proxy solicitation on the Board and organization of road shows in the matter of ESG, it was verified that in no case has Georgeson has been involved in processes of selection or appointment of a director or in matters related to remuneration. After informing to the Board of such and confirming that there is no reason to undermine its independence, the contracting of Georgeson was approved to carry out the evaluation of the Board.
- Regarding the methodology used, Georgeson, as an external advisor, has led the evaluation process of the Board, its members and its Committees, with the collaboration of the Secretary of the Board and the Deputy Secretary in part of the process in order to ensure objectivity and confidentiality thereof; always in

collaboration with the Appointments Committee and under the supervision and organization of the Chairman of the Board.

First, each member of the Board was personally interviewed by Georgeson, gathering the conclusions of this analysis in the document "Interviews Analysis". Likewise, the most relevant investors and proxy advisors, completed some questionnaires elaborated by Georgeson, which systematized the information extracted from the questionnaires, collecting all this in the document "Perception Analysis". Additionally, the internal structure and functioning of the Board and Committees were analyzed and a comparative exercise was carried out with other comparable companies (national and international) of the main corporate governance parameters.

- The evaluation carried out in 2019 has analyzed the following issues: (i) structure and operation of the Board of Directors of Lar España; (ii) the perceptions and valuations of each of the directors, the chairmen of the Board and Committees and the secretariat of the Company; (iii) the perception of the most relevant investors and proxy advisors; and (iv) the main parameters of corporate governance with respect to comparable companies.
- The main conclusion of the evaluation process was that the Board and Committees had worked efficiently during 2018, the Board is in very good shape, is balanced and in accordance with the best corporate governance practices. It is a well cohesive Board, the positive perception that all the directors have regarding the Chairman of the Board and the performance of their duties being unanimous. In particular, both the composition (diversity, knowledge and experience of the members of the Board and their Committees and, in particular, of their Chairmans, dedication and critical attitude thereof) and the functioning of the Board and the Committees (frequency, duration and effectiveness of their meetings, attendance at meetings of their members, agenda of the meetings, exercise of their competences, and advice, including external advice if necessary) were assessed very positively. It was also found that the Company is a benchmark for compliance and implementation of the main corporate governance parameters.
- Areas of improvement were detected, such as the need to develop a matrix of capabilities of the Board, review the remuneration of the Management team and the Directors, delve into the succession plans, the implementation of the new technical guide of the CNMV on Appointments Committees, assess the advisability of appointing a vice Chairman or the objective that more than 50% of the members of the Appointment and Remunerations Committee were independent.
- The Board approved an action plan to comply with these and other recommendations that have already been implemented. Thus, among other issues, the following was addressed in 2019: (i) the adequacy of the remuneration of both independent Directors and Senior Executives has been reviewed, (ii) an amendment to the Board Regulations and the Audit and Control Committee Regulations has been approved, (iii) a new Regulation of the Appointments and Remuneration Committee has been approved; (iv) it has deepened issues such as succession plans or the convenience of appointing a vice Chairman; and (v) a competency matrix of the Board has been developed and approved.

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.

Georgeson provides advisory services to the Department of Investor Relations of Lar

España in matters of identification of shareholders, proxy solicitation at the Meeting and organization of road shows in the matter of ESG. In no case they have been involved in the selection or appointment of a director or in matters related to remuneration or in any other matters related to the Board or Directors that could compromise your independence.

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

According to Article 23 of the Regulations of the Board of Directors:

The directors must make their position available to the Board of Directors and formalize, if deemed appropriate, the corresponding resignation in the following cases:

- a. When they leave the executive positions to which their appointment as director was associated.
- b. When they are involved in any of the cases of incompatibility or statutory or statutory prohibition.
- c. When they are seriously admonished by the Board of Directors for having breached their obligations as directors.
- d. When their permanence on the Board may jeopardize or damage the interests, credit or reputation of the Company or when the reasons for which they were appointed disappear (for example, when a proprietary director discards their participation in the Company or reduce it in a relevant manner as indicated in section e. below).
- e. When they are part of more than four boards of directors of other listed companies (other than the Company).
- f. In the case of proprietary directors (i) when the shareholder they represent sells its shareholding in its entirety or reduces it in a relevant manner and, (ii) in the corresponding number, when said shareholder reduces its shareholding to a level that requires the reduction of the number of proprietary directors.

In the event that, by resignation or for any other reason, a director ceases office before the end of his term, he must explain the reasons in a letter that he will send to all the members of the Board.

The Board of Directors may only propose the dismissal of an independent director before the statutory term has elapsed when a just cause exists, as assessed by the Board of Directors. In particular, it will be understood that there is just cause when the director had breached the duties inherent to his position or had incurred in any way in the impediment described in the definition of independent director established in current regulations or, in his defect, in the recommendations of good corporate governance applicable to the Company at all times.

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
<p>The agreements shall be adopted by an absolute majority of the concurrent directors, present or represented, at the meeting, except when the Law, these Bylaws or the Regulations of the Board of Directors provide for other majorities. In case of a tie, the Chairman will have a vote of quality. Art 39.2 Corporate Bylaws.</p> <p>The Audit and Control Committee will be validly constituted when half, plus one of the directors who are part of the Committee, present their resolutions by majority vote. In case of a tie, the Chairman will have a vote of quality. Art 42.3 Bylaws, Art. 14.5 of the Board Regulations and Art. 8.2 Regulations of the Audit and Control Committee.</p> <p>The Appointments and Remuneration Committee will be validly constituted when the majority of its members and their agreements will be adopted by majority vote. In case of a tie, the Chairman of the Appointments and Remuneration Committee will have a quality vote. Article 15.7 of the Board Regulations (new article 15.6) and Art. 8.1 of the new Regulations of the Appointments and Remuneration Committee.</p>

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

Yes ☐ No ☒

Age limit for chairman ☐

Age limit for CEO ☐

Age limit for directors ☐

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

Yes ☐ No ☒

Maximum term of office (years)	
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C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules governing the appointment of proxies for board voting purposes, the manner for so doing and, specifically, the maximum number of proxy appointments a director may hold; state whether any limit has been imposed on the matters which can be delegated beyond the limits laid down in legislation. If so, describe such rules briefly.

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	17
Number of board meetings held without the chairman in attendance	0

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

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

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

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

In 2019, there have been 17 Board meetings and on three occasions more agreements have been adopted following the voting procedure in writing and without a session.

The directors attended all meetings personally except in a single session in which Ms. Isabel Aguilera was represented by the Chairman having granted proxy in her favor with specific voting instructions.

Number of meetings held with all members in attendance	17
% 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 Chairman 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 5 of the Regulations of the Audit and Control Committee, according to its last modification of December 12, 2019, establishes that, without prejudice to any other tasks that may be assigned at any time by the Board of Directors, the Audit and Control Committee will exercise, among others, the following specific basic functions to maintain the independence of the external auditor:

c. In relation to the external auditor:

1. To submit to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of their hiring, and for this purpose shall:

1st. define the auditor's selection procedure; and

2nd. Issue a motivated proposal that will contain at least two alternatives for the auditor's selection, except in the case of re-election of the auditor.

Receive regular information from the external auditor on the audit plan and the results of its execution and verify that senior management takes into account its recommendations.

2. Establish the appropriate relationships with the account auditors to receive information on those issues that may pose a threat to their independence, for consideration by the Audit and Control Committee, and any others related to the development process of the audit of accounts and, where appropriate, the authorization of services other than those prohibited, in the terms provided in the applicable regulations, as well as those other communications provided for in the accounts audit legislation and in the remaining auditing standards.

In any case, it must receive annually from the account auditors written confirmation of their independence from the Company or entities linked to it directly or indirectly, as well as detailed and individualized information of the additional services of any kind provided and the corresponding fees received from these entities by the external auditor or by the persons or entities linked to it, in accordance with the provisions of the legislation on the auditing of the accounts.

3. Issue annually, prior to the account audit report, a report that will express an opinion on whether the independence of the auditors or audit firms is compromised, which will be available to shareholders and investors through of the Company's website in advance of that of the Ordinary General. This report must contain, in any case, the motivated valuation of the provision of each and every one of the additional services referred to in the previous letter individually considered and as a whole, other than the legal audit and in relation to the regime of independence or with the regulations governing the activity of auditing accounts.

4. Preserve the independence of the external auditor in the exercise of its functions and, to this end: (i) supervise that the Company communicates the change of auditor as relevant to the National Securities Market Commission and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if they had existed, of their content; (ii) ensure that the Company and the auditor respect the current regulations on the provision of services other than those of auditing and, in general, the other standards established to ensure the independence of the auditors; and (iii) that in case of resignation of the external auditor examine the circumstances that would have motivated it.

5. In the case of groups, favor that the group auditor be responsible for the audits of the companies that integrate it.

6. Ensure that the external auditor's work does not compromise its quality or independence.

7. Ensure that the external auditor holds an annual meeting with the full Board of Directors to inform him about the work done and the evolution of the accounting and risk situation of the Company.

8. Make a final evaluation about the auditor's performance and how it has contributed to the quality of the audit and the integrity of the financial information.

As for financial analysts, investment banks and rating agencies, any contract 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 valuations, which requires the approval of these contracts from the Audit and Control Committee and the Board.

The Communication and Contact Policy with shareholders and investors, approved in

December 2017, and updated in December 2018, under the supervision of the Committee, has the purpose of delimiting, analyzing and developing the main instruments, channels and information mechanisms of the Company with its shareholders, investors, voting advisors (proxy advisors) and other interest groups, the communication and information strategy being a faithful reflection of its commitment to these interest groups.

The basic principles of it are:

- a) Truthfulness, transparency and equality of the information communicated.
- b) Strict compliance, in a timely manner, with the legally established communication and information obligations.
- c) Protection of the legitimate rights and interests of all shareholders. Provision of adequate communication channels for shareholders to exercise their right to information.
- d) Equal treatment in the recognition and exercise of the rights of all shareholders.
- e) Continuous dialogue, accessibility and speed of information. The Board of Directors of Lar España will at all times ensure that communication and information with its shareholders, investors, voting advisors and other interest groups is continued, facilitating permanent access to the various communication channels.
- f) Commitment and promotion of the informed participation of shareholders in the General Meeting of the exercise of their rights.

In addition, the Communication Policy and contact with shareholders has a specific section on “Conferences for investors, analysts, press and other interested parties” where it is stated that Lar España, with the participation of its top executives, will create such conferences to report on the progress of the Company and its projects, always taking into account the principle of not providing information that has not been previously made public and the parity of treatment of shareholders.

In accordance with the provisions of the Regulations of the Board of Lar España, the Audit and Control Committee shall be responsible for the periodic supervision of both the content and the application and development of this Communication and Contact Policy with shareholders, informing all of this to the Board of Directors of the Company and may propose the improvement proposals it deems appropriate.

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)	0	0	0
Fees for non-audit work / total amount invoiced by the audit firm (%)	0%	0%	0%

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	6	6

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

Yes ☒ No ☐

Details of the procedure:

Article 26 of the Board Regulations stipulates:

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

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

- a. It is not necessary to due performance of the duties incumbent upon the external directors;
- b. Its cost is not reasonable in light of the scale of the issue or in relation to the

Company's assets or revenues; or

- c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

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

Yes ☒ No ☐

Details of the procedure:

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly 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 authority that may be granted to any person, the Board of Directors may set up a permanent Executive Committee. The rules for governing 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 favorable 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 2019.

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	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 described in article 42.2 of the Bylaws of Lar España, in article 14.3 of its Regulations of the Board of Directors, and in Article 5.1 of the Regulations of the Audit and Control Committee, and without prejudice to other tasks that were legally attributable to it or entrusted by the Board of Directors, the Audit and Control Committee shall have, at a minimum, the following main responsibilities:

a) Regarding the supervision of financial information:

- (i) It shall inform the General Meeting of shareholders about issues raised by the shareholders in matters related to their competence.
- (ii) Supervise the process of preparing and presenting regulated financial information;
- (iii) Ensure that the Board of Directors seeks to present the accounts to the General Meeting of shareholders without limitations or qualifications
- (iv) Inform the Board of Directors, in advance, about the financial information that, due to its status as a listed company, the Company must publish periodically

b) In relation to the supervision of information systems and internal control:

- (i) Supervise the preparation process and the integrity of the financial information related to the Company
- (ii) Periodically supervise the effectiveness of the internal control of the Company and its Group as well as the activity of the internal audit of the Company
- (iii) Establish and supervise a mechanism that allows employees and any third party to communicate, in a confidential manner and, if deemed appropriate, anonymous, irregularities of potential significance

c) In relation to the external auditor:

- (i) Submit to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor
- (ii) Establish the appropriate relationships with the account auditors to receive

information on those issues that may pose a threat to their independence
(iii) Issue annually, prior to the account audit report, a report in which an opinion will be expressed as to whether the independence of the account auditors.
(iv) Preserve the independence of the external auditor in the exercise of his functions. Likewise, to favor that the group auditor assumes the responsibility of the audits of the company that integrate it, ensuring that the remuneration of the external auditor does not compromise its quality or its independence.

d) In relation to the supervision of management and risk control:

- (i) supervise the effectiveness of the internal control of the Company and its Group, as well as its risk management systems;
- (ii) Supervise the internal control and risk management function.
- (iii) In relation to risk policy and management, identify the different types of risk, the determination of acceptable risk levels, the planned measures, and the information and internal control systems, as well as their annual reevaluation, at least.

e) In relation to the obligations of listed Companies, inform the Board of Directors, prior to the adoption of decisions with a significant impact on the Company, which could impair the transparency of the group, as well as related transactions that are defined by current legislation, economic conditions and accounting impact in relation to risk policy and management, and any modification of the internal rules of conduct.

f) In relation to the corporate governance obligations of the Company:

- (i) Supervise compliance with legal requirements and internal regulations,
- (ii) Periodically review the internal corporate governance regulations
- (iii) Promote the corporate governance strategy of the Company
- (iv) Supervise the communication and relationship strategy with shareholders and investors, including small and medium shareholders.
- (v) Evaluate everything related to non-financial risks, coordinate the process of reporting non-financial and diversity information, orient the Company regarding corporate reputation

g) (vi) Inform, prior to its approval, the annual corporate governance report of the Company

h) Other functions of the Committee are:

- (i) supervise the calculation of the commissions received by the Management Company in the performance of its functions;
- (ii) Name and supervise the services of external valuations in relation to the valuation of the assets of the Company.
- (iii) Any other report and proposal function entrusted to it by the Board of Directors, with a general or particular nature.
- (iv) Any other competence or function attributed to it by Law, Bylaws or Board Regulations

Organisation and operation

The Audit and Control Committee shall consist of a minimum of three and a maximum of five directors, appointed by the Board of Directors from among the external or non-executive directors. The Board will also determine who will serve as Chairman, especially taking into account their knowledge and experience in accounting, auditing or risk management and most of these members will be independent directors. The Chairman of the Committee must be replaced every three years, and may be re-elected after a period of one year has elapsed since his / her termination. The position of

Secretary and Vice Secretary shall be held by the Secretary and Vice Secretary of the Board.

The Audit and Control Committee shall meet, ordinarily, quarterly and, in any case, whenever it is convenient for the proper performance of its functions.

The Audit and Control Committee will be validly constituted when the majority of its members attend, present or represented. The agreements will be adopted by a majority of concurrent members, present or represented.

It will be obliged to attend the sessions of the Committee and to provide them with their collaboration and access to the information available to them, any member of the management team or the staff of the Company that was required for this purpose. The Committee may also require attendance at its meetings of the company's auditors.

The matters within the competence of the Audit and Control Committee were reordered for compliance with Technical Guide 3/2017 of the CNMV.

Likewise, on December 27, 2017, an Operating Regulation of the Audit and Control Committee was approved, which provides, in addition to the above, that the members of the Audit and Control Committee will hold their position for a maximum period of time, three years, being able to be re-elected one or more times for periods of equal maximum duration and, in any case, the members of the Committee will cease their position when they do so in their capacity as Directors or when so agreed by the Board of Directors.

Activities

The Audit and Control Committee met 10 times during 2019.

The main activities developed by the Audit and Control Committee during fiscal year 2019 have been the following:

1) Regarding the supervision of financial information:

- Review of the periodic financial information: the Committee has supervised the process of preparing and the integrity of the quarterly and semi-annual financial information, both individual and consolidated, that the Board of Directors must supply to the market and send to the CNMV by virtue of its obligations of periodic information as a listed company. Review of the annual accounts
- Review of the annual accounts: The Audit and Control Committee, in order to prevent the individual and consolidated annual accounts formulated by the Board of Directors from being presented at the General Meeting with qualifications in the audit report. It is noted that the audit reports of the individual and consolidated annual accounts of Lar España for the year ended December 31, 2018 did not present exceptions.

2) Regarding the supervision of information systems and internal control:

- Internal Audit Supervision: the Committee has approved the orientation and its work plans, making sure that its activity was mainly focused on the relevant risks of the Company. In particular, it has approved the work done in the 2018 audit plan as well as the 2019 audit plan.
- Supervision of the information and internal control systems: During fiscal year 2019, and in relation to the Company's ICFR, the Audit and Control Committee has analyzed the internal control systems, being informed by the internal auditor in different meetings about the progress of the review process. In relation to fiscal year 2019, the external auditor has issued a report of agreed procedures, in line with what was done in previous years.

3) In relation to the supervision of relations and the independence of the external auditor:

- Proposal for the appointment, re-election, replacement of the external auditor: The Audit and Control Committee has analyzed the proposal for the Board of Directors for the appointment of the external auditor of the Company for the year 2019, for subsequent submission to the General Meeting of Shareholders, agreeing to propose to the Board of Directors the renewal of the current external auditor for a period of one year.
- Supervision of the relations and independence of the External Audit: The Accounts Audit Law and section 4, function f), of article 529 quaterdecies of the Capital Companies Law require that the Audit Committee issue annually, in character prior to the audit report, a report expressing an opinion on the independence of the auditors. On the basis of this requirement and the confirmation of independence received from the auditors through a letter dated February 13, 2020, the Audit and Control Committee has concluded that there are no objective reasons to question the independence of the auditor in fiscal year 2019.

4) Regarding the supervision of management and risk control:

In this matter, the Audit and Control Committee has carried out different activities such as the review and approval of the new risk map, after explaining the Internal Auditor that the Company's risk control levels are very healthy and explaining the changes in the Priority risks of the Company. In addition, the external auditor informed the Committee about the main risk aspects for the Company that were being examined, confirming that no issue that should be of concern was detected.

5) In relation to the corporate governance obligations of the Company:

- Supervision of compliance with corporate governance regulations: The Committee has reviewed and accepted the Annual Corporate Governance Report for the 2018 financial year, which, in accordance with the wording of article 538 of the Capital Companies Law, must be included in a separate section, in the Management Report that accompanies the Annual Accounts. During the year 2019 the Committee has reviewed the internal corporate governance regulations, in particular, has agreed to issue a favorable report regarding the proposed changes in the Regulations of the Board of Directors to adapt it to the Technical Guide 1/2019 of the CNMV on Appointments and Remuneration Committees and send to the Board for final approval the new proposal for the Regulations of the Board of Directors.

6) In relation to the obligations of listed companies:

The Committee was informed of the main terms of the development of the share repurchase program implemented by the Company, the current situation and the proposal for the future, positively informing said proposal for its elevation to the Board, and also analyzed the situation of Share price of the Company, agreeing to continuously monitor it.

7) Other functions of the Committee

The Audit and Control Committee has additionally attributed the following powers:

- Supervise the calculation of Committees paid to the Management Company for the performance of its functions.

- Name and supervise the services of external valuations in relation to the periodic valuation of the assets of the Company.

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 Committee is guaranteed as long as there are no executive directors and the Chairman 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

In accordance with article 43.2 of the Bylaws and with article 15.4 of the Board Regulations and article 5.1 of the new Regulations of the Appointments and Remuneration Committee, and without prejudice to other functions that were legally attributable or assigned by the Board of Directors of Administration, the Appointments and Remuneration Committee will have, at a minimum, the following basic responsibilities:

- Competences related to the composition of the Board of Directors and its committees

- i. Advise and review the criteria that must be followed for the composition of the Board of Directors and the selection of candidates and, in particular, evaluate the skills, knowledge and experience necessary in the Board of Directors. For these purposes, it will define the necessary functions and skills in the candidates that must fill each vacancy and evaluate the time and dedication necessary for them to effectively perform their duties, ensuring that non-executive directors have sufficient availability of time for the correct development of its functions. For these purposes, the Committee will periodically develop and update a matrix with the necessary competencies of the Board that defines the skills and knowledge of the candidates for directors, especially those of executives and independents.
 - ii. Establish a representation objective for the sex less represented on the Board of Directors and develop guidelines on how to achieve such goal, proposing to the Board of Directors the policy of diversity of directors based on, among others, the criteria of age, disability, training, professional experience and gender.
 - iii. To ensure annually compliance with the criteria for the promotion of diversity in the composition of the Board of Directors established by the Company, which will be reported in the Annual Corporate Governance Report.
 - iv. Advise the Board of Directors on the most convenient configuration of the Board of Directors itself and its Committees regarding size and balance between the different classes of directors existing at any time. To this end, the Committee will periodically review the structure of the Board of Directors and its committees, especially when vacancies occur within those bodies.
 - v. Periodically check the category of directors. saw. Inform or formulate proposals regarding the appointment or separation of the members that must be part of each of the Committees.
- b. Competences related to the selection of candidates for directors and senior executives
 - i. Select the possible candidates to be, where appropriate, appointed directors of the Company and submit their proposals or reports, as appropriate, to the Board of Directors through its Chairman.
 - ii. Bring to the Board of Directors the nomination proposals (for their appointment by co-option or for submission to the decision of the General Shareholders' Meeting) of the independent directors, as well as the proposals for the re-election of said directors by the General Meeting.
 - iii Inform, at the request of the Chairman of the Board of Directors, the nomination proposals (for their appointment by co-optation or for submission to the decision of the General Shareholders' Meeting) of the remaining directors, as well as the proposals for re-election of said directors by The General Meeting
 - iv. Prepare the report referred to in article 5.6 of the Board Regulations and verify annually compliance with the policy for the selection of directors, reporting it in the annual corporate governance report. In particular, the Committee will ensure that, when new vacancies are provided or when appointing new directors, the selection procedures do not suffer from implicit biases that may imply any discrimination and, in particular, that may hinder the selection of female directors.
 - v. Inform the proposals of the Chairman of the Board of Directors or the CEO regarding the appointment or separation of senior managers.
- c. Competences related to the process of appointment of internal positions of the Board

of Directors

- i. Inform proposals regarding the appointment or separation of the Chairman of the Board of Directors.
 - ii. Inform the proposals of the Chairman of the Board of Directors regarding the appointment or separation of the CEO.
 - iii. Examine or organize the succession of the Chairman of the Board of Directors and the Chief Executive Officer of the Company and, where appropriate, make proposals to the Board of Directors so that such succession occurs in an orderly and planned manner, preparing a succession plan for this purpose. .
 - iv. Advise the proposals of the Chairman of the Board of Directors regarding the appointment or separation of the Vice Chairman or Vice-Chairs of the Board of Directors.
 - v. Bring to the Board of Directors the proposal for the appointment of an Independent Coordinating Director, who will be especially empowered in the event that the Chairman of the Board of Directors exercises executive functions, and to inform the proposal of their separation.
 - vi. Advise of the proposals of the Chairman of the Board of Directors regarding the appointment or removal of the secretary and, where appropriate, of the Deputy secretary or Deputy secretaries of the Board of Directors, of the secretary general and of the legal counsel.
- d. Competences related to the assessment of directors
- i. Establish and oversee an annual program of evaluation and continuous review of the qualification, training and, where appropriate, independence, as well as the maintenance of the necessary conditions for the exercise of the position of director and member of a certain Committee, and proposing Board of Directors the measures it deems appropriate in this regard. In particular, it will periodically design and organize knowledge update programs for the directors.
 - ii. Conduct in coordination with the Chairman of the Board and with the collaboration, where appropriate, of the Independent Coordinating Director, the annual evaluation of the functioning of the Board and its committees, including the performance evaluation of the Chairman of the Board of Directors and the Chief Executive Officer, and submit to the Board the results of its evaluation together with a proposal for an action plan or with recommendations to correct the possible deficiencies detected or improve its functioning.
- e. Competences related to the separation and dismissal of directors
- i. Inform the Board of Directors about the proposals for the separation of non-independent directors in the event of non-compliance with the duties inherent to the position of director or for having incurred in an unexpected way in any of the circumstances of resignation or termination, in accordance with the law or Internal regulations of the Company.
 - ii. Propose to the Board of Directors the proposals for the separation of independent directors in case of breach of the duties inherent to the position of director or for having incurred in an unexpected way in any of the circumstances of resignation or termination, in accordance with the law or internal regulations of the society.

f. Competences related to remuneration of directors and senior executives

- i. Propose to the Board of Directors the remuneration policy for directors and senior executives.
- ii. Periodically review the remuneration policy for directors and senior executives, including remuneration systems with shares and their application, as well as ensure that their individual remuneration is proportionate to those paid by the other directors and senior managers of the Company, as well as ensuring by its observance, being able to propose its modification and update to the Board of Directors.
- iii. Propose to the Board of Directors the individual remuneration of non-executive directors, taking into account the functions and responsibility attributed to each director.
- iv. Propose the individual remuneration of executive directors and the other basic conditions of their contracts for approval by the Board of Directors, including any compensation that may be set for the event of early termination of their duties and the amounts to be paid by the Company in concept of insurance premiums or contributions to savings systems, in any case in accordance with the provisions of the internal regulations of the Company and, in particular, in accordance with the remuneration policy approved by the General Meeting of Shareholders.
- v. Inform and submit to the Board of Directors the proposals of the Chairman of the Board of Directors or the Chief Executive Officer regarding the remuneration structure of senior managers and the basic conditions of their contracts, including any compensation or compensation that may be set for the assumption of separation.
- vi. Review the conditions of the contracts of executive directors and senior management and verify that they are consistent with current remuneration policies.
- vii. Ensure compliance with the Company's compensation programs and inform the documents to be approved by the Board of Directors for general disclosure regarding information on remuneration, including the Annual Report on Directors' Remuneration and the corresponding sections of the Annual corporate governance report of the Company, as well as verifying the information on remuneration of directors and senior executives contained in the different corporate documents.
- viii. Inform, on a mandatory basis and prior to its approval by the competent corporate body, the remuneration established for the independent directors of other Group companies.

g. Competences related to corporate social responsibility and sustainability:

- i. Be aware of, promote, guide and supervise the actions, practices and strategy of the Company in matters of corporate social responsibility and sustainability, assessing their degree of compliance, and report on it to the Board of Directors or, where appropriate, to the Executive Committee.
- ii. Review the corporate responsibility policy of the Company, ensuring that it is oriented to the creation of value, including its monitoring and evaluation and supervise its degree of compliance. The report that, if applicable, the Appointments and Remuneration Committee on the corporate social responsibility policy of the Company will be prepared using any of the internationally accepted methodologies and will be available to shareholders and investors through the website of the

Company well in advance of the Ordinary General Meeting.

- iii. Supervise and evaluate the relationship processes with the different interest groups.
- h. Ensure that any conflicts of interest do not prejudice the independence of the external advice provided to the Committee in relation to the exercise of its functions. In the development and exercise of its functions, the Appointments and Remuneration Committee will take into account the principles and criteria established in Technical Guide 1/2019 on appointments and remuneration Committee of the National Securities Market Committee of February 20, 2019, notwithstanding their adaptation to the particular circumstances and characteristics of the Company and its Group, always following the principle of proportionality. The Appointments and Remuneration Committee shall annually establish an action plan that will contemplate the main activities of the Committee during the year in relation to the fulfillment of its functions, of which it will report to the Board, to which it will respond for the work performed.

Organisation and operation

The Appointments and Remuneration Committee shall consist of a minimum of three and a maximum of five directors, appointed by the Board itself, from among the external directors, at the proposal of the Chairman of the Board, ensuring that most of them are independent directors

The Board shall appoint the Chairman of the Committee from among the directors who are part of said Committee. For his part, the position of Secretary and Deputy Secretary of the Appointments and Remuneration Committee will be held by those who occupy such positions on the Board of Directors.

The members of the Appointments and Remuneration Committee will have adequate knowledge, skills and experience to the functions they are called to perform and, whenever this is possible in accordance with the principle of proportionality, it will be endeavored (i) that the members of the Committee, in as a whole, be designated taking into account their knowledge and experience in areas such as human resources, selection of directors and managers and design of policies and compensation plans; and (ii) favor diversity in relation to gender, professional experience, skills, personal abilities, sectoral knowledge or international experience; all of this taking into account the limitations arising from the smaller size of the Committee when compared to the Board.

The directors who are part of the Appointments and Remuneration Committee will hold their positions while their appointment as directors of the Company remains in effect, unless the Board of Directors agrees otherwise.

The Appointments and Remuneration Committee will meet, usually, at least three times a year. Likewise, it will meet at the request of any of its members and each time convened by its Chairman, who must do so whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever it results Convenient for the proper development of its functions. Every effort shall be made to ensure that the meetings of the Committee take place well in advance of the meetings of the Board. The Appointments and Remuneration Committee shall be validly constituted when the majority of its members and their agreements attend, present or represented. They will adopt by majority vote. In case of a tie, the Chairman of the Appointments and Remuneration Committee will have a quality vote.

The Committee should consult the Chairman, especially when dealing with matters related to executive directors and senior managers.

On December 12, 2019, an Operating Regulation of the Appointments and Remuneration Committee was approved in order to develop Article 15 of the Board Regulations, incorporating the basic aspects regarding the composition, functions and functioning of the Committee included in the Technical Guide 1/2019 of the CNMV. The Board

Regulations were also modified for these same purposes.

Activities

During 2019 the Appointments and Remuneration Committee held 6 meetings and carried out the following activities:

1) Regarding the composition of the Board of Directors and its Committees and the process of designating internal positions of the Board of Directors and senior executives:

- Analysis of the possible incompatibilities of two of its directors before their appointment as members of the Board of Directors of other entities, concluding that neither by the number of meetings and workload requirement, nor by the corporate objects of the companies, nor by the number of committee of which the directors are part of there was no reason for incompatibility to accept the charges.
- In response to the best practices of Corporate Governance, to the recommendations of the CNMV in section 3 of the Third Section of Technical Guide 1/2019, the general requests of the stakeholders and, as provided in article 5 of the new Regulations of the Appointments and Remuneration Committee, the Appointments Committee has worked during 2019, in coordination with the full Board, in the analysis of the composition of the Board, as well as in the elaboration of a matrix that defines the necessary competences of the Board for the proper functioning of the Company and the main skills and knowledge of the Directors. In this context, at the end of the year, the competency matrix explained in section C.1.20 was approved, which summarizes in a very synthetic way the capacities that the Board considers most relevant for the management of the Company, pointing out the most important aspects of the profile of each One of the Directors. This matrix in no way reflects the totality of the capacities of the members of the Board, but only those in which each of the Directors can be considered expert, among those previously defined as essential.
- Approval of the proposal for the appointment of a new Internal Auditor, also agreeing to submit the proposal to the decision of the Board of Directors.

2) Regarding the selection of candidates for Directors:

- The Committee reviewed and approved the Report of the Committee on the ratification of the appointment of Mrs. Leticia Iglesias as an independent director of the Company, also agree to send it to the Board for final approval, a report that was made available to shareholders at the time of the convening of the Ordinary General Meeting of Shareholders.

3) Regarding the evaluation and re-election of directors:

- Analysis of the absence of conflicts of interest and hiring Georgeson as an external advisor to carry out the evaluation of the Board, its members and its Committees in 2018. Coordination and supervision of the Board's evaluation process. In this context, analysis of the structure and operation of the Board of Directors of Lar España; of the perceptions and valuations of each of the directors, the chairmen of the Board and Committees and the secretariat of the Company; of the perception of the most relevant investors and proxy advisors; and of the main parameters of corporate governance with respect to comparable companies.
- Following the evaluation process, analysis of the recommendations and the action plan proposed by Georgeson, agreeing to review the conclusions of the evaluation in the plenary of the Board of Directors to implement the highest number of recommendations, thus improving the functioning of the Board and continuing being

a reference in terms of corporate governance.

4) Regarding remuneration:

- Approval of the implementation of a long-term incentive plan for the directors of the Company
- Also with respect to executives, the Committee analyzed the components of its remuneration packages, assessing the convenience of being adjusted to adapt them to market conditions, agreeing to submit to the Board the proposal to (i) review the fixed components of remuneration and (ii) commission an independent consultant to study the market conditions that would correspond to the specific profiles of the three managers, with the idea of being able to assess their conclusions and / or recommendations.
- In relation to independent directors, the Appointments and Remuneration Committee agreed to commission a comparative exercise of the remuneration of independent directors of comparable companies to assess the advisability of proposing the revision of their remuneration. This comparative analysis has been carried out by Willis Towers Watson after having made a contest between three different independent firms.
- The Committee reviewed and approved the Annual Report on Directors' Remuneration corresponding to the 2018 financial year in accordance with the provisions of article 541 of the Capital Companies Law by sending it to the Board for final approval and subsequent referral to the General Meeting of Shareholders
- Finally, the Committee reviewed the proposal of global objectives of the directors of the Company for 2019 as well as the degree of compliance with those of 2018.

5) Regarding Corporate Social Responsibility and Sustainability:

- Supervision of the aspects of corporate social responsibility (CSR) and sustainability of the Company. In this regard, among other issues, the actions carried out in 2018 and compliance with the CSR policy were reviewed, an action plan for 2019 was established and the Committee stressed the importance of continuing to monitor sustainability and sustainability issues. CSR since they are becoming increasingly relevant in the investment market, also promoting and promoting actions and improvements in this area.

6) Other actions

- Review and proposal of modification of the Regulations of the Board of Directors to adapt it to Technical Guide 1/2019 of the CNMV, preparing and also agreeing to submit to the Board a proposal for a Regulation of the Appointments and Remuneration Committee for final approval.
- Approval of the annual plan of activities of the Committee for 2020.

COMMITTEE

Name	Position	Class of director

% of executive directors	
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% 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			
	2019 Number %	2018 Number %	2017 Number %	2016 Number %
Executive committee	NA	NA	NA	NA
Audit committee	2 – 67%	2 – 67%	1- 33%	0
Appointments and remuneration committee	0	0	0	0
Nomination committee	NA	NA	NA	NA
Remuneration committee	NA	NA	NA	NA
_____committee	NA	NA	NA	NA

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 Regulations of the Board of Directors regulate the operation of the Appointments and Remuneration Committee (Article 15) and the Audit and Control Committee (Article 14). The Audit and Control Committee and the Appointments and Remuneration Committee have their own regulations of operation, approved on December 27, 2017 and December 12, 2019 respectively. All these regulations are available at the following link on the corporate website:

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

In 2018, the remuneration policy was completed with a document on ‘ ‘ Remuneration Policy for the Board of Directors’, available at the following link on the corporate website:

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

Lar España elaborates annual reports on the composition and activities of the committees of the Board of Directors of the Company and makes them available to shareholders on the occasion of the Ordinary 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 competences 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 competences 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	9,877
Grupo Lar Inversiones Inmobiliarias S.A.	Gentalia 2006, S.L	Contract	Management contract	3,544

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.

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 integrated 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 has been described and developed in the Risk Control and Management Policy approved by the Board of Directors of Lar España, which establishes a methodology to identify, evaluate, prioritize and manage risks in an effective way, taking into account the circumstances of the Company and the economic and regulatory environment where it operates. 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 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

In accordance with the provisions of article 14 of the Regulations of the Board of Directors and article 5 of the Regulations of the Audit and Control Committee, it is entrusted, among others, with the following functions:

- 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.
- Identify the different types of risk (operational, technological, financial, legal, reputational) that the Company faces, including, among financial or economic, contingent liabilities and other off-balance sheet risks.
- The determination of risk levels that the Company considers 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 2019, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- Compliance with the requirements of the SOCIMI regime.
- Sale-purchase of real estate assets, planning, information and execution.
- Loss of value of real estate, mainly as a result of variations that may affect the economic cycle in general, or the real estate sector in particular.
- Political situation and socio-economic factors (political instability, change in the economic cycle, in consumption patterns, increasing digitalization, etc.).
- Investment / Asset Manager unit.
- Cybersecurity.
- Retention of internal talent.
- Increased competition, both for competitive actions and for a greater proliferation of alternative products.
- Market situation that may adversely affect the materialization of investment / divestment opportunities.
- Regulations and regulatory changes.
- Confidentiality.
- Technological infrastructure.

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.

During the year 2019, there has been no knowledge of the materialization of any risk of any type, including those of a fiscal nature, that has had a significant impact on the achievement of the Company's objectives.

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.

It should be noted that, at least annually, the Audit and Control Committee of Lar España analyzes the validity of the Organization's Risk Map and proceeds to incorporate, modify or discard the risks that are necessary due to changes in the strategic objectives, organizational structure, new risks, current regulations, 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:

- The supervision of the process of preparing and presenting the financial information and the management report, which will include, where appropriate, the mandatory non-financial information, as well as the approval of the financial information that, due to its status as a listed company, the company must make public periodically.
- 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 & Financial 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

Lar España establishes in Article 14 of its Regulations of the Board of Directors and in Article 5 of the Regulations of the Audit and Control Committee, which it has among its competences:

- Periodically supervise the effectiveness of the internal control of the Company and its group, as well as the activity of the internal audit of the Company, discussing, together with the account auditors, the significant weaknesses of the internal control system detected in the development of the audit.
- Supervise the process of preparation and presentation of mandatory financial information

and submit recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

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 supervision activity of the Audit and Control Committee consists in ensuring the effectiveness of the ICFR, obtaining sufficient evidence of its correct design and operation, which requires evaluating the process of identifying the risks that may affect the faithful image of the financial information, verify that there are controls to mitigate them and that they work effectively.

It also consists of reviewing, analyzing and commenting on the financial and the ICFR information with the Management and with the auditors, internal and external, to ensure that the accounting criteria applied are correct and the information provided is complete and consistent with the operations, and that the ICFR is suitable for achieving its objectives and has functioned efficiently throughout the year.

Likewise, the Audit and Control Committee verifies that the ICFR takes into account all aspects established in the recommendations of the CNMV and reports its conclusions to the Board of Directors.

Corporate and Financial Management

The Corporate & Financial 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:

- Supervise the sufficiency and effectiveness of the ICFR and of the general and process controls.
- 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 & Financial 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 & Financial 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 & Financial 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 & Financial 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 & Financial 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 & CFO 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.**

Lar España has a Code of Conduct, which aims to establish the conduct guidelines that will regulate the behavior of all those acting on behalf 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.**

According to article 14.3.b.iv of the Board Regulations, it will be the responsibility of the Audit and Control Committee to establish and supervise a mechanism that allows Lar España employees and interest groups to communicate confidentially and, if deemed appropriate, anonymously, irregularities of potential significance, especially financial and accounting, that warn within the Company.

Lar España has a Regulation for the Operation of the Whistle- blowing Channel whereby 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: canaldenuncias@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 & Financial 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 & Financial Management directly validates with the accounting expert, subcontracted for the preparation of the financial-accounting information, the training and knowledge of the teams assigned to these activities in relation to the regulations required in order to ensure the reliability of the information financial.

Director Corporate & CFO, responsible for ICFR, has extensive training in accounting and financial reporting as a result of audit experience in accounting and financial management.

During the year, the Corporate & Financial Management is informed of any changes that affect the preparation and supervision of financial information, both through subscriptions to information pills and newsletters from external sources, as well as through attendance at conferences and seminars specific materials and technical updating organized by expert companies in financial regulations, accounting and auditing.

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 & Financial 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.

Likewise, Lar España has documented the most significant processes through a narrative, a flow chart and a matrix of risks and controls. This documentation identifies and analyzes, among others, transaction flows, possible risks of error or fraud in the financial information, as well as those key controls established in the Company, which adequately mitigate and with the necessary anticipation the risks associated with the process. During the year 2019, this documentation has been reviewed, updated and completed, obtaining a more efficient model, adapted to the objectives of financial information, and focused on material processes, both quantitatively and qualitatively.

- **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.**

The documentation prepared for each of the significant processes includes, among other elements, a matrix of risks and controls. This document links the financial risks at the process level with the control (s) that mitigates it. These matrices are designed to detail the relationships between risks and controls at the process level and to facilitate the evaluation of the effectiveness of the design of the implanted system, verifying that all risks have been mitigated by the controls associated with them. Among the information that the matrices incorporate, they include the assertions or specific control objectives in relation to the identified risk: integrity, existence and occurrence, rights and obligations, measurement and valuation, presentation.

- **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 & Financial Management, with the collaboration of the Legal Department, 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.

Additionally, 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.**

As established by the internal regulations (article 42 of the Social Statutes of Lar España, article 14 of the Regulations of the Board of Directors, and article 5 of the Regulations of the Audit and Control Committee), the Audit and Control Committee is responsible for Supervise the effectiveness of the internal control of the Company and of the risk management systems, including fiscal ones, and specifically of the Internal Financial Information Control System.

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 carry out these functions, it has the support of the Audit and Control Committee who, with the collaboration of the UPS, is entrusted with the function of supervising and evaluating the Group's ICFR. The Board of Directors also has the support of those responsible for the processes and the Corporate & Financial Management as responsible for ensuring that it is adequate and effective.

Lar España publicly discloses financial information quarterly. This information is prepared by a specialist external firm and reviewed by Corporate & Financial 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:

- Closing of Financial Statements and Consolidation
- Asset valuations
- Rental income
- Investments
- Cash management
- Financing
- Management of accounts payable - Promotion projects
- Management of accounts payable - Management 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. During fiscal year 2019, the Corporate & Financial Management has continued with the process of progressive implementation of the policies and procedures included in the ICFR Manual and has reviewed and updated the documentation related to significant processes with the objective of achieving a system of internal control more efficient and adapted to the objectives of financial information, which covers all material processes, both quantitatively and qualitatively.

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, the Corporate & Financial Management ensures that the contracted entity has a certified information security management system in accordance with ISO 27001, in addition to constantly monitoring and supervising both the outsourcing contract and the financial information reported by the third party to prevent it from containing 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. Additionally, the company periodically carries out evaluation work on the key controls carried out by third-party service providers, to verify their correct functioning.

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 & Financial 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 & Financial 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 & Financial Management, which reports to the Audit and Control Committee on the progress made on a regular basis. Additionally, and when necessary, the criteria adopted with accounting experts or other advisors to resolve any doubt or possible conflict arising from the interpretation of any standard are confirmed.

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 & Financial 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 has the support of the UPS for the supervision of the ICFR. Specifically, the Statute of the Internal Audit Function, updated in this year, attributes to the UPS, among others, the following functions: therefore, the activity of this Service includes the following tasks:

- Supervise the quality and reliability of financial and management information, in particular, of the regulated information that the Group must provide to the markets.
- Ensure the proper functioning of the internal financial information control system (ICFR) established in the Group, proposing the improvement recommendations it deems appropriate.
- Check the implementation of the corrective measures approved to address the weaknesses of the risk management and internal control system that have been revealed.

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 program of work by processes including, on a regular basis, the supervision of the proper implementation of the ICFR, review of the documentation that is part of it, and the review of the effectiveness of the controls defined. Periodically, at least quarterly, the UPS reports directly to the Audit and Control Committee on the level of compliance with the Plan and the results of its work.

The ICFR Manual provides for the annual evaluation and supervision of the different components thereof. In this sense, throughout the year 2019 it has been reviewed and updates have been introduced in the documentation corresponding to all significant processes. Likewise, work has been carried out to verify the operation of controls, among others, in the processes of asset valuation, management and registration of the Manager's fees, and in relation to compliance with the SOCIMI regime, without finding significant incidents. The Directorate and the Audit and Control Committee have received the information

corresponding to the development of the indicated activities.

Additionally, the Corporate & Financial Management and the Audit and Control Committee carry out a review process of the quarterly financial information sent to the CNMV, in accordance with the established schedules.

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. In this regard, during the year 2019, the account auditors have attended 3 meetings of the Audit and Control Committee. In these sessions, the account auditors inform the Committee of the important audit matters identified in the course of the work and, if applicable, of the significant weaknesses of internal control, in addition to the recommendations identified that allow improving the Internal control system of the Company.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee or for any other purpose related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards.

F.6. Other relevant disclosures

Not applicable.

F.7. External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The external auditor's report on the ICFR information supplied by Lar España to the market is attached to this document as an appendix.

Indicate the degree to which the company is in compliance with the recommendations of the Good Governance Code for listed companies.

If the company does not comply or only partially complies with any of the recommendations, provide a detailed explanation for so doing such that shareholders, investors and the market in general have sufficient information to assess the company's course of action in this respect. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant ☒ 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 Committee is guaranteed as long as there are no executive directors and the Chairman 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

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 those registered at the CNMV's shareholder records at the time of been recorded.

This annual corporate governance report was approved by the Company's Board of Directors on February 13th, 2020.

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 2019
"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

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

ASSURANCE' REPORT ON THE 2019 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2019

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 December 12th 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 2019, 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 2019 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.

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.



Carmen Barrasa Ruiz

February 13th 2020