

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of LAR España Real Estate SOCIMI, S.A.:

Report on the Consolidated Financial Statements

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 2017, 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 2017, 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.

Compliance with the REIT tax regime

Description

The Parent is regulated by Spanish Real Estate Investment Trusts (SOCIMI) Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December. One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%.

The REIT tax regime is conditional upon compliance with certain relatively complex rules that require the use of significant judgements and estimates by management, since the obligations under this regime include, inter alia, certain investment requirements and requirements in relation to the nature of the revenue obtained, to the length of time for which property assets must be held and to the distribution of dividends.

Compliance with the REIT regime is a key matter in our audit because the applicability of this regime is the basis of its business model given the material impact of the tax exemption on the consolidated financial statements and on the returns of the shareholders.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with compliance with the REIT tax regime, as well as tests to verify that the aforementioned controls operate effectively.

Group management furnished us with the calculations performed in relation to compliance with the obligations associated with this tax regime, together with the related supporting documentation and we involved internal experts from the tax area to assist in the analysis of the reasonableness of the information obtained, as well as the completeness thereof in relation to all the aspects provided for in the legislation in force at the analysis date.

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

Valuation of investment property

Description

The Group manages a portfolio of urban property assets earmarked for lease (mainly offices, shopping centres and logistics warehouses) located in Spain. Investment property is stated at its fair

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of investment property, as well

Valuation of investment property

Description

value at the reporting date and is not depreciated. At 31 December 2017, the portfolio of investment property was valued at EUR 1,306 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

as tests to verify that the aforementioned controls operate effectively. In particular, those used by the directors to supervise and approve the hiring of and work performed by the experts employed for this purpose, and to ensure no influence is exercised over the result of the work performed by those experts.

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

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

We also analysed and concluded on the suitability of the disclosures made by the Group in relation to these matters, which are included in Notes 5-a and 8 to the accompanying consolidated financial statements for 2017.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, 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 2017 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 I to this auditor's report. This description, which is on pages 6 and 7, 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 23 February 2018.

Engagement Period

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

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

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



Antonio Sánchez-Covisa Martín-González
Registered in ROAC under no. 21251

23 February 2018

Appendix I to our auditor's report

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

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

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

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

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

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

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

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



Real Estate

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

Consolidated Annual Accounts for the 2017 period

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

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

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
31 December 2017

(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>31/12/2017</u>	<u>31/12/2016</u>
Intangible assets	7	8,673	2
Investment property	8	1,306,350	1,191,089
Financial assets with associates	12	2,161	2,270
Equity-accounted investees	10	5,526	7,645
Non-current financial assets	13	<u>11,928</u>	<u>11,205</u>
Total non-current assets		1,334,638	1,212,211
Non-current assets held for sale	11	124,295	-
Trade and other receivables	13, 14	14,413	18,067
Financial assets with associates	12	27,718	45,288
Other current financial assets	13	7,118	5,393
Other current assets		553	617
Cash and cash equivalents	15	<u>45,617</u>	<u>31,591</u>
Total current assets		219,714	100,956
Total assets		<u><u>1,554,352</u></u>	<u><u>1,313,167</u></u>

The accompanying Notes 1 to 33 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Financial Position
31 December 2017

(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>31/12/2017</u>	<u>31/12/2016</u>
Capital	16	185,248	181,081
Issue premium	16	487,349	498,914
Other reserves and other contributions	16	111,854	42,898
Retained earnings	16, 17	135,606	91,430
Treasury shares	16	(175)	(823)
Valuation adjustments	16	<u>(1,663)</u>	<u>(1,365)</u>
Total equity		918,219	812,135
Financial liabilities from issue of bonds and other marketable securities	18, 19	138,787	138,506
Loans and borrowings	18, 19	361,165	301,738
Deferred tax liabilities	2g, 23, 18	14,613	8,536
Derivatives	18, 19	831	1,890
Other non-current liabilities	18, 20	<u>16,221</u>	<u>14,918</u>
Total non-current liabilities		531,617	465,588
Liabilities connected to non-current assets held for sale	11	47,618	-
Financial liabilities from issue of bonds and other marketable securities	18, 19	3,482	3,482
Loans and borrowings	18, 19	5,580	7,877
Derivatives	18, 19	1,267	1,384
Short-term debts with group companies and associates	19	7,505	-
Other current liabilities	18, 20	147	193
Trade and other payables	21	<u>38,917</u>	<u>22,508</u>
Total current liabilities		104,516	35,444
Total equity and liabilities		<u>1,554,352</u>	<u>1,313,167</u>

The accompanying Notes 1 to 33 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
31 December 2017

(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>Global Consolidated Income Statement</u>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Revenue	6	77,600	60,234
Other income		2,198	1,792
Other results	2g	653	2,914
Employee benefits expense	28	(542)	(446)
Depreciation charges	7	(15)	-
Other operating expenses	26	(35,847)	(46,401)
Changes to the fair value of investment property	8	101,558	87,815
Profits and losses from the disposal of investment property	2g	2,842	-
Results from operating activities		<u>148,447</u>	<u>105,908</u>
Financial income	27	2,085	4,009
Financial costs	27	(14,281)	(14,696)
Changes in the fair value of financial instruments	27	1,474	(3,050)
Impairment and gains/(losses) on disposal of financial instruments		-	13
Share in profit (loss) for the period of equity-accounted companies	10	(2,119)	(754)
Profit before tax from continuing operations		<u>135,606</u>	<u>91,430</u>
Profit from continuing operations		<u>135,606</u>	<u>91,430</u>
Income tax		-	-
Profit for the period		<u><u>135,606</u></u>	<u><u>91,430</u></u>
Basic earnings per share (in Euros)		1.48	1.26
Diluted earnings per share (in Euros)		1.48	1.26

<u>Consolidated Statement of Comprehensive Income</u>		<u>2017</u>	<u>2016</u>
Profit for the period (I)	29	135,606	91,430
Other Comprehensive Income Directly Recognised in Equity (II)	16	(1,173)	(119)
Other Amounts Transferred to the Income Statement (III)	16	875	314
Total Comprehensive Income (I+II+III)		<u><u>135,308</u></u>	<u><u>91,625</u></u>

The accompanying Notes 1 to 33 and Appendix I form an integral part of the consolidated statement of comprehensive income for the period ended 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Cash Flow Statement
31 December 2017

(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	Valuation adjustments	Total equity
Balance at 31 December 2015	119,996	415,047	(6,007)	240	43,559	(709)	(1,560)	570,566
Total income and expenses recognised in the period	-	-	-	-	91,430	-	195	91,625
Transactions with equity holders or owners:								
Capital increases	61,085	91,388	(9,435)	-	-	-	-	143,038
Distribution of profit:								
To reserves	-	-	39,060	-	(39,060)	-	-	-
To dividends	-	(7,521)	11	-	(4,499)	-	-	(12,009)
Recognition of payments based on shares	-	-	19,169	-	-	-	-	19,169
Treasury shares	-	-	(464)	-	-	(114)	-	(578)
Other operations	-	-	324	-	-	-	-	324
Balance at 31 December 2016	181,081	498,914	42,658	240	91,430	(823)	(1,365)	812,135
Total income and expenses recognised in the period	-	-	-	-	135,606	-	(298)	135,308
Transactions with equity holders or owners:								
Capital increases (Note 16a)	4,167	15,001	(19,168)	-	-	-	-	-
Distribution of Issue premium	-	(26,566)	-	-	-	-	-	(26,566)
Distribution of profit:								
To reserves	-	-	88,014	-	(88,014)	-	-	-
To dividends	-	-	3	-	(3,416)	-	-	(3,413)
Treasury shares (Note 16e)	-	-	131	-	-	648	-	779
Other operations	-	-	(24)	-	-	-	-	(24)
Balance at 31 December 2017	185,248	487,349	111,614	240	135,606	(175)	(1,663)	918,219

The accompanying Notes 1 to 33 and Appendix I form an integral part of the consolidated statement of changes in equity for the period ended 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity 31 December 2017

(Expressed in thousands of Euros)

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

	Notes	31 December 2017	31 December 2016
A) Cash flows from operating activities		<u>48,688</u>	<u>19,132</u>
<i>Profit/(loss) before tax</i>		136,606	91,430
<i>Adjustments to the profit/(loss)</i>		(92,178)	(56,720)
Profit / (loss) from adjustments to fair value of investment property	8	(101,558)	(87,815)
Amortisation of investment property		15	-
Impairment adjustments		19	349
Financial income	27	(2,085)	(4,009)
Financial costs	27	14,281	14,696
Changes in fair value of financial instruments	27	(1,474)	3,050
Expenses from payment based on shares	14	-	19,169
Share in profit/(loss) for the period of	10	2,119	754
Profits and losses from the disposal of investment property	2g	(2,842)	
Adjustments to the consideration given against profit and loss from business combinations	2g	(653)	(2,914)
<i>Changes in operating assets and liabilities</i>		17,389	(5,863)
Inventories		-	-
Trade and other receivables		1,776	(12,750)
Other current and non-current assets		(1,661)	(1,015)
Trade and other payables		17,274	7,902
<i>Other cash flows from operating activities</i>		(12,129)	(9,715)
Interest paid	19	(12,129)	(9,758)
Interest collected		-	43
B) Cash flows from investing activities		<u>(129,142)</u>	<u>(237,915)</u>
<i>Payments for investments</i>		(163,530)	(249,477)
Outflow of liquid in business acquisitions	2g	(110,218)	(152,042)
Associates		(248)	(2,000)
Intangible assets	7	(8,686)	(1)
Investment property	8	(43,934)	(93,699)
Other financial assets		(444)	(1,735)
<i>Proceeds from sales on investments and dividends</i>		34,388	11,562
Other financial assets		-	9,663
Other assets		-	361
Associates	12	20,000	-
Inflow of liquid in business sales	2g	14,388	-
Receipt of dividends		-	1,538
C) Cash flows from financing activities		<u>97,945</u>	<u>214,819</u>
<i>Payments made and received for equity instruments</i>		779	142,460
Cash proceeds from issuing capital	14	-	143,038
Acquisition / disposal of equity instruments	14	779	(578)
<i>Receivables and payments for financial liability instruments</i>		127,145	84,368
Issue of:			
Bonds and other marketable securities		-	-
Bank borrowings	19	143,375	85,724
Other financial liabilities		8,500	(1,356)
Refunds and amortization of:			
Bank borrowings	19	(24,730)	-
<i>Payments for dividends and remuneration from other equity instruments</i>			
Dividends paid	16	(29,979)	(12,009)
E) Cash and cash equivalents in non-current assets held for sale	11	<u>(3,465)</u>	<u>-</u>
E) Net increase / decrease in cash or cash equivalents		14,026	(3,964)

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(Expressed in thousands of Euros)

F) Cash and cash equivalents at the beginning of the period	31,591	35,555
G) Cash and cash equivalents at the end of the period	<u>45,617</u>	<u>31,591</u>

Notes 1 to 33 and Appendix I form an integral part of the consolidated statement of cash flows for the period ended 31 December 2017.

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(1) NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP

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

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

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

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

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Lar España Real Estate SOCIMI, S.A. and its subsidiaries and associates, LE Logistic Alovera I y II, S.A.U., LE Retail Hiper Albacenter, S.A.U, LE Retail Alisal, S.A.U., LE Offices Egeo, S.A.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Retail As Termas, S.L.U., LE Retail Portal de la Marina, S.L.U. (formerly called Puerta Marítima Ondara, S.L.U.), LE Logistic Alovera III and IV, S.L.U., LE Offices Joan Miró, S.L.U., LE Retail Hiper Ondara, S.L.U., LE Logistic Almussafes, S.L.U., LE Retail Sagunto S.L.U., LE Retail Megapark, S.L.U., LE Retail El Rosal, S.L.U., LE Retail Galaria, S.L.U., Lar España Shopping Centres VIII, S.L.U., LE Retail Vistahermosa, S.L.U. (formerly called Lar España Parque de Medianas III, S.L.U.), Lar España Offices VI, S.L.U., Lar España Inversión Logística IV, S.L.U., LE Offices Arturo Soria, S.L.U. (until 29 September 2017, when the company was sold), LE Retail Villaverde, S.L.U., LE Retail Anec Blau, S.L.U., LE Retail Albacenter, S.L.U., LE Retail Txingudi, S.L.U., LE Retail Las Huertas, S.L.U., LE Offices Marcelo Spínola 42, S.L.U., LE Retail Gran Via de Vigo, S.A.U. (formerly called Gran Vía Centrum Holding, S.A.U.), Inmobiliaria Juan Bravo 3, S.L., LE Retail Abadia, 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., (hereinafter the "Group") have as their principal activity the acquisition and management of shopping centres and offices. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, industrial bays, logistics centres or residential products).

Lar España Real Estate SOCIMI, S.A. has been listed on the Spanish Stock Exchanges and the Spanish automated quotation system since 5 March 2014. The quoted price at 31 December 2017 was EUR 8.89 per share and the average price per share in the 2017 period was EUR 7.87.

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

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

Asset value will be based on the average of the asset values reflected in the consolidated quarterly balance sheets for the period. To calculate this value, the Company 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 corresponding to each period, excluding that derived from the transfer of those investments and properties held for the purpose of carrying out the principal statutory activity, once the holding period mentioned in the following section has elapsed, must originate from property leases and dividends or shares in profits arising from said investments.

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This will be calculated as a percentage of consolidated profit if the company is the parent of a group in accordance with the criteria established in Article 42 of the Spanish Code of Commerce, irrespective of domicile and of the obligation to draw up consolidated annual accounts. This group shall comprise solely the SOCIMIs and other entities to which Article 2.1 of the above Law refers.

3. The properties that constitute the SOCIMI's assets must be leased for at least three years. The period of time during which the properties have been available for lease, up to a maximum of one year, shall be included for the purposes of this calculation. The period shall be calculated as follows:
 - a) For properties included in the SOCIMI's holdings prior to availing of the regime, from the starting date of the first tax period in which the special tax regime established in the Law is applied, provided that on that date the asset was leased or available for lease. If not, the provisions of the following letter shall apply.
 - b) For properties developed or acquired subsequently by the Company, from the date on which they were leased or available for lease for the first time.

For shares or investments in the entities referred to in Article 2.1 of the aforementioned Law, they should be maintained as assets on the SOCIMI's balance sheet for at least three years from their acquisition or, where applicable, from the start of the first tax period in which the special tax regime established in the above Law is applied.

Pursuant to the first transitional provision of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 governing SOCIMIs, such entities may opt to apply the special tax regime under the provisions of Article 8 of that Law, even if they do not meet the requirements set forth therein, provided these requirements are met within two years of the date on which they opt to apply the aforementioned regime.

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

- Flexible criteria for acquiring and holding properties: there is no lower limit regarding the number of properties that may be contributed when constituting a SOCIMI, except for residential properties, where the minimum number of properties contributed shall be eight. Properties are no longer required to be kept on the SOCIMI's balance sheet for seven years, only for a minimum of three years.
- Reduced capital requirements and unlimited financial leverage: the minimum capital requirement has been reduced from EUR 15 million to EUR 5 million, and the ceiling on borrowing by the property investment vehicle has been lifted.
- Reduced dividend distribution: until this Law entered into force, it was compulsory to distribute 90% of profits; this pay-out requirement has been reduced to 80%, applicable as of 1 January 2013.
- The tax rate for SOCIMIs for corporate income tax purposes is 0%. However, when a SOCIMI distributes dividends to shareholders with an interest greater than 5%, or that are

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exempt from tax or are subject to tax at less than 10%, a special tax which shall have the consideration of corporate income tax shall be levied on the SOCIMI at a rate of 19% of the dividend distributed to those shareholders. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date.

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

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

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

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

The transition period ended in 2017 and the Parent must now comply with all the requirements of the regime. The directors of the Parent consider that it meets all of these requirements at 31 December 2017 (see note 24).

The composition of the Group at 31 December 2017 and its method of integrating the Subsidiaries in the consolidated financial statements are as follows:

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

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Corporate Name	Company Address	Activity	Company holding the stake	% stakes	Method of integration
		development of properties for lease			
LE Retail Albacenter, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Anec Blau, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Txingudi, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Las Huertas, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Marcelo Spínola 42, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Vistahermosa, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Offices VI, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Inversión Logística IV, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	The acquisition and development of properties for lease	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail El Rosal, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Gran Vía de Vigo, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Abadía, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados I, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados II, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hipermercados III, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global

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(2) BASIS OF PRESENTATION

(a) Regulatory framework on financial information

The accompanying consolidated annual accounts for the period ended 31 December 2017 have been prepared on the basis of the accounting records of Lar España Real Estate SOCIMI, S.A. and subsidiaries, and in accordance with:

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

To present fairly the consolidated equity and consolidated financial position of Lar España Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2017 and the consolidated results of operations, changes in consolidated equity and consolidated cash flows for the 2017 period, these consolidated annual accounts have been prepared applying the regulations in force at 31 December 2017.

(b) Functional and presentation currency

The figures disclosed in the consolidated annual accounts for the period ended 31 December 2017 are expressed in thousands of Euros, which is the functional and presentation currency of the Parent Company.

(c) Comparative information

In accordance with the international financial reporting standards adopted by the European Union, the information contained in these consolidated financial statements corresponding to the annual period ended 31 December 2017 is presented for comparative purposes together with the information related to the 2016 period.

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

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

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

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

(i) Relevant accounting estimates and assumptions

- Calculation of fair value of investment property (Note 8).
- Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings, market trends and the historical analysis of bad debts at an aggregated level all require a high degree of judgement by the management (Note 24).
- Determination of the fair value of certain financial instruments (Note 19).
- Assessment of provisions and contingencies.
- Financial risk management (Note 24).
- Calculation of fair value of payments based on shares or equity instruments (Note 16).
- Compliance with the requirements that regulate SOCIMIs (Nota 1 and Note 24).
- Determination of the fair value and nature of derivative financial instruments.
- Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an asset acquisition (Note 2g).

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's Directors based on the best information available at 31 December 2017, future events may require changes to these estimates in subsequent years. The effect on the consolidated financial statements of any changes arising from the adjustments to be made in subsequent periods would be recognised prospectively, in accordance with the provisions of IAS 8.

(e) Standards and interpretations adopted since 01 January 2017

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2017 and, where applicable, have been used by the Group to prepare the accompanying consolidated annual accounts at 31 December 2017:

- Amendment to IAS 7 Disclosure initiative (published in January 2016). This amendment introduces additional detailing requirements for financing activities. Effective for annual periods beginning on or after 01 January 2017.
- Amendment to IAS 12 Recognition of deferred tax assets for unrealised losses (published in January 2016). This amendment clarifies the principles established

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regarding the recognition of deferred tax losses for unrealised losses. Effective for annual periods beginning on or after 01 January 2017.

(f) Standards and interpretations issued but not effective at 01 January 2017

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

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

- IFRS 15 Revenue from Contracts with Customers (published in May 2014). New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31). Effective for annual periods beginning on or after 01 January 2018.
- IFRS 9 Financial instruments (published in July 2014). This replaces the requirements for classification, measurement and derecognition of financial assets and financial liabilities and hedge and impairment accounting under IAS 39. Effective for annual periods beginning on or after 01 January 2018.
- Improvements to IFRS 15 (published in April 2016). These improvements concentrate on identifying performance obligations, principal versus agent considerations, licensing, whether the licences are transferred at a point in time or over time, as well as some clarifications on transition requirements. Effective for annual periods beginning on or after 01 January 2018.
- IFRS 16 Leases (Published in January 2016). This substitutes IAS 17 and the associated interpretations. Its main change is a sole accounting model for tenants that will include all leases in the balance sheet (with limited exceptions) with an impact similar to that of current financial leases (The asset will amortise due to the right of use and there will be a financial expense for the amortised cost of the liability.). Effective for annual periods beginning on or after 01 January 2019.

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

- IFRS 17 Insurance Contracts (published in May 2017). This replaces IFRS 4 and 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 information users to determine the effect the contracts have on the financial statements. Effective for annual periods beginning on or after 01 January 2021.
- IFRIC 22 Foreign currency transactions and advance consideration. This interpretation establishes the "date of the transaction" for the purposes of determining the applicable exchange rate in transactions with advance consideration

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in foreign currency. Effective for annual periods beginning on or after 01 January 2018.

- IFRIC 23 Uncertainty over income tax treatments. This interpretation clarifies how the registry and measurement criteria under IAS 12 are to be applied when there is uncertainty regarding the tax authority's acceptance of a given tax treatment used by the entity. Effective for annual periods beginning on or after 01 January 2019.

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

- Amendment to IFRS 4 Insurance Contracts (published in September 2016). This amendment provides entities falling under the scope of IFRS 4 with the option of applying IFRS 9 (Overlay approach) or a temporary exemption therefrom. Effective for annual periods beginning on or after 01 January 2018.
- Improvements to IFRS 2014-2016 Cycle (published in December 2016). Minor amendments to a number of standards, including IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures. Effective for periods beginning on or after 1 January 2018, depending on the improvement.

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

- Amendment to IFRS 2 Classification and Measurement of Share-based Payments. These are restricted amendments that clarify specific questions such as the effects of the accrual conditions on payments based on shares to be settled in cash, the classification of payments based on shares when there are settlement clauses regarding the net amount, and some aspects of the amendments on the rate of payment based on shares.
- Amendment to IAS 40 Reclassification of Investment Property (published in December 2016). This amendment clarifies that a reclassification of an investment from or to property investment is only allowed when there is evidence of a change in the use thereof. Effective for annual periods beginning on or after 01 January 2018.
- Improvements to IFRS Cycle 2014-2016 (published in December 2016). Minor changes in a series of standards, notably: IFRS 1 First-time Adoption of IFRS, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2018, depending on the improvement.
- Amendment to IFRS 9 Prepayment features with negative compensation. Some financial instruments with prepayment features may be measured at amortised cost, allowing the payment of an amount less than the unpaid amounts of capital and interest. Effective for annual periods beginning on or after 01 January 2019.

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- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (published in September 2014). This amendment makes clarifications regarding the result of these transactions when dealing with businesses or assets. There is no effective date; the adoption thereof by the European Union and the application thereof according to the IASB has been postponed indefinitely. No definitive date.
- Amendment to IAS 19 Plan Amendment, Curtailment or Settlement. According to the amendments proposed, when there is a change in a defined benefit plan (due to an amendment, curtailment or settlement), the entity will use updated actuarial assumptions to determine current service cost and net interest for the period after the change in plan. Effective for financial periods beginning on or after 1 January 2019.

(v) Assessment of the impact of applying IFRSs 9, 15 and 16

- IFRS 9 – Financial instruments

IFRS 9 covers the classification, measurement and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014 and replaces the IAS 39 guidance for the classification and measurement of financial instruments. IFRS 9 is effective for financial periods beginning on or after 1 January 2018. The directors of the Group have estimated that the overall impact of IFRS 9 on the consolidated annual accounts will not be material. Below are details of the implications on financial statement items, although the impact is still being assessed.

IFRS 9 sets three main categories for the measurement of financial assets: at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income. The basis of classification depends on the entity's business model and the characteristics of the financial asset's contractual cash flows. Based on the best estimate, it has not been determined whether IFRS 9 would modify the method of measuring financial assets recognised in the Group's consolidated annual accounts at 31 December 2017.

In relation to financial liabilities, there have been no changes in classification and measurement, except for the recognition of changes in own credit risk through other comprehensive income for liabilities designated as at fair value through profit or loss. Additionally, where there has been an exchange of debt instruments or amendments to contractual terms that do not result in extinguishment of a financial liability, IFRS 9 requires the entity to recalculate the new amortised cost discounting the new estimated cash flows at the effective interest rate of the original financial liability. Any difference between this amount and the carrying amount of the modified debt is recognised as income or expense in the income statement. The Group currently has no liabilities that have formed part of exchanges or contractual amendments whose impact requires evaluation.

The new impairment model requires that provision be made for impairment based on expected credit losses rather than just credit losses incurred, which is

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the case under IAS 39. This applies to the Group's financial assets classified at amortised cost, principally trade receivables for leases and certain financial guarantee contracts. Based on the evaluations performed to date, and given the nature of the financial assets subject to the credit loss evaluation, the directors have not determined, using the best estimate, a material impact on the provision for impairment.

Concerning hedge accounting, the main objective of the new hedge accounting model under IFRS 9 is to align hedge accounting with an entity's risk management activities. As with IAS 39, application of hedge accounting remains optional. Based on the best estimate, the directors have not determined a material impact on existing hedging relationships.

The new standard also introduces broader disclosure requirements and changes in presentation. These are expected to change the nature and scope of the Group's disclosure of its financial instruments in the period in which the new standard is adopted.

– IFRS 15 – Revenue from Contracts with Customers

The objective of IFRS 15 is to establish the principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for financial periods beginning on or after 1 January 2018.

IFRS 15 applies to all contracts with customers except for, inter alia, lease arrangements falling under the scope of IFRS 16 Leases. Consequently, based on the Group's principal activity, the directors have determined that application of IFRS 15 will not have any impact on the consolidated annual accounts.

– IFRS 16 - Leases.

IFRS 16 specifies the principles for recognising, measuring, presenting and disclosing leases. This standard supersedes IAS 17 and will be effective for financial periods beginning on or after 1 January 2019.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases longer than 12 months, in a manner similar to existing finance leases. IFRS 16's approach to lessor accounting remains substantially unchanged from its predecessor, IAS 17. Consequently, the directors estimate that application of this standard will not have a material impact on the Group's consolidated annual accounts.

(g) Changes to the composition of the group

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

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Exclusions from the scope of the consolidation

Below appear the details on the exclusions from the scope of the consolidation that took place in the 2017 period.

- On 27 September 2017, the Company sold 100% of the company shares in its subsidiary LE Offices Arturo Soria, S.L.U. to Inmobiliaria Colonial, SOCIMI, S.A. for a base price of EUR 19,640 thousand. The amount of net assets of LE Offices Arturo Soria, S.L.U. at the time of sale totalled EUR 16,798 thousand, where the sale therefore made for a profit of EUR 2,842 thousand recorded under "Profits and losses from the disposal of investment property" of the 2017 Consolidated Statement of Comprehensive Income. The value of the investment property and the treasury at the time of sale totalled EUR 29,664 thousand and EUR 1,052 thousand, respectively.

At 31 December 2017, EUR 4,200 thousand was outstanding. At the date these financial statements were prepared, the outstanding amount had been collected in full.

The shares were sold after observing the three-year property holding period pursuant to the Law on SOCIMIs (Note 1).

Business combinations

Below appear the details of the business combinations that took place in the 2017 period with the purpose of developing the Group's investment plan.

2017 Period

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

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

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Abadia, S.L.U.	The acquisition and development of properties	27/03/2017	100%	65,285

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

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

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

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

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 138 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company's directors did not find any signs that these receivables will not be collected in their totality.

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

If the acquisition had taken place on 1 January 2017 (the beginning date of each accounting period of the acquired company), the profit and income contributed to the Group would have varied by EUR (126) thousand and EUR 931 thousand. The Directors have used the income received from 01 January 2017 when determining said amount.

In addition, on 27 March 2017, the Company changed its name to LE Retail Abadia, S.L.U. Likewise, on 19 September 2017 the company has requested the ability to avail of the special tax regime for SOCIMIs retroactively to 01 January 2017.

The net cash flow in the acquisition was:

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

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

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

Companies	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Hipermercados I, S.L.U./ LE Retail Hipermercados II, S.L.U./ LE Retail Hipermercados III, S.L.U.	The acquisition and development of properties	27/03/2017	100%	49,723
Thousands of Euros				
		Carrying amount	Value adjustment	Fair value
Investment property		43,319	6,491	49,810
Trade and other receivables		134	-	134
Other assets		605	-	605
Cash and other cash equivalent assets		2,295	-	2,295
Deferred tax liabilities		-	(1,623)	(1,623)
Other long-term loans and borrowings		(632)	-	(632)
Trade and other payables		(213)	-	(213)
Total net assets		45,508	4,868	50,376
Transferred consideration for the 100%				49,723
Income from the business combination				653

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

The assets of the acquired companies correspond to a business dealing with supermarkets located in the Autonomous Communities of the Balearic Islands, Cantabria, Basque Country, Navarre and

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La Rioja, the fair value of which was EUR 49,810 thousand when purchased. Said assets are leased to tenants by virtue of lease contracts.

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

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 134 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company's directors do not find any signs that these receivables will not be collected in their totality.

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

If the acquisition had taken place on 1 January 2017 (the beginning date of each accounting period of the acquired company), the profit and loss and income contributed to the Group would have varied by EUR 314 thousand and EUR 868 thousand, respectively. The Directors have used the income received from 01 January 2017 when determining said amount.

In addition, on 27 March 2017, the companies changed their names to LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U. Likewise, on 19 September 2017 the company has requested the ability to avail of the special tax regime for SOCIMIs retroactively to 01 January 2017.

The net cash flow in the acquisition was:

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

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

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- On 21 September 2016, the company Lavernia Investments, S.L.U., a 50% investee of the Parent Company included using the equity method, was liquidated. The liquidation of these stakes did significantly impact the 2016 annual accounts.

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

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

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

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

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

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

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

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

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On 30 June 2016, the sole shareholder at said date informed the State Agency for Tax Administration that the company waived its avail of the regime established in Law 11/2009 of 26 October regulating SOCIMIs, due to the fact that the sole shareholder of the company was not expected to meet the listings requirement during the two-year transition period established in the First Transitional Provision of Law 11/2009, of which the company availed itself on 11 February 2015.

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

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

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

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

In addition, on 15 September 2016, the company changed its name to LE Retail Gran Vía de Vigo, S.A.U. On the same date the company changed its tax period from 30 June 2016 to 31 December 2016. Likewise, on 17 April 2017 the company has requested the ability to avail of the special tax regime for SOCIMIs retroactively to 01 January 2017.

The net cash flow in the acquisition was:

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

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

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- On 29 April 2016, the Parent Company incorporated LE Retail Txingudi, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 9,074.29 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Parent Company incorporated LE Retail Las Huertas, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 3,981.01 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Parent Company incorporated LE Offices Marcelo Spínola 42, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 7,851.48 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.

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

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

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

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

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

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

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

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

The assets attributed with the fair value are investment property. The main asset of the acquired company is the Portal de la Marina shopping centre located in Alicante, Comunidad Valenciana. Said asset is leased to several tenants, through lease contracts for the commercial premises that constitute the asset.

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

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

If the acquisition had taken place on 1 January 2016, the profit contributed to the Group would have increased by EUR 1,631 thousand and rental income would have amounted to EUR 6,341 thousand. The Directors have used the income received from 01 January 2016 when determining said amount.

The net cash flow in the acquisition would be:

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

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(3) DISTRIBUTION OF PROFIT

The proposal for allocating the profits for the period ended 31 December 2017 and other reserves of the Parent Company to be presented to the General Shareholder's Meeting is the following:

	Euros
<u>Basis of allocation</u>	
Profit for the period	19,211,128.53
Issue premium	27,713,695.30
<u>Distribution</u>	
Legal reserve	1,921,112.85
Dividends	45,000,000.00
Voluntary reserves	3,710.97
	46,924,823.83

(4) CONSOLIDATION PRINCIPLES

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

The Group companies have been consolidated using the financial statements at 31 December 2017.

(a) Subsidiaries

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

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

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

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

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

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

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

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

(b) Joint Ventures

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

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

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

(c) Business combinations

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

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

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

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

(d) Harmonisation of account items

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

In 2017, the same date has been used for the closing date of the annual accounts of all the companies included in the scope of the 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 2017 and 31 December 2016 are as follows:

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2017 Period

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

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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 Abadia, 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

2016 Period

Company	Inclusion	Activity	% stakes	Consolidation method
Inmobiliaria Juan Bravo 3, S.L. (i)	On acquisition	Property leasing and development	50%	Shareholding
LE Logistic Alovera I y II, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Logistic Alovera III y IV, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Logistic Almussafes, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hiper Ondara, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Joan Miró 21, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Megapark, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Sagunto, S.L.U.	On acquisition	The acquisition and development of properties for lease	100%	Global
LE Retail Galaria, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Villaverde, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Arturo Soria, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Alisal, S.A.U.	On incorporation	Leasing of property	100%	Global

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LE Retail Portal de la Marina, S.L.	On acquisition	Leasing of property	100%	Global
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Company	Inclusion	Activity	% stakes	Consolidation method
LE Retail As Termas, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Eloy Gonzalo 27, S.A.U.	On acquisition	Leasing of property	100%	Global
LE Offices Egeo, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail Hiper Albacenter, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail El Rosal, S.L.U.	On acquisition	Leasing of property	100%	Global
Lar España Shopping Centres VIII, S.L.U.	On incorporation	The acquisition and development of properties for lease	100%	Global
Lar España Offices VI, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Vistahermosa, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Inversión Logística IV, S.L.U.	On incorporation	The acquisition and development of properties for lease	100%	Global
LE Retail Anec Blau, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Albacenter, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Txingudi, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Las Huertas, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Marcelo Spínola 42, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Gran Vía de Vigo, S.A.U.	On acquisition	Leasing of property	100%	Global

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

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(5) ACCOUNTING PRINCIPLES

(a) Investment property

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 rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes within the Group or for sale in the ordinary course of business.

Assets classified as investment property are in operation and occupied by various tenants. These properties are intended for lease to third parties. The directors of the Parent Company, at the date these financial statements were prepared, do not consider the disposal of these assets in the upcoming year to be very likely and have therefore decided to maintain these assets in the consolidated statement of financial position as investment property.

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

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

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

(b) Leases

(i) Classification of leases

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

(ii) Operating leases

- Lessor accounting records

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

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

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

- Lessee accounting records

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

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

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

(c) Financial instruments

(i) Classification of financial instruments

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

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

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

(ii) Offsetting principles

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

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(iii) Loans and receivables

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

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

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

(iv) Impairment and uncollectibility of financial assets

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

- Impairment of the value of financial assets carried at amortised cost

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

If the financial asset is secured by collateral, impairment is determined based on the present value of the cash flows that could be generated from the foreclosure of the asset, less 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.

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

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

(v) *Financial liabilities*

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

Nevertheless, trade payables falling due in less than one year that have no contractual interest rate are carried at all times at their nominal amount, since the effect of discounting the cash flows is immaterial.

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

- *Derecognition of financial assets*

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

- *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.

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

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

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

(d) Derivative financial instruments and accounting of hedging transactions

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

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

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

- Cash flow hedges: In this type of hedge, the part of the profit or loss from the hedging instrument that has been determined to be an effective hedge is temporarily recognised in net equity and is recognised in the income statement in the same period in which the hedged element affects the result, unless the hedge corresponds to an intended transaction that results in the recognition of a non-financial asset or liability, in which case the amounts recorded in net equity shall be included in the cost of the asset or liability when it is acquired or assumed.

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- The accounting of hedges is discontinued when the hedging instrument matures, or is sold, finalised or exercised, or it ceases to meet the criteria for accounting hedges. At that time, any accumulated profit or loss corresponding to the hedging instrument that may have been recorded in net equity remains in net equity until the intended transaction occurs. When the hedged transaction is not expected to take place, the net accumulated profits or losses recognised in net equity are transferred to the net results of the period.

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

At 31 December 2017, after assessing on 31 December 2016 the hedging relationships of exchange rate hedging financial instruments contracted with Group companies LE Retail El Rosal, S.L.U, LE Retail As Termas, S.L.U. and LE Retail Megapark, S.L.U., said hedging relationships were classified as ineffective. Therefore, the Group recognised the change in fair value of said instruments in the amount of EUR 1,788 thousand on the consolidated statement of comprehensive income. In addition, at 31 December 2017, the impact on the income statement of recycling equity of the financial instruments of LE Retail El Rosal, S.L.U. and LE Retail As Termas, S.L.U. totalled negative EUR (314) thousand (Note 19c).

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

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

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

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

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the valuation of derivatives. The Group applied the discounted cash flow methodology, using a discount rate affected by the Group's own risk.

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

- Level 1: listed price (unadjusted) on active markets for identical assets or liabilities.
- Level 2: observable inputs other than the listed prices used in Level 1 for assets or liabilities, directly (i.e., such as prices) or indirectly (i.e., derived from prices).
- Level 3: assets referencing valuation techniques, including inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

	Thousands of Euros			Total
	Level 1	Level 2	Level 3	
Derivative financial liability instruments (Note 19c)	-	2,098	-	2,098
	-	2,098	-	2,098

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

	Thousands of Euros			Total
	Level 1	Level 2	Level 3	
Derivative financial liability instruments	-	3,274	-	3,274
	-	3,274	-	3,274

Additionally, Note 8 includes information regarding the determination of the fair value of investment property, pursuant to valuation techniques described in said note.

(f) Treasury shares of the Parent Company

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

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

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

(g) Distributions to shareholders

Dividends are in cash and are recognised as a reduction in equity when approved by the Shareholders' General Meeting.

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

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

- (i) 100% of profits deriving from dividends or shares of profits distributed by the entities referred to in Article 2.1 of Law 11/2009.
- (ii) At least 50% of the profits derived from the transfer of the properties and shares or equity investments referred to in Article 2.1 of Law 11/2009, held for the purpose of complying with the principal statutory activity, realised once the periods mentioned in Article 3.2 of Law 11/2009 have elapsed. The remainder of these profits must be reinvested in other properties or equity investments to be held for the purpose of complying with the statutory activity, within three years after the transfer date. Otherwise, these profits must be distributed in full together with any profits obtained during the period in which the reinvestment period expires. If the items in which the investment is made are transferred in the period during which they must be held, the associated profits must be distributed in full together with any profits obtained during the period in which the items were transferred. The mandatory distribution of profits does not apply to any portion of profits attributable to periods in which the Company will not be taxed under the special regime provided for by that law.
- (iii) At least 80% of the remaining profits obtained. When the distribution of dividends is charged against reserves deriving from profits for a period to which the special tax regime has been applied, the distribution must be carried out as described above.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand 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.

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

(i) Employee benefits

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

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

The Group recognises the expected cost of profit-sharing and bonus plans 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.

For transactions that are settled with equity instruments, provided services and liabilities are measured at the fair value of the received services.

(k) Provisions

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

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

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

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

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

(l) 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 mainly consists of the acquisition and management of shopping centres and offices. However, it may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, logistics bays, logistics centres or residential products). Group revenues originate from the lease of this investment property to third parties.

Revenues derived from the lease of investment property are recognised by reference to the stage of completion at the reporting date when the outcome of the transaction can be reliably estimated. The Group companies recognise 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 19,544 thousand (EUR 15,551 thousand at 31 December 2016) for communal charges (shared utility costs, services related to the management of the property, etc.) passed on to them. This amount is presented, according to its nature, compensated the relevant expense under "Other expenses" in the accompanying consolidated statement of comprehensive income at 31 December 2017.

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

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(n) Income tax

(i) General regime

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

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

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

(ii) Tax regime for SOCIMIs

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

Pursuant to the ninth transitional Provision of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December, governing SOCIMIs, the entity shall be subject to a special tax rate of 19% on the total amount of dividends or shares in profits distributed to shareholders with a 5% or greater interest in the share capital of the entity, when such dividends are tax-exempt or are taxed at a rate of less than 10% at the shareholders' seat of economic activity. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date. The Group has established a procedure

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ensuring that shareholders confirm their tax status and, where applicable, 19% of the amount of the dividend distributed to the shareholders that do not meet the aforementioned tax requirements is withheld.

(o) Segment reporting

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

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

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. 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.

(q) Insurance contracts

The Group is insured against Civil Liability and against Damage to Material Goods linked to the investment property in operation or under construction. In addition, the Group has taken out insurance in connection with the members of the Board of Directors and Senior Management.

(r) Environmental information

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

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

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(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

The Group is organised internally into operating segments, with four distinct lines of business: shopping centres (including the shopping centre and single-tenant commercial premise rental business), offices (including the office rental business), logistics (including the logistics bay rental business), and residential (including the development of a property project in Madrid). These are the strategic business units.

At 31 December 2017 the Group comprises the operating segments listed below, with the following revenues and principal services:

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- Shopping centres: Txingudi, Las Huertas, Hipermercado Albacenter, Anec Blau, Villaverde, Portal de la Marina, Albacenter, Nuevo Alisal, As Termas, Portal de la Marina hypermarket, El Rosal, VidaNova Parc (under development), Palmas Altas (under development), As Termas petrol station, Parque Galaria, Megapark Barakaldo business park, Vistahermosa business park, Gran Vía de Vigo, Abadía business park, Portfolio supermarkets.
- Office buildings: Marcelo Spínola, Egeo, Eloy Gonzalo and Joan Miró.
- Logistic bays: Alovera I, Alovera II, Alovera III (C2), Alovera IV (C5-C6), Almussafes and Cheste (under development).
- Residential: Stakes in the Inmobiliaria Juan Bravo 3, S.L., owner at 31 December 2017 of a development at Calle Juan Bravo in Madrid to be used for a new, high-end housing development.

The profit generated by each segment and by each asset within each segment is used as a measure of its performance because the Group considers 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.

Details of these activities by segment at 31 December 2017 and 2016 are as follows:

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

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

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

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Consolidated Income Statement

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

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

** The table does not take into consideration the fact that in the 2016 period, the Parent Company re-invoiced the amount corresponding to "Operating expenses" to the subsidiaries. The amount of EUR 25,422 thousand was attributable to shopping centres at 31 December 2017, EUR 4,494 thousand was attributable to office buildings, EUR 2,450 thousand to logistics bays and the rest is held under the Head Office. In addition, the Parent Company re-invoiced the amount corresponding to financial expenses accrued through the Bonds to subsidiaries. The amount of EUR 1,972 thousand was attributable to shopping centres, EUR 514 thousand was attributable to office buildings, EUR 837 thousand to logistics bays and the rest is held under the Head Office.

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Consolidated Statement of Financial Position

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

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

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

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Consolidated Statement of Financial Position

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

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(a) Geographical segments

Revenues and assets per 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 2017						
	Revenue	%	Investment property	Non- current assets held for sale	Intangible assets	%
País Vasco	15,903	20.49	269,063	-	8,671	19.38
Cataluña	7,044	9.08	116,830	-	-	8.15
Castilla La Mancha	11,494	14.81	197,742	-	-	13.80
Castilla y León	7,725	9.96	121,550	-	-	8.48
Comunidad de Madrid	5,708	7.36	64,000	88,017	-	10.61
Cantabria	1,668	2.15	6,112	19,313	-	1.77
Galicia	14,792	19.06	247,225	-	1	17.25
Navarra	964	1.24	5,539	10,700	-	1.13
Comunidad Valenciana	11,524	14.85	210,470	-	1	14.69
Andalucía	-	-	54,000	-	-	3.77
Islas Baleares	633	0.82	11,426	-	-	0.80
La Rioja	145	0.18	2,393	-	-	0.17
	<u>77,600</u>	<u>100</u>	<u>1,306,350</u>	<u>118,030</u>	<u>8,673</u>	<u>100.00</u>

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

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The Group carries out its activity entirely in Spain.

(b) Main customers

This item presents details of the tenants that contributed the most rental revenues during 2017, as well as the main characteristics of each one:

Position	Trade name	Project	% of total rental income	% Accumulated	Expiry *	Sector
1	Centros Comerciales Carrefour, S.A.	Alovera II/El Rosal/Gran Vía de Vigo/Hiper Portal de la Marina	8.53%	8.53%	2021-2060	Retail/Food Industry
2	Grupo Inditex	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo	6.99%	15.52%	2018-2034	Textile/Fashion
3	Mediamarkt, S.A.	Megapark/Nuevo Alisal/Parque Abadía/Vistahermosa/Villaverde/As Termas	5.04%	20.56%	2023-2041	Technology
4	Eroski Sociedad Cooperativa	Hiper Albacenter/ As Termas/Portfolio supermarkets	2.86%	23.42%	2024-2051	Distribution
5	Decathlon España, S.A.	Megapark/Abadía	2.79%	26.21%	2036-2041	Distribution
6	Hennes & Mauritz, S.L.	Anec Blau/Albacenter/El Rosal/AS Termas/Portal de la Marina/Gran Vía de Vigo/Txingudi	2.27%	23.48%	2022-2047	Textile/Fashion
7	C & A Modas, S.L.	Anec Blau/As Termas/Megapark/Portal de la Marina/Gran Vía de Vigo/Abadía	2.25%	30.73%	2018-2026	Textile/Fashion
8	El Corte Inglés, S.A.	Megapark/Galería/Gran Vía de Vigo	2.02%	32.75%	2027-2036	Distribution
9	Cortefiel, S.A.	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo/Las Huertas/Megapark/Txingudi/Vistahermosa	1.99%	34.74%	2019-2030	Textile/Fashion
10	Alcampo, S.A.	Vistahermosa/Abadía	1.66%	36.40%	2055-2061	Retail/Food Industry

* The information above references the contracts that were in force during the 2017 period, where the effect of revenue linearisation was not taken into account. Furthermore, the expiry of contracts refers to the final date of the contract, although the contract may have the option for early termination.

(7) INTANGIBLE ASSETS

At 31 December 2017, intangible assets included a right of use regarding a floor space where the Megapark Barakaldo leisure area is located. Said leisure area is currently operated by the group company LE Retail Megapark, S.L.U. and earns revenue from leases.

The right of use, which expires in the year 2056, was acquired on 27 October 2017 for EUR 8,686 thousand and has accrued an amortisation of EUR 15 thousand. Once the right of use expires, the assets contained on leased floor space will be delivered to the Barakaldo City Council.

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In addition, at 31 December 2017 and 31 December 2016, the Company holds industrial property under the "As Termas" and "Vistahermosa" brands for EUR 2 thousand.

(8) INVESTMENT PROPERTY

At 31 December 2017 the investment property owned by the Group included 8 shopping centres, 2 hypermarkets (Ondara and Albacenter), the As Termas petrol station and 2 shopping centres under construction, 4 office buildings, 3 business parks with 24 single-tenant commercial properties (14 from Megapark Barakaldo business park, 3 from Vistahermosa business park, 7 from Abadía), 5 logistics bays, 1 logistic bay under construction, 22 supermarkets and the land on which these are located, which are held to obtain rental income and are therefore not occupied by the Group.

The composition and movements that had occurred in the accounts included under the heading "Investment property" in the condensed consolidated financial statements at 31 December 2017 and 2016 were as follows:

	Thousands of Euros	
	31/12/2017	31/12/2016
Balance at the beginning of the period	1,191,089	776,375
Additions for the period	43,934	95,599
Non-current assets held for sale (Note 11)	(118,030)	--
Change to the scope of the consolidation (Note 2g)	87,799	231,300
Changes in fair value	101,558	87,815
Balance at the end of the period	<u>1,306,350</u>	<u>1,191,089</u>
Fair value	<u>1,306,350</u>	<u>1,191,089</u>

Investment property is presented at fair value.

The Group has recognised the following investment property at its fair value at 31 December 2017 and 31 December 2016:

	Thousands of Euros	
	Investment property held	
	31/12/2017	31/12/2016
Shopping centres and single-tenant commercial property	1,129,020	943,604
Office buildings	85,450	171,010
Logistics bays	91,880	76,475
	<u>1,306,350</u>	<u>1,191,089</u>

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Additions and changes to the scope in the 2017 and 2016 periods are as follows:

<u>2017 Period</u>		Thousands of Euros	
<u>Type of asset</u>	<u>Company</u>	<u>Additions</u>	<u>Changes to the scope</u>
Shopping centre	Sagunto (a)	12,641	-
Logistics bay	Ceste (b)	2,271	-
Shopping centre	Palmas Altas (c)	13,381	-
Shopping centre	Txingudi (d)	3,812	-
Offices	Eloy Gonzalo (e)	2,437	-
-	Improvements to other assets and fit-outs (f)	9,392	-
Offices	Arturo Soria (Note 2g)	-	(29,664)
Shopping centre	Abadía (Note 2g)	-	67,653
Shopping centre	Supermarket Portfolio (Note 2g)	-	49,810
		<u>43,934</u>	<u>87,799</u>

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

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

The additions for 2016 are as follows:

- (a) In the 2016 period, and in continuance of the works begun in 2015, the office located at Calle Cardenal Marcelo Spínola 42 was totally renovated.
- (b) This is in reference to the acquisition of a site in Palmas Altas, Seville, where a Shopping Centre is being constructed.
- (c) On 23 March 2015 the Company, through its subsidiary Global Regimonte, S.L.U., (currently LE Retail Sagunto, S.L.U.), formalised a contract to purchase land and the subsequent construction of shopping centre in Valencia Autonomous Region, a project known as VidaNova Parc.
- (d) On 16 June 2016, the Company, through its subsidiary LE Retail Vistahermosa, S.L.U. acquired the Parque Vistahermosa Shopping Complex in Alicante, with a gross leasable area of 33,550 square meters.

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

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

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

At 31 December 2017 and 2016, details of the gross lettable area and occupancy rate by line of business are as follows:

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

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

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

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

At 31 December 2017 the occupancy rate of the office buildings was 49.15% due to the effect of the Marcelo Spinola office building, which has been undergoing renovations and currently has a 4% occupancy rate.

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

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

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

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.

The appraisal is conducted in accordance with the Professional Standards published by The Royal Institution of Chartered Surveyors ("Red Book"), based in the United Kingdom.

The methodology used to calculate the market value of investment assets consists of preparing 10 years' worth of income and expense projections for each asset, which will subsequently be updated at the reporting date using a market discount rate. The residual amount at the end of year 10 is calculated applying a rate of return ("exit yield" or "cap rate") to the net income projections for year 10. The market values thus obtained are analysed by calculating and analysing the yield capitalisation implicit in these values. The projections are aimed at reflecting the Group's best estimate, reviewed by the appraiser, of the future income and expenses of the real estate assets.

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The appraisal company that performed the valuations of the Group's investment property at 31 December 2017 is listed below:

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

Fees paid by the Group to the appraisal companies for valuations in the 2017 and 2016 periods are as follows:

	<u>Thousands of Euros</u>	
	<u>2017 Period</u>	<u>2016 Period</u>
Appraisal services	174	154
	<u>174</u>	<u>154</u>

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The main assumptions used to calculate the fair value of the real estate assets at 31 December 2017 and 2016 are as follows:

	31 December 2017		
	Net Initial Yield	Exit Yield	Discount rate
Shopping centres and single-tenant commercial properties (*)	5.05%-7.50%	5.50%-8.59%	5.50%-12.29%
Office buildings (*)	0.91%-4.43%	4.08%-5.08%	7.60%-7.64%
Logistics bays (*)	6.49%-7.63%	6.50%-7.50%	8.17%-9.59%

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

	31 December 2016		
	Net Initial Yield	Exit Yield	Discount rate
Shopping centres and single-tenant commercial properties (*)	5.40%-6.35%	5.50%-6.80%	8.50%-11.25%
Office buildings (*)	4.33%-5.16%	4.80%-5.80%	7.00%-8.23%
Logistics bays (*)	6.27%-8.35%	6.80%-7.50%	8.31%-9.61%

(*) *The Marcelo Spinola Building is not included as it has been under renovation until September 2016. In addition, projects under construction are excluded, as is the Eloy Gonzalo building because it is being renovated.*

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

	Thousands of Euros	
	Assets	Consolidated profit
Increase in the exit yield by a quarter point	(43,963)	43,963
Decrease in the exit yield by a quarter point	48,249	(48,249)

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The details of "Changes in fair value of investment property" in the Consolidated Statement of Comprehensive Income at 31 December 2017 and 31 December 2016 are as follows:

	2017
	Thousands of Euros
Shopping centres and single-tenant commercial property	72,423
Office buildings	16,333
Logistics bays	12,802
	<u>101,833</u>
	2016
	Thousands of Euros
Shopping centres and single-tenant commercial properties	67,945
Office buildings	13,969
Logistics bays	5,901
	<u>87,815</u>

(9) OPERATING LEASES – LESSOR

At 31 December 2017 the Group has leased the shopping centres, office buildings, single-tenant commercial properties and logistics bays to third parties under operating leases.

The occupancy rates of the buildings for lease at 31 December 2017 and 2016 are as follows:

	Occupancy rate (%)	
	31/12/2017	31/12/2016
Shopping centres and single-tenant commercial property (*)	93.13%	91.93%
Office buildings (**)	49.15%	89.89%
Logistics bays (***)	100.00%	100.00%

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

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

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

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

		2017	
		Thousands of Euros	
		Revenue	Fair value
Shopping centres	Txingudi	2,508	39,000
	Huertas	932	12,600
	Albacenter	2,381	41,309
	Hiper Albacenter	970	15,013
	Anec Blau	5,833	95,380
	Villaverde (a)	782	-
	Nuevo Alisal (a)	1,309	-
	As Termas	5,335	82,250
	As Termas Petrol station	116	1,975
	Portal de la Marina hypermarket	536	9,300
	VidaNova Parc	-	24,780
	El Rosal	6,793	108,950
	Galaria (a)	691	-
	Megapark	11,705	203,000
	Megapark Ocio (c)	241	-
	Portal de Marina	6,748	110,500
	Vistahermosa	3,479	50,390
	Gran Vía de Vigo	9,341	163,000
	Palmas Altas	-	54,000
	Abadía	3,261	65,040
22 retail units	2,904	52,533	
		65,865	1,129,020
Offices	Egeo (a)	3,055	-
	Cardenal Marcelo Spinola	172	37,500
	Arturo Soria (b)	1,128	-
	Eloy Gonzalo	570	26,500
	Joan Miró	1,212	21,450
		6,137	85,450

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Logistics bays	Alovera I	1,003	18,800
	Alovera II	2,802	43,680
	Alovera III (C2)	274	4,300
	Alovera IV (C5-C6)	758	9,600
	Almussafes	761	10,300
	Cheste	-	5,200
		5,598	91,880
TOTAL	77,600	1,306,350	

- (a) Non-current assets held for sale (Note 11)
 (b) Equity investments held by the company that owns the building; this company was sold during the period (see note 2g).
 (c) Intangible asset not recorded at fair value (Note 7).

		2016	
		Thousands of Euros	
		Revenue	Fair value
Shopping centres	Txingudi	2,077	35,500
	Huertas	886	13,300
	Albacenter	2,659	35,464
	Hiper Albacenter	984	14,313
	Anec Blau	5,558	93,250
	Villaverde	775	10,771
	Nuevo Alisal	1,289	18,334
	As Termas	5,223	78,100
	As Termas Petrol station	114	1,900
	Portal de la Marina hypermarket	528	8,600
	VidaNova Parc (Cruce de Caminos)	-	6,190
	El Rosal	6,529	99,790
	Galaria	680	10,400
	Megapark	11,753	190,000
	Portal de Marina	4,799	98,500
	Vistahermosa	1,567	45,580
	Gran Vía de Vigo	2,196	144,500
	Palmas Altas	-	39,112
	47,617	943,604	

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Offices	Egeo	3,401	73,930
	Cardenal Marcelo Spinola	172	33,500
	Arturo Soria	1,451	27,160
	Eloy Gonzalo	794	15,000
	Joan Miró	1,236	21,420
		7,054	171,010
Logistics bays	Alovera I	1,147	17,400
	Alovera II	2,720	37,450
	Alovera III (C2)	201	3,625
	Alovera IV (C5-C6)	746	8,500
	Almussafes	749	9,500
		5,563	76,475
TOTAL		60,234	1,191,089

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

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

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

	Thousands of Euros	
	<u>31/12/2017*</u>	<u>31/12/2016*</u>
Less than one year	68,400	59,043
One to five years	154,351	131,305
Over five years	104,450	79,315
	<u>327,201</u>	<u>269,663</u>

* This does not include the effect of the bonuses in the amount of EUR 1,009 thousand in 2017 (EUR 2,722 thousand in 2016), at less than one year, EUR 1,086 thousand in 2017 (EUR 275 thousand in 2016), at one to five years and EUR 59 thousand in 2017 (EUR 20 thousand in 2016) at more than five years.

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(10) EQUITY-ACCOUNTED INVESTEEES

Movement in the 2017 and 2016 periods in equity-accounted investees was as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/2017</u>	<u>31/12/2016</u>
Balance at the beginning of the period	7,645	43,217
Reductions in the period	-	(9,914)
Change to the scope of the consolidation	-	(24,904)
Profit for the period	(2,119)	(754)
Balance at the end of the period	<u>5,526</u>	<u>7,645</u>

The details by company at 31 December 2017 and 31 December 2016 of equity-accounted investments as well as the result attributable to the Group are as follows:

	<u>Thousands of Euros</u>			
	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>Investments</u>	<u>Result attributable to the Group</u>	<u>Investments</u>	<u>Result attributable to the Group</u>
LE Retail Portal de la Marina, S.L.U.	-	-	-	580
Inmobiliaria Juan Bravo 3, S.L.	<u>5,526</u>	<u>(2,119)</u>	<u>7,645</u>	<u>(1,334)</u>
Total	<u><u>5,526</u></u>	<u><u>(2,119)</u></u>	<u><u>7,645</u></u>	<u><u>(754)</u></u>

On 30 March 2016 the Group purchased the remaining 41.22% of LE Retail Portal de la Marina, S.L. (formerly called Puerta Marítima Ondara, S.L.) from the managing company Grupo Lar Inversiones Inmobiliarias, S.A.

The main indicators for the Group's equity-accounted investment (standardized to the regulatory framework applicable to the Group) at 31 December 2017 and 31 December 2016 are as follows:

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	Thousands of Euros	
	31 December 2017	31 December 2016
	Inmobiliaria Juan Bravo 3, S.L.	Inmobiliaria Juan Bravo 3, S.L.
Non-current assets	102	77
Current assets	210,583 (*)(**)	126,427 (*)(**)
Non-current liabilities	4,332	4,721
Current liabilities	206,057	142,328
Profits and (losses) for the period	(4,238) (**)	(2,667) (**)

(*) *Mostly property inventories.*

(**) *In line with IAS 2, the results for the year attributable to the group do not include the increased value of the property inventories at 31 December 2017 generated by an impairment reversal in Inmobiliaria Juan Bravo, S.L. for the amount of EUR 25,007 thousand (EUR 80 thousand at 31 December 2016).*

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

The Parent Company's Directors have the firm intention to sell the shares held in the Group companies LE Retail Villaverde, S.L.U, LE Retail Alisal, S.A.U. and LE Retail Galaria, S.L.U. in the short term. Given that the Group has satisfied the requirements established in the regulatory framework on financial information of the Group for said assets to be classified as non-current assets held for sale, at the 2017 reporting date the appropriate reclassifications were effected.

In addition, the Group presents assets and liabilities directly linked to LE Offices Egeo, S.A.U. as non-current assets held for sale, because on 27 September 2017 a purchase option was signed with Inmobiliaria Colonial SOCIMI, S.A. for said shares, free of financial debt, for a base price of EUR 79,300 thousand. On 16 January 2018, after executing the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of its company shares in its subsidiary LE Offices Egeo, S.A.U. to Inmobiliaria Colonial Socimi, S.A. (Note 33).

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

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

The effect of valuing financial liabilities from bonds and borrowings classified as non-current assets held for sale totalled EUR 135 thousand in the 2017 period.

(12) FINANCIAL ASSETS WITH ASSOCIATES

The breakdown of this category as at 31 December 2017 and 2016 is the following:

	Thousands of Euros	
	2017	
	Short-term	Long-term
Loans with associates	27,718	2,161
Total financial assets with associates	27,718	2,161

	Thousands of Euros	
	2016	
	Short-term	Long-term
Loans with associates	45,288	2,270
Total financial assets with associates	45,288	2,270

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At 31 December 2017 and 31 December 2016 the Group had formalised the following loans with associates:

		Thousands of Euros						
		2017						
Company	Date granted	Loan total	Contributions	Amortisations	Capitalised accrued interest	Current	Non-current	Loan total at 31 December 2017
Inmobiliaria Juan Bravo 3, S.L.	29/05/2015	40,000	1,184	(20,000)	6,534	27,718	-	27,718
Inmobiliaria Juan Bravo 3, S.L.	11/01/2016	2,000	28	-	133	-	2,161	2,161
		<u>42,000</u>	<u>1,212</u>	<u>(20,000)</u>	<u>6,667</u>	<u>27,718</u>	<u>2,161</u>	<u>29,879</u>
		2016						
		Thousands of Euros						
Company	Date granted	Loan principal	Contributions	Capitalised accrued interest	Current	Non-current	Loan total at 31 December 2017	
Inmobiliaria Juan Bravo 3, S.L.	29/05/2015	40,000	558	4,922	45,288	192	45,480	
Inmobiliaria Juan Bravo 3, S.L.	11/01/2016	2,000	12	66	-	2,078	2,078	
		<u>42,000</u>	<u>570</u>	<u>4,988</u>	<u>45,288</u>	<u>2,270</u>	<u>47,558</u>	

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

Said loan was converted into a participating loan and as the conditions thereof establish, accrued, unpaid interest will be capitalised on a quarterly basis and will become part of the principal of the loan. This increase in the principal will accrue interest at the rate set in the contract. The amount at 31 December 2017 totalled EUR 27,718 thousand and comprises a nominal amount of EUR 40,000 thousand, additional contributions amounting to EUR 1,212 thousand and interest accrued and capitalised since the date on which the loan was granted amounting to EUR 6,534 thousand (finance income net of 19% withholdings). In the 2017 period EUR 1,988 thousand in revenue was recognised for said loan.

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On 27 April 2017, the company Inmobiliaria Juan Bravo 3, S.L. assumed the loan that the Parent Company had formalised with Banco Santander, which at that time had an outstanding amount of EUR 20 million, cancelling part of the granted participating loan.

On 11 January 2016, the Parent Company granted a loan to Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 2,000 thousand, with maturity 10 January 2019 and an interest rate of 12-month Euribor plus a 4% spread. Like the participating loan granted, accrued, unpaid interest on this loan will be capitalised on a quarterly basis and will become part of the principal of the loan. Accrued and capitalised interest in the 2017 period totalled EUR 133 thousand (finance income net of 19% withholdings). In the 2017 period EUR 84 thousand in revenue was recognised for said loan (EUR 82 thousand in the 2016 period).

(13) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

The Group's financial assets at 31 December 2017 are security deposits placed with public bodies, loans granted to associates, trade receivables, receivables from public entities and fixed-term cash deposits. The following table shows a breakdown of these assets at 31 December 2017 and 2016:

	Thousands of Euros			
	2017		2016	
	Non-current Carrying amount	Current Carrying amount	Non-current Carrying amount	Current Carrying amount
Non-current financial assets	11,928	-	11,205	-
Financial assets with associates (Note 12)	2,161	27,718	2,270	45,288
Other financial assets	-	7,118	-	5,393
Client receivables for sales and rendering of services (Note 14)	-	6,442	-	3,310
Advances to suppliers	-	774	-	10
Public entities, other (Note 23)	-	7,197	-	14,747
Total	14,089	49,249	13,475	68,748

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

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At 31 December 2017, the “Non-current financial assets” category mainly includes the security deposits and guarantees received from the tenants of the investment property mentioned in Note 8, which the Group has deposited with the corresponding public bodies.

At 31 December 2017, the category of "Other financial assets" mainly includes the amount of EUR 4,200 thousand, which was outstanding at 31/12/17, for the sale of stakes in the company LE Offices Arturo Soria, S.L.U. On 27 September 2017, the Company signed the sale of the stakes in the company Inmobiliaria Colonial SOCIMI, S.A. for a base price of EUR 19,639 thousand (Note 2g).

Furthermore a deposit is recorded for EUR 2,250 thousand from the Group company Lar España Shopping Centres VIII, S.L.U. (Palmas Altas), corresponding to an unfulfilled sale contract signed for a 12,000 m2 plot, for an amount of EUR 4,500 thousand, subject to certain conditions being met.

(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

	2017			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Financial assets with associates	27,718	2,161	-	29,879
Non-current financial assets	-	48	11,880	11,928
Other financial assets	7,118	-	-	7,118
Trade and other receivables	14,413	-	-	14,413
	<u>49,249</u>	<u>2,209</u>	<u>11,880</u>	<u>63,338</u>

	2016			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Financial assets with associates	45,288	2,270	-	47,558
Non-current financial assets	-	67	11,138	11,205
Other financial assets	5,393	-	-	5,393
Trade and other receivables	18,067	-	-	18,067
	<u>68,748</u>	<u>2,337</u>	<u>11,138</u>	<u>82,223</u>

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

The amount of net losses and gains corresponds to the income obtained by the Group with respect to the credits delivered to Inmobiliaria Juan Bravo 3, S.L. (Note 12), and to the income obtained through deposits effected in financial institutions that amounted to EUR 2,072 thousand and EUR 13 thousand, respectively (EUR 3,968 thousand and EUR 41 thousand in 2016).

(14) TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 31 December 2017 and 2016 are as follows: (in thousands of Euros):

	2017
	<u>Current</u>
Operating lease receivables	3,018
Operating lease receivables - pending invoices	1,342
Operating lease receivables – revenue linearisation	2,854
Advances to suppliers	774
Public entities, other (Note 23)	7,197
Less impairment allowances	<u>(772)</u>
Total	<u>14,413</u>
	2016
	<u>Current</u>
Operating lease receivables	1,494
Operating lease receivables - pending invoices	1,117
Operating lease receivables - Revenue linearisation	1,552
Advances to suppliers	10
Public entities, other	14,747
Less impairment allowances	<u>(853)</u>
Total	<u>18,067</u>

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(a) Impairment

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

	Thousands of Euros
	<u>2017</u>
Balance at 31 December 2016	853
Change to the scope	57
Impairment losses (Note 26)	336
Reversals of impairment losses (Note 26)	<u>(474)</u>
Balance at 31 December 2017	<u><u>772</u></u>

Additions to the scope of 2017 during the period correspond to the value impairment in the acquisition of the investment property the Abadía business park. In the 2017 period derecognitions were recorded for irrecoverable credits in the amount of EUR 157 thousand.

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

Changes to the scope of 2016 during the period correspond to the value impairment in the acquisition of the investment properties the Portal de la Marina and Gran Vía de Vigo shopping centres. In the 2016 period derecognitions for irrecoverable credits in the amount of EUR 543 thousand were recorded.

(15) CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	<u>2017</u>	<u>2016</u>
Banks	45,617	31,591
Total	<u><u>45,617</u></u>	<u><u>31,591</u></u>

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The Parent Company has a formalised 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.

(16) EQUITY

(a) Capital

At 31 December 2017 the share capital of Lar España Real Estate SOCIMI, S.A. amounted to EUR 185,248 thousand (EUR 181,081 thousand at 31 December 2016) represented by 92,624,097 nominative shares (90,540,562 nominative shares at 31 December 2016), represented through book entries, with a par value of EUR 2 each, subscribed and fully paid, all granting the same economic and political rights.

On 29 May 2017 it was agreed that 3,416 thousand Euros would be distributed as dividend for the period, at 0.038 gross Euros per share; and that 26,584 thousand Euros would be distributed, at 0.294 gross Euros per share, charged to the issue premium, which was paid on 31 May 2017. The amount distributed totalled EUR 29,979 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Company's equity).

On 25 July 2017 the Company carried out a capital increase in the amount of EUR 4,167 thousand, by issuing 2,083,535 shares with a nominal value of EUR 2 each plus an issue premium of EUR 7.20.

The shares issued have been subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. with a charge to funds obtained from the "Performance Fee" accrued by Grupo Lar Inversiones Inmobiliarias, S.A. in 2016 pursuant to the management and investment agreement signed by the parties at said date (Note 30).

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

The quoted price at 31 December 2017 was EUR 8.89 per share and the average price per share in the 2017 period was EUR 7.87 (In the 2016 period the quoted price was EUR 7.03 per share and the average price per share was EUR 7.54).

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At 31 December 2017 and 2016 the Parent Company's main shareholders are as follows:

	2017
LVS II Lux XII S.a.r.l.	19.6%
Franklin Templeton Institutional, LLC	15.0%
Grupo Lar Inversiones Inmobiliarias, S.A.	5.7%
Threadneedle Asset Management	5.0%
Brandes Investment Partners, LP	5.0%
Blackrock INC.	3.7%
Santa Lucia S.A. Cia de Seguros	3.1%
Other shareholders with an interest of less than 3%	42.9%
Total	100%
	2016
LVS II Lux XII S.a.r.l.	20%
Franklin Templeton Institutional, LLC	15%
Threadneedle Asset Management Limited	5.2%
Bestinver Gestión SA, SGIIC	4.2%
Blackrock INC.	3.7%
Grupo Lar Inversiones Inmobiliarias, S.A.	3.5%
Brandes Investment Partners, LP	3%
Other shareholders with an interest of less than 3%	45.4%
Total	100%

(b) Issue premium

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

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

At 31 December 2017, after the distribution of dividends against the issue premium agreed on 29 May 2017, and the capital increase carried out on 25 July 2017, the issue premium of the Company totals EUR 487,349 thousand (EUR 498,914 thousand at 31 December 2016).

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(c) Other reserves

The breakdown of this category as at 31 December 2017 and 2016 is the following:

	Thousands of Euros	
	31/12/2017	31/12/2016
Legal reserve	1,047	667
Parent Company Reserves	4,573	14,626
Consolidated reserves	105,994	27,365
Other shareholder contributions	240	240
Total	111,854	42,898

Reserve movements that took place during the 2017 period were as follows:

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

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(i) Legal reserve

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

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

At 31 December 2017 the legal reserve of the Parent Company totalled EUR 1,047 thousand (EUR 667 thousand at 31 December 2016).

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

(ii) Parent Company Reserves

The category “Other reserves” on the Statement of changes in equity includes expenses related to the incorporation of the Parent Company and to the capital increases through share issues carried out on 5 March 2014, 07 August 2015, 29 April 2016, 3 August 2016 and 25 July 2017 and other non-distributed profits used to fund the legal reserve.

(d) Valuation adjustments

This category on the consolidated statement of financial position includes the amount of changes to the value of financial derivatives designated as cash flow hedging instruments. The movement of the balance of this entry during 2017 is presented below:

	Thousands of Euros
31 December 2016	(1,365)
Changes in fair value of hedges in the period recognised directly in equity	(1,173)
Other amounts transferred to the income statement	875
31 December 2017	(1,663)

(e) Treasury shares

At 31 December 2017 the Company held treasury shares amounting to EUR 175 thousand (EUR 823 thousand at 31 December 2016).

Movement during the 2017 and 2016 periods was as follows:

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	Number of shares	Thousands of Euros
31 December 2016	117,998	823
Additions	3,993,001	31,371
Disposals	(4,091,119)	(32,019)
31 December 2017	<u>19,880</u>	<u>175</u>
	Number of shares	Thousands of Euros
31 December 2015	74,250	709
Additions	2,169,722	16,494
Disposals	(2,125,974)	(16,380)
31 December 2016	<u>117,998</u>	<u>823</u>

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

The average selling price of treasury shares in 2017 was EUR 7.87 per share (EUR 6.87 in 2016). The proceeds for the period ended 31 December 2017 amounted to EUR 131 thousand (EUR 464 thousand of losses at 31 December 2016) have been recognised under “Other Reserves” in the statement of position.

(f) Dividends paid

On 29 May 2017 the Shareholders' General Meeting approved the distribution of the Company's results in accordance with the proposal formulated by the Parent Company's Directors in their meeting held on 24 February 2017. The distribution is as follows:

	<u>Thousands of Euros</u>
<u>Basis of allocation</u>	
Profit for the period	3,800
Issue premium	26,566
<u>Distribution:</u>	
Legal reserve	380
Dividends	29,982
Voluntary reserve	4

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After deducting the amount corresponding to treasury shares, the dividend distribution totalled EUR 3,413 thousand, at EUR 0.038 per share, charged against the profit and loss for the 2016 period, and, additionally, the distribution of EUR 26,566 thousand was approved at EUR 0.294 per share, charged to the issue premium. The distributed dividend was paid in full in May of 2017.

(g) Payments based on shares

On 12 February 2014, the Parent Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, consultancy on the acquisition and management of property assets on behalf of the Parent Company and financial management. For said services the Manager will accrue fixed fees based on a percentage of the fair value (EPRA NAV) of the investments made. The amount accrued by the set fee at 31 December 2017 amounted to EUR 9,023 thousand (EUR 6,403 thousand in 2016).

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

	31/12/2017	31/12/2016
Equity	918,219	812,135
Revaluation of non-current assets	18,468	14,990
Fair value of financial instruments	189	3,274
Deferred tax (*)	14,613	-
EPRA NAV	951,489	830,399

** This amount refers to deferred tax liabilities generated in business combinations in LE Retail Gran Vía de Vigo, S.L.U., LE Retail Abadía, 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. (Note 2g).*

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

In this respect, the annual profitability of shareholders is defined in the contract as the sum of the change to EPRA NAV of the Group during the period, less net funds obtained from the issue of shares during the period, plus the dividends distributed during said period.

Pursuant to the contract, in the event the following thresholds are exceeded:

- Total annual return for the shareholders is greater than 10%, and
- The sum of (i) the EPRA NAV of the Group at 31 December of said period and (ii) the total figure of dividends that have been distributed in that period or in any period previous since the last that qualified the payment of the “Performance fee”, exceeds:

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- (a) the initial EPRA NAV (where net funds obtained by the Company as a result of the request and admission of its shares to be listed are considered as EPRA NAV), and
- (b) the EPRA NAV at 31 December (with the allowances resulting from the inclusion of paid dividends and the exclusion of net funds from any effected issue of ordinary shares) of the last period that qualified the Performance Fee. Said excess will be called the High Watermark Outperformance and represents the excess over the last EPRA NAV that qualified the Performance fee.

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

On 28 December 2017, the Parent Company and the manager have agreed to amend, retroactively to 01 January 2017, Clause 7.2 of the Investment Management Agreement, which stipulates the definition and calculation of the Performance Fee, such that the amount earned per year by the manager for this concept may not surpass the maximum amount of EUR 10,000 thousand.

The parties also agreed that the management company will be entitled to remuneration linked to the sale of real estate assets and on the condition that returns have been generated for the shareholder, provided that such sales amount to at least EUR 100 million. The amount of this remuneration will be accrued by the management company in the year the Group sells its investments at the aforementioned price or when, having generated value for the shareholder, the Parent unilaterally terminates the management agreement, neither of which has occurred at the date these annual accounts were authorised for issue. The amount of this remuneration will be the excess of EUR 10,000 thousand of the return generated for the shareholder, which is determined in accordance with the original clause of the agreement (20% of the shareholder's return if this exceeds 10%, and, additionally, if the return exceeds 12% and up to 22%, 20% of the excess of 12%).

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

The amount of the actual return for the shareholder is as follows:

	31/12/2017	31/12/2016
EPRA NAV Current period (*)	961,489	836,788
EPRA NAV Previous period (**)	830,399	577,970
Adjustments to the change in EPRA NAV	30,000	(131,029)
Capital increase (net of expenses)	-	(143,038)
Dividends from the previous period paid during the period	30,000	12,009
Increase in EPRA NAV in the period	161,090	127,789
Increase in EPRA NAV in the period (%)	19.40%	22.11%

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* Considering the effect on the EPRA NAV of the amount effectively accrued for the performance fee of EUR 10,000 thousand.

** Considering the fiscal effect.

At 31 December 2017 the shareholder's return calculated by the Parent Company is EUR 27,898 thousand, having accrued a performance fee of EUR 10,000 thousand in 2017 (EUR 25,558 thousand in 2016), which has been recognised as a liability.

In accordance with clause 7.2.2 of the management contract, Grupo Lar Inversiones Inmobiliarias, S.A. should use the amount accrued in respect of performance fee (after deducting the amount of the applicable income tax) to subscribe the Parent's share issues or, at the Parent's option, acquire its treasury shares.

At 19 February 2018 the Parent has entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement (see note 33).

(h) Capital management

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

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

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

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

	Thousands of Euros	
	31/12/2017	31/12/2016
Total financial debt (Notes 11 and 18)	557,094	454,877
Less, Cash and cash equivalents (Note 15)	(45,617)	(31,591)
Net debt	551,477	423,286
Total capital (capital + premium)	672,597	679,995
Debt + own resources	1,184,074	1,103,281
Financial debt ratio	43.20%	38.37%

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(17) EARNINGS PER SHARE

(i) Basic

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

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

	31/12/2017	31/12/2016
Profit for the period attributable to equity instrument holders of the Parent Company (in thousands of Euros)	135,606	91,430
Weighted average number of ordinary shares in circulation (number of shares)	91,372,891	72,707,108
Basic earnings per share (in Euros)	1.48	1.26

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

	31/12/2017	31/12/2016
Ordinary shares	90,540,562	59,997,756
Share capital increase (weighted effect)	907,662	12,926,086
Average effect of treasury shares	(75,333)	(216,734)
Weighted average number of ordinary shares in circulation at 31 December (shares)	91,372,891	72,707,108

(ii) Diluted

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

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

(18) FINANCIAL LIABILITIES BY CATEGORIES

(a) Classification of financial liabilities by category

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The classification of financial liabilities by category at 31 December 2017 and at 31 December 2016 is as follows:

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

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

At 31 December 2017 and 2016 the carrying amounts of the financial liabilities recorded at amortised cost do not differ significantly from the fair value.

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The “Trade payables” category includes EUR 4,000 thousand received as a purchase option premium for shares in the company LE Offices Egeo, S.A.U. On 27 September 2017 the Company signed a sell option with the company Inmobiliaria Colonial SOCIMI, S.A. for said shares, free of financial debt, from LE Offices Egeo, S.A.U. for a base price of EUR 79,300 thousand (Notes 11 and 33).

(b) Classification of financial liabilities by maturity

Details by maturity of financial liabilities at 31 December 2017 and 31 December 2016 are as follows:

	2017						
	Thousands of Euros						
	2018	2019	2020	2021	2022 and subsequent years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,482	-	-	-	138,787	-	142,269
Loans and borrowings (a)	5,580	5,445	72,127	4,999	278,594	-	366,745
Derivatives	1,267	-	-	-	831	-	2,098
Other financial liabilities	147	-	-	-	-	16,221	16,368
Deferred tax liabilities	-	-	-	-	-	14,613	14,613
Trade and other payables	38,917	-	-	-	-	-	38,917
Debts with group companies	7,505	-	-	-	-	-	7,505
Total	56,898	5,445	72,127	4,999	418,212	30,834	588,515

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

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- (a) *The effect of valuing financial liabilities from bonds and borrowings held with credit institutions at amortised cost decreases the nominal value of these liabilities by EUR 1,213 thousand and EUR 7,111 thousand, respectively in the 2017 period (EUR 1,496 thousand and EUR 4,761 thousand in the 2016 period).*

(19) FINANCIAL LIABILITIES FROM BORROWINGS

(a) Main characteristics of debt from bonds

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

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

On 27 July 2017, by virtue of the deed granted before Mr Ignacio Paz-Ares, the investment properties pledged as collateral for bonds were amended. Said amendment comprised the cancellation of the mortgage on the Anec Blau shopping centre, as well as the pledge on the shares in LE Retail Anec Blau, S.L.U., and the incorporation of a mortgage on the Almussafes, Alovera C2 and Alovera C5/C6 logistics bays, the Marcelo Spinola office building and the Eroski hypermarkets, as well as the pledge on the shares in LE Logistic Almussafes, S.L.U., LE Logistic Alovera III y IV, S.L.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U and LE Retail Hipermercados III, S.L.U.

The main characteristics of the issue are therefore as follows:

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Amount of the issue: EUR 140,000 thousand.
- Nominal amount: 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 equity instruments 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, and Albacenter Hipermercado shopping centres, the Almussafes, Alovera I, Alovera II, Alovera C2 and Alovera C5/C6 logistics bays, the Eloy Gonzalo and Marcelo Spinola office buildings and the Eroski hypermarkets. An ordinary pledge has also been established on the shares of LE Logistic Alovera I y II, S.A.U., LE Retail Hiper Albacenter, S.A.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Logistic Almussafes, S.L.U., LE Logistic Alovera III y IV,

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S.L.U., LE Offices Eloy Gonzalo 27, S.A.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 2017, EUR 281 thousand of these expenses (EUR 272 thousand in 2016) have been charged to the entry “Financial costs” on the consolidated comprehensive income statement for the period. The interest accrued at 31 December 2017 totalled EUR 4,060 thousand (EUR 4,060 thousand at 31 December 2016). Of said total, the amount of EUR 3,482 thousand was outstanding at 31 December 2017, to be paid in February of 2018.

At 31 December 2017, the investment property that has been pledged as collateral for bonds has a fair value of EUR 311,135 thousand and correspond to the aforementioned properties, all of which comprise investment property that belongs 100% to the Parent Company.

Covenants

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

- The Interest Hedging Ratio must be 1.25 or more, calculated by dividing EBITDA (net of tax) by the financial expenses for the reporting period.
- The Loan-to-Value Ratio must be 65% or less, calculated by dividing the 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 2017 without the need for additional guarantees and they believe these ratios will be met in 2018.

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

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

Institution	Currency	Effective rate	Maturity	Thousands of Euros		Guarantee
				Amount granted	Amortised cost and interest pending payment at 31/12/2017	
LE Offices Egeo, S.A.U.	Euro	EURIBOR 3M + 2% spread	15 December 2019	30,000	-	30,000 Egeo office building
LE Retail Alisal, S.A.U.	Euro	EURIBOR 3M + 2.90%	16 June 2025	7,822	-	7,361 Nuevo Alisal single-tenant commercial premises (b)
LE Retail As Termas, S.L.U.	Euro	EURIBOR 3M + 1.80% spread	25 June 2020	37,345	36,835	- As Termas shopping centre (b)
LE Retail El Rosal, S.L.U.	Euro	EURIBOR 3M + 1.75%	7 July 2030	50,000	49,189	- El Rosal shopping centre (b)
LE Retail Villaverde, S.L.U.	Euro	1.75% (until 30 September 2018) Subsequently EURIBOR 12M + 1.75%	13 October 2020	4,550	-	4,502 Villaverde single-tenant commercial premises (b)
LE Retail Galaria, S.L.U.	Euro	1.5% (until 14 March 2016) Subsequently EURIBOR 3M + 1.75%	14 December 2029	4,200	-	4,119 Galaria single-tenant commercial premises (a)(b)
LE Offices Joan Miró 21, S.L.U.	Euro	1.62%. Subsequently EURIBOR 3M + 1.75% premium	23 December 2020	9,800	9,648	- Joan Miró office building (a)(b)
LE Retail Megapark, S.L.U. (a)	Euro	EURIBOR 3M + 1.7%	24 February 2023	97,000	95,880	- Megapark shopping centre (a)(b)(c)
LE Retail Portal de la Marina, S.L.U. (b)	Euro	EURIBOR 3M + 0.88%	17 May 2020	66,000	35,370	- Portal de la Marina shopping centre (b)
LE Retail Gran Vía de Vigo, S.A.U.	Euro	EURIBOR 3M + 1.75%	14 March 2022	82,400	80,284	- Gran Vía de Vigo shopping centre (a)(b)(c)
LE Retail Vistahermosa,	Euro	1.52% (until 2 June 2017)	2 March 2022	21,550	21,066	- Vistahermosa business park

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Institution S.L.U.	Currency	Effective rate	Maturity	Thousands of Euros		Guarantee
				Amount granted	Amortised cost and interest pending payment at 31/12/2017	
		Subsequently EURIBOR 3M + 1.85%				(a)(b)
LE Retail Abadia, S.L.U.	Euro	1.80% (until 23 November 2020) Subsequently EURIBOR 3M + 1.75%	23 May 2024	34,750	33,890	- Abadía business park (a)(b)
LE Retail Megapark, S.L.U.	Euro	EURIBOR 3M + 1.7%	24 February 2023	8,250	4,583	- Megapark shopping centre (a)(b)(c)
LE Retail Sagunto, S.L.U.	Euro	EURIBOR 3M + 2.1%	14 September 2020	24,000	-	- VidaNova Parc
				477,667	366,745	45,982

- (a) *In addition to the mortgage security of the loan, the Company has pledged current accounts and credit accounts derived from the lease contract of the property on shares.*
- (b) *With respect to said mortgage loans, there are certain clauses linked to the keeping of the LTV “Loan to Value” ratio below 50%-70%. If the LTV is not kept below 50%-70%, all or part of the debt will mature early. Furthermore, the loans corresponding to the companies LE Retail Alisal, S.L.U., LE Retail As Termas, S.L.U., LE Retail El Rosal, S.L.U., LE Retail Galaria, S.L.U., LE Offices Joan Miró 21, S.L.U., LE Retail Megapark, S.L.U. and LE Retail Portal de la Marina, S.L.U., LE Retail Villaverde, S.L.U., LE Retail Vistahermosa, S.L.U., LE Retail Gran Via de Vigo, S.A.U. y LE Retail Abadia, S.L.U. have clauses on the maintenance of a minimum Debt Service Coverage Ratio between 1.1% and 2.65%. If the DSCR is not kept between said figures, all or part of the debt will mature early.*
- (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.*

Finance costs accrued on these loans in 2017 amounted to EUR 8,070 thousand. Accrued interest payable in 2017 is EUR 584 thousand. The finance cost accrued on bonds is EUR 4,341 thousand, of which EUR 3,482 thousand is payable at 31 December 2017.

The main changes that occurred in the period ended 31 December 2017 are as follows:

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- On 22 December 2017, LE Retail Megapark, S.L.U., a Group company, signed a syndicated loan agreement with Natixis, S.A., as agent and financing institution, Credit Agricole Corporate and Investment Bank, S.A. and Banco Santander, S.A., financing institutions, for a total amount of EUR 8,250 thousand and maturity at 24 February 2023. The loan comprises two instalments. Instalment A in the amount of EUR 4,675 thousand and Instalment B in the amount of EUR 3,575 thousand. The latter instalment is exclusively used to partially fund the investments to improve the Megapark Ocio asset, where no amounts thereof have been accessed thus far. Both instalments accrue interest on a quarterly basis, at an interest rate of the 3-month Euribor plus a 1.7% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost at the date the borrowing was formalised totalled EUR 94 thousands.
- On 14 September 2017, the Group company LE Retail Sagunto, S.L.U. signed a loan agreement with Caixabank, S.A. for a total amount of EUR 24,000 thousand. The purpose of the loan is to partially fund the investment costs 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 this contract until same is fully amortised, on the basis of a 360-year day. Interest is calculated using the number of calendar days elapsed in each interest period, including the first day and excluding the last, by applying the Euribor calculation plus a 2.1% spread. At 31 December 2017 no sum has been used.
- On 12 June 2017, the Parent Lar España Real Estate SOCIMI, S.A. obtained a EUR 15,000 thousand credit facility from Bankinter, which may be drawn down, up to the limit set at any given time, by means of cheques, transfer orders, notes, or any other payment order accepted by Bankinter. This credit facility must be fully repaid by 23 May 2018. The facility bears quarterly interest at a rate of 12-month EURIBOR plus a spread of 1.20%. It also bears a 4.5% excess balance fee. At 31 December 2017 no amount has been drawn down on this credit facility.
- On 23 May 2017, the Group company LE Retail Abadia S.L.U. signed a loan agreement with Banco Santander, S.A. for a total amount of EUR 34,750 thousand and with a 7-year maturity. The loan accrues interest quarterly, at the rate of 1.80% until 23 November 2020 and thereafter at an interest rate of the 3-month Euribor plus a 1.75% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 1,014 thousand.
- On 27 April 2017, the loan that the Parent Company, Lar España Real Estate SOCIMI, S.A., had formalised with Banco Santander, which carried an outstanding balance of EUR 20 million, was cancelled. Said cancellation was effected through the replacement of the company Inmobiliaria Juan Bravo 3, S.L. as the borrowing entity and the cancellation of a loan for the same amount between same and the Parent Company (Note 12).
- On 14 March 2017, the Group company LE Retail Gran Vía de Vigo, S.A.U. signed a loan agreement with ING Bank NV, Spanish branch, for a total amount of EUR 82,400 thousand and with a 5-year maturity. The loan accrues interest quarterly, at an interest rate of the 3-month Euribor plus a 1.75% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost at the date the borrowing was formalised totalled EUR 2,516 thousand.

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- On 2 March 2017, the Group company LE Retail Vistahermosa, S.L.U. signed a loan agreement with Banco Bilbao Vizcaya Argentaria, S.A., for a total amount of EUR 21,550 thousand and with a 5-year maturity. The loan accrues interest quarterly, at the rate of 1.52% in the first Interest Period and thereafter at an interest rate of the 3-month Euribor plus a 1.85% spread, which will be paid on the last day of the Interest Period. The effect of posting at amortised cost as at the date the borrowing was formalised totalled EUR 561 thousand.

The financing agreements signed by the Group require compliance with certain financial ratios. The Directors believe that they are complied with at 31 December 2017 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 2017 and 2016 are as follows:

	Thousands of Euros 2017
Non-current	831
Interest rate	
Current	1,267
Interest rate	
	2,098
	Thousands of Euros 2016
Non-current	1,890
Interest rate	
Current	1,384
Interest rate	
	3,274

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

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Derivatives contracted by the Group at 31 December 2017 and 31 December 2016 and their fair values at said dates are as follows (in thousands of Euros):

	Contracted interest rate	Thousands of Euros			
		Fair value at 31/12/2017	Fair value at 31/12/2016	Notional	Maturity
LE Retail El Rosal, S.L.U.	0.44%	833	1,199	50,000	2020
LE Retail As Termas, S.L.U.	0.53%	637	945	37,345	2020
LE Offices Joan Miró 21, S.L.U.	0.41%	141	225	9,800	2020
LE Retail Megapark, S.L.U.	0.22%	(125)	905	97,000	2023
LE Retail Megapark, S.L.U.	0.35%	25	(a)	4,675	2023
LE Retail Gran Vía de Vigo, S.A.U.	0.29%	582	(b)	82,400	2022
LE Retail Vistahermosa, S.L.U.	0.12%	5	(c)	21,550	2022
		2,098	3,274		

The main changes that occurred at 31 December 2017, in addition to the changes due to the oscillations in the fair prices of the derivative instruments, are as follows:

- (a) On 22 December 2017, the Group company LE Retail Megapark, S.L signed IRS hedging instrument contracts for nominal amounts of EUR 1,952 thousand, EUR 1,554 thousand and EUR 1,169 thousand with Natixis, S.A., Credit Agricole Corporate and Investment Bank, S.A. and Banco Santander, S.A, with a maximum maturity of 6 years. These IRS hedging instrument contracts will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.354% and a variable component based on the three-month Euribor. The fair value of these financial instruments has been recognised under liabilities for amounts of EUR 10 thousand, EUR 9 thousand and EUR 6 thousand at 31 December 2017. The Group has deemed the derivatives as ineffective and has therefore carried the changes in fair value to the Consolidated Statement of Global Income.
- (b) On 14 March 2017, the Group company LE Retail Gran Vía de Vigo, S.A.U. signed an IRS hedging instrument agreement with ING Bank NV, Spanish branch, for a nominal amount of EUR 82,400 thousand and with a 5-year maximum maturity. These IRS hedging instrument contracts will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.29% and a variable component based on the three-month Euribor. The fair value of this financial

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instrument was EUR 582 thousand in liabilities at 31 December 2017. The Group has applied hedge accounting, having recognised the said fair values in the equity.

- (c) On 2 March 2017, the Group company LE Retail Vistahermosa, S.L.U. signed an IRS hedging instrument agreement with Banco Bilbao Vizcaya Argentaria, S.A. for a nominal amount of EUR 21,550 thousand and with a 5-year maximum maturity. These IRS hedging instrument contracts will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.117% and a variable component based on the three-month Euribor. The fair value of this financial instrument was EUR 5 thousand in liabilities at 31 December 2017. The Group has applied hedge accounting, having recognised the said fair values in the equity.

The Hedging Relationships of exchange rate hedging financial instruments contracted with LE Retail El Rosal, S.L.U., LE Retail As Termas, S.L.U. and LE Retail Megapark, S.L.U. were classified at 31 December 2017 as ineffective. In this respect, the Group recognised the change in fair value of said instruments in the amount of EUR 1,788 thousand on the Consolidated Income Statement, in addition to the effect of reverting the amount recorded under equity corresponding to LE Retail El Rosal, S.L.U. and LE Retail As Termas, S.L.U. (EUR 314 thousand).

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

Scenario	Thousands of Euros		
	Liabilities	Equity	Consolidated profit before tax
5% Interest rate increase	6,319	(2,474)	(3,845)
5% Interest rate decrease	(5,589)	2,184	3,405

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

On 20 December 2017, Lar España Real Estate SOCIMI, S.A. and Inmobiliaria Juan Bravo 3, S.L. signed a liquidity line, by virtue of which Lar España Real Estate SOCIMI, S.A. may avail itself of a maximum amount of EUR 12,500 thousand, with maturity on 31 January 2018. This liquidity line generates interest at the fixed-rate of 5.95% of the availed capital. In the 2017 period, interest accrued in the amount of EUR 5 thousand.

At 31 December 2017, the availed amount totalled EUR 7,500 thousand.

On 31 January 2018 an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the aforementioned credit facility with the full amount of the ordinary loan of EUR 2.2 million extended to this associate and a portion of the participating loan, amounting to EUR 5.3 million.

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(e) Movements of cash under financial liabilities from borrowings

The movement of cash in the 2017 period of the Group's financial debts is as follows:

Thousands of Euros										
	Opening balance	New debt	Opening amortised cost	Principal amort.	Interest paid	Interest accrual	Changes in fair value	Re-classifications (Note 11)	Change to the scope (Note 2g)	Closing balance
Financial liabilities from issue of bonds	141,988	-	-	-	(4,060)	4,341	-	-	-	142,269
Loans and borrowings	309,615	143,375	(4,185)	(24,730)	(6,259)	8,070	-	(45,982)	(13,159)	366,745
Derivatives	3,274	-	-	-	(1,810)	1,810	(1,176)	-	-	2,098
	<u>454,877</u>	<u>143,375</u>	<u>(4,185)</u>	<u>(24,730)</u>	<u>(12,129)</u>	<u>14,221</u>	<u>(1,176)</u>	<u>(45,982)</u>	<u>(13,159)</u>	<u>511,112</u>

Changes during the period reflect the departure of LE Offices Arturo Soria, S.L. from the consolidated group after the Parent sold its interest to Inmobiliaria Colonial SOCIMI, S.A. (see note 2g).

(20) OTHER NON-CURRENT FINANCIAL LIABILITIES

At 31 December 2017 the Group includes under "Other non-current financial liabilities" EUR 16,221 thousand (EUR 14,918 thousand at 31 December 2016) that comprise security deposits delivered to the Group by the various tenants of the commercial premises located in its properties. This amount generally represents two months' rent and will be reimbursed at the end of the contract term.

(21) TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Trade payables	25,797	10,477
Trade payables, related parties (Note 30)	11,128	7,213
Customer advances	41	-
Salaries payable	136	108
Public entities, other (Note 23)	1,815	4,710
	<u>38,917</u>	<u>22,508</u>

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

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

	2017	2016
	Days	Days
Average number of days payable outstanding to suppliers	29	33
Ratio of paid operations	25	28
Ratio of operations pending payment	13	31
	Thousands of Euros	Thousands of Euros
Total effected payments	120,120	73,748
Total pending payments	4,698	3,977

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

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).

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(23) PUBLIC ENTITIES AND TAXATION(a) Balances with public entities

<u>Receivables</u>	Thousands of Euros	
	31/12/2017	31/12/2016
Taxation authorities, VAT recoverable	5,277	12,902
Taxation authorities, other withholdings	1,920	1,845
	7,197	14,747

<u>Payables</u>	Thousands of Euros	
	31/12/2017	31/12/2016
Taxation authorities, VAT payable	1,709	3,145
Taxation authorities, personal income tax withholdings payable	66	107
Taxation authorities, corporation income tax payable	34	1,453
Social Security contributions payable	6	5
Deferred tax liabilities (Note 2)	14,613	8,536
	16,428	13,246

(b) Reconciliation of accounting profit and taxable income

At 31 December 2017 and 2016, the taxable fiscal base comprises the following items:

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

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	Thousands of Euros
	31/12/2016
Profit before tax from continuing operations	91,430
Consolidation adjustments:	(101,366)
Permanent differences	(7,552)
Temporary differences	2,219
Taxable income (tax loss)	(15,269)
Tax payable (25%)	-
Tax payable (0%)	-
Income tax expense/income	-

At 31 December 2017 the Parent Company and the subsidiaries are included under the SOCIMI tax regime and pursuant to what is established therein, the tax rate applicable to the tax base is 0%, such that no expense has been recorded for Corporate Income Tax.

Deferred tax assets and liabilities

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

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

The deferred tax liability totalling EUR 14,613 thousand is the result of the purchase of LE Retail Gran Vía de Vigo, S.A.U., LE Retail Abadia, 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. after adjusting the fair value of their assets when the business combination was incorporated, as these companies did not adhere to the special tax regime for SOCIMIs when they were acquired. The changes in the balance in the 2017 period correspond to the business combinations effected therein (Note 2g).

(c) Periods pending verification and inspections

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the 2017 reporting date, the Group has open to inspection by the taxation authorities all the main applicable taxes since its incorporation. The Parent Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying annual accounts would not be significantly affected by any resulting liabilities.

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

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

(24) RISK MANAGEMENT POLICY

(a) Financial risk factors

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

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

(i) Market risk

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

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

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the Group (interest rates, share price, occupancy rates of investment property, etc.). The identification of variables that are interconnected and their degree of connection.
- The effect of the 5-point change in the floating interest rate on financial debt with credit institutions translates to an effect totalling EUR 361 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.

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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	
		2017	2016
Financial assets with associates	12	29,879	47,558
Non-current financial assets	13	11,928	11,205
Other current financial assets	13	7,118	5,393
Other current assets	13	553	617
Trade and other receivables	14	14,413	18,067
Cash and cash equivalents	15	45,617	31,591
		<u>109,508</u>	<u>114,431</u>

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

	Thousands of Euros				Total
	2017				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	
Operating lease receivables (Note 14)	1,765	205	199	849	3,018
Total assets	<u>1,765</u>	<u>205</u>	<u>199</u>	<u>849</u>	<u>3,018</u>

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	Thousands of Euros				Total
	2016				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	
Operating lease receivables (Note 14)	641	-	853	-	1,494
Total assets	<u>641</u>	<u>-</u>	<u>853</u>	<u>-</u>	<u>1,494</u>

At 31 December 2017 and 2016, the Group has recognised impairment on all trade receivables at risk of default covering the maximum exposure at risk. Impairment of receivables by geographical region representing the Group's activities is as follows:

	Thousands of Euros	
	2017	2016
País Vasco	123	167
Castilla y León	140	156
Cataluña	64	137
Castilla La Mancha	86	3
Comunidad Valenciana	306	381
Galicia	50	9
Comunidad de Madrid	3	-
	<u>772</u>	<u>853</u>

Cash and cash equivalents

At 31 December 2017 the Group has cash totalling EUR 45,617 thousand (EUR 31,591 thousand at 31 December 2016), which represents its maximum exposure to risk associated with these assets. Cash is held at banks and financial institutions and is subjected to the restrictions stated in Note 15.

(iii) Liquidity risk

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

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

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The Group's exposure to liquidity risk at 31 December 2017 and 2016 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

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

	2016					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	
Financial liabilities from issue of bonds	-	3,482	-	138,506	-	141,988
Loans and borrowings	2,704	1,515	3,658	301,738	-	309,615
Derivatives	-	-	1,384	1,890	-	3,274
Other non-current liabilities - security deposits	-	193	-	-	14,918	15,111
Deferred tax liabilities	-	-	-	-	8,536	8,536
Trade and other payables	219	7,213	15,076	-	-	22,508
Total	<u>2,923</u>	<u>12,403</u>	<u>20,018</u>	<u>442,134</u>	<u>23,454</u>	<u>501,032</u>

(iv) Cash flow and fair value interest rate risks

At 31 December 2017 the Group holds short-term fixed-rate financial assets (deposits) to generate a return on cash surpluses not invested in investment property. Fixed-rate financial assets are for the most part independent of market interest rate fluctuations.

At the reporting date, income and cash flows from the Group's operating activities are for the most part not significantly affected by fluctuations in market interest rates.

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(v) Tax risk

As mentioned in note 1, the Parent and some of its subsidiaries have availed of the special tax regime for SOCIMIs. The transition period ended in 2017 and compliance with all the requirements of the regime (see notes 1 and 5.n) is now mandatory. The requirements that must be met by the Parent include certain obligations of a more formal nature, such as incorporating the term SOCIMI into the corporate name, disclosing certain information in the notes to the individual annual accounts, the requirement to be quoted on a stock market, etc.; and others that, in addition, require management to make estimates and use judgement (determining taxable income, tests of income and assets, etc.). In the latter case, this could be somewhat complex, especially considering that the regime for SOCIMIs is relatively new and has essentially been developed on the basis of the response of the Spanish Directorate-General of Taxes to queries raised by different companies. With the support of its tax advisors, Group management has assessed its compliance with the requirements of the regime, concluding that such requirements have been met at 31 December 2017.

Furthermore, in order to take into account the financial effect of the regime also, pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting this regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month of the date of the agreement (see note 5.g).

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

(25) REVENUE

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

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(26) OTHER OPERATING EXPENSES

Details of other expenses are as follows:

	Thousands of Euros	
	2017	2016
Independent professional services	27,203	38,012
Insurance premiums	399	522
Bank fees and commissions	335	201
PR and advertising	1,293	532
Taxes other than corporate income tax	4,758	3,615
Impairment losses and uncollectibility of trade and other receivables (Note 14a)	19	362
Remuneration of the Board of Directors (Note 30.b) (*)	464	421
Other expenses	1,376	2,736
	35,847	46,401

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

(27) FINANCE PROFIT

The details of the financial result at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Finance income		
Finance income from loans (Note 13c)	2,072	3,968
Finance income from deposits (Note 13c)	13	41
Financial expenses		
Finance expenses from borrowings (Note 19)	(8,070)	(4,889)
Finance expenses from bonds (Note 19)	(4,341)	(4,332)
Finance expenses from derivatives (Note 19)	(1,810)	(1,241)
Other financial expenses	(60)	(4,234)
Changes in the fair value of financial instruments (Note 19)	1,474	(3,050)
	(10,722)	(13,737)

(28) EMPLOYEE BENEFITS EXPENSE

Details of employee benefits expense at 31 December 2017 and 2016 are as follows:

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	Thousands of Euros	
	2017	2016
Salaries and wages	477	383
Other benefits and taxes	65	63
	542	446

(29) PROFIT FOR THE PERIOD

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

	Thousands of Euros	
	2017*	2016*
Lar España Real Estate SOCIMI, S.A.	656	(7)
LE Logistic Alovera I y II, S.A.U.	9,329	4,620
LE Retail Hiper Albacenter, S.A.U.	1,081	1,696
LE Offices Egeo, S.A.U.	3,278	4,880
LE Retail Alisal, S.A.U.	1,588	1,527
LE Offices Eloy Gonzalo 27, S.A.U.	8,800	1,849
LE Retail As Termas, S.L.U.	6,606	9,052
LE Retail Portal de la Marina, S.L.U.	15,592	15,731
LE Logistic Alovera III y IV, S.L.U.	2,362	1,768
LE Logistic Almussafes, S.L.U.	1,319	1,380
LE Retail Hiper Ondara, S.L.U.	1,090	1,099
LE Offices Joan Miró 21, S.L.U.	222	1,073
LE Retail Megapark, S.L.U.	17,079	19,723
LE Retail Sagunto, S.L.U.	5,581	(576)
LE Retail El Rosal, S.L.U.	11,114	10,069
LE Retail Galaria, S.L.U.	670	1,124
Lar Shopping Centres VIII, S.L.U.	577	(1,577)
LE Retail Vistahermosa, S.L.U.	5,367	2,014
Lar Offices VI, S.L.U.	-	-
LE Retail Las Huertas, S.L.U.	(298)	1,039
LE Retail Gran Via de Vigo, S.A.U.	22,495	(4,138)
LE Offices Marcelo Spínola 42, S.L.U.	2,517	3,991
LE Retail Anec Blau, S.L.U.	3,748	7,753
LE Retail Albacenter, S.L.U.	5,907	1,836
LE Retail Txingudi, S.L.U.	684	4,043
Lar España Inversión Logística IV, S.L.U.	2,814	(24)
LE Retail Villaverde, S.L.U.	960	1,136
LE Offices Arturo Soria, S.L.U.	1,774	1,684
Inmobiliaria Juan Bravo 3, S.L.	(2,119)	(1,334)
LE Retail Abadia, S.L.U.	(777)	-
LE Retail Hipermercados I, S.L.U.	2,278	-
LE Retail Hipermercados II, S.L.U.	1,703	-
LE Retail Hipermercados III, S.L.U.	1,609	-
Profit before income tax	135,606	91,430
Income tax	-	-
Profit after income tax	135,606	91,430

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

(30) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party transactions and balances

As stated in Note 16, on 12 February 2014, the Parent Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, the acquisition and management of property assets on behalf of the Parent Company and financial management and accrues a fixed amount and an additional amount depending on EPRA NAV of the Company (Note 16g).

The fixed amount accrued by the manager totalled EUR 9,023 thousand (net of expenses discounted on the basis of the management contract formalised between the parties, which totalled EUR 777 thousand). At 31 December 2017 EUR 756 thousand of this amount was outstanding. At 31 December 2016 the base fee expense totalled EUR 6,403 thousand of which EUR 535 thousand was outstanding at 31 December 2016. The Group calculates the base fee payable on the basis of EPRA NAV from the previous period, adjusted by the net cash flow of the investments financed with the cash available at the beginning of the period and less any expenses assumed or paid by Group companies.

The Group has also signed a contract with a related company, Gentalia 2006, S.L., (in which Grupo Lar Inversiones Inmobiliarias, S.A. holds a majority interest) for the provision of services related to the administration of the properties. At 31 December 2017 the related expense amounted to EUR 2,136 thousand (of which EUR 434 thousand was outstanding at 31 December 2017). At 31 December 2016 the related expense amounts to EUR 1,672 thousand (of which EUR 372 thousand was outstanding).

In addition, the amount of income obtained by the Parent Company with respect to the credit delivered to the associate Inmobiliaria Juan Bravo 3, S.L. (Note 12) totalled EUR 2,072 thousand in the 2017 period.

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

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2017 and 2016, classified by item, is as follows:

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

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

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

Allowances for the Board of Directors include EUR 75 thousand for the non-executive Secretary of the Board of Directors (EUR 75 thousand at 31 December 2016).

At 31 December 2017, the company has 7 Board members, 6 of whom were men and 1 of whom was a woman (at 31 December 2016, the company had 5 Board members, all of them men).

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At 31 December 2017 and 2016 the Group has no pension or life insurance obligations with former or current members of the board of directors or senior management personnel of the Parent Company.

At 31 December 2017 and 2016 no advances or loans have been extended to Members of the Board or Senior Management.

(c) Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Parent Company

Apart from the transactions with related parties listed above, in 2017 the directors of the Parent Company have not carried out any transactions other than ordinary business or under terms that differ from market conditions with the Parent Company or any other Group company.

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

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

(31) EMPLOYEE INFORMATION

The average headcount of the Group at 31 December 2017 and 2016, distributed by category, is as follows:

Professional category	2017	2016
Senior management personnel	4	4
Total	4	4

The distribution of Group personnel by gender at 31 December 2017 and 2016 is as follows:

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

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

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In the 2017 and 2016 periods the Company had no employees with a 33% or greater disability.

(32) AUDIT FEES

During 2017 and 2016, fees for audit and other related services charged to the Group by the auditor of the consolidated annual accounts, Deloitte, S.L., and by companies belonging to the Deloitte network, as well as fees for services charged by the auditors of the individual annual accounts of the companies included in the consolidation and for the entities related thereto through control, shared property or management were as follows (in thousands of Euros):

	Thousands of Euros
	31/12/2017
Audit and related services	
Audit services 2017	245
Other verification services	64.5
Professional services	
Other services	194
Total	503.5
	31/12/2016
Audit and related services	
Audit services 2016	250
Other verification services	239
Professional services	
Other services	12
Total	501

(33) EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, after executing the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of its company shares in its subsidiary LE Offices Egeo, S.A.U., a company owned 100% and owner of the Egeo office building located in Madrid, to Inmobiliaria Colonial Socimi, S.A. for a total amount of EUR 79,280 thousand. The shares were sold after observing the three-year property holding period pursuant to the Law on SOCIMIs (Note 1).

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On 31 January 2018 an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the credit facility drawn down by the Parent against the full amount of the ordinary loan of EUR 2.2 million and EUR 5.3 million of the participating loan extended to this associate.

On 6 February 2018, Lar España Real Estate SOCIMI, S.A. acquired 100% of the shares of Legaro Spain, S.L.U. (owner of the Rivas Futura Retail Park) for a total of EUR 34,362 thousand, subject to the usual adjustments in these types of transactions.

On 19 February 2018 the Parent entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement ("IMA"). Pursuant to this amendment, the IMA shall remain in force for a period of four years as of 1 January 2018. The structure of fees and commissions payable to the management company (base fee and performance fee) has also been amended. From 2018 onwards, the base fee payable to the management company will be calculated on the basis of an annual amount equal to the higher of (i) EUR 2 million and (ii) the sum of (a) 1.00% of the EPRA NAV (excluding net cash) at 31 December of the prior year up to an amount not exceeding EUR 1,000 million, and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December of the prior year for the amount in excess of those EUR 1,000 million. Furthermore, from 2018 onwards the performance fee payable to the management company shall be calculated based on the EPRA NAV and the Company's stock market capitalisation, and shall be capped at a total amount equal to 3% of the Company's EPRA NAV at 31 December of the prior year. The presentation attached to this notice includes additional information relating to the calculation and payment of the performance fee.

On 20 February 2018, the Group company LE Retail Abadia, S.L.U. acquired the Parque Abadia trading estate in Toledo for EUR 14 million, subject to the usual adjustments for this type of transaction.

(34) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

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a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	966	966	(529)	42,704	43,201	62,480	43,531	18,949	42,594
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	296	275	(251)	11,861	11,945	15,013	12,029	2,948	11,909
LE Retail Alisal, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	669	452	(398)	9,033	9,147	19,313	16,655	2,658	9,081
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	1,054	447	(406)	35,881	35,982	76,674	64,443	12,231	36,427
LE Offices Eloy Gonzalo 27, S.A.U.*	The acquisition and development of properties	Subsidiary	100%	100%	60	(330)	(330)	-	15,070	14,800	26,500	15,231	11,269	15,260

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Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail As Termas, S.L.U.*	for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	2,487	1,424	(956)	29,382	29,854	82,250	67,806	14,444	30,125
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	620	620	(374)	9,833	10,083	13,900	10,293	3,607	9,839
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	463	463	(387)	8,087	8,167	10,300	8,296	2,004	8,092
LE Retail Hiper Ondara, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	297	297	(270)	6,773	6,804	9,300	6,903	2,397	6,778
LE Offices Joan Miró 21, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	409	228	(166)	10,387	10,453	21,450	19,546	1,904	10,392
LE Retail Megapark, S.L.U.*	The acquisition and	Subsidiary	100%	100%	4	4,489	3,415	(2,179)	76,266	77,506	204,975	166,797	38,178	77,182

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Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Sagunto, S.L.U. *	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	(369)	(368)	-	20,522	20,158	24,780	11,788	12,992	21,426
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	675	(512)	-	24,588	24,079	108,950	73,807	35,143	33,059
LE Retail Galaria, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	422	337	(307)	4,808	4,842	10,700	8,356	22,344	4,813
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(930)	(930)	-	44,711	43,784	54,000	36,000	18,000	46,292
Lar España Offices VI, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	-	-	-	3
LE Retail	The	Subsidiary	100%	100%	3	1,116	717	(473)	21,820	22,067	50,390	43,607	6,783	21,949

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Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Vistahermosa, S.L.U. *	acquisition and development of properties for lease													
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(104)	(92)	-	2,395	2,306	5,200	2,262	2,938	2,423
LE Retail Villaverde, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	422	324	(278)	5,188	5,237	11,343	9,060	2,283	5,189
LE Retail Anec Blau, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	982	982	(622)	77,784	78,147	95,380	78,706	16,674	78,579
LE Retail Albacenter, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	387	387	(112)	29,279	29,557	41,309	29,813	11,496	29,376
LE Retail Txingudi, S.L.U.	The acquisition and development of properties	Subsidiary	100%	100%	3	449	449	(342)	30,155	30,265	39,000	31,244	7,756	30,280

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

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Las Huertas, S.L.U.	for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	3	126	126	(70)	12,203	12,262	12,600	12,044	556	12,439
LE Offices Marcelo Spínola, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,736)	(1,736)	-	29,076	27,343	37,500	27,945	9,555	30,314
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	502	3,983	2,242	(1,139)	25,344	26,949	163,000	107,018	55,982	57,040
LE Retail Portal de la Marina, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	27,240	3,012	2,645	(1,786)	12,343	40,442	110,500	79,090	31,410	39,318
LE Retail Abadía, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	7,204	2,237	1,179	(905)	8,660	16,138	65,040	42,248	22,792	29,059
LE Retail Hipermerca	The acquisition	Subsidiary	100%	100%	3	850	742	(478)	14,339	14,606	17,538	14,613	2,925	15,146

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Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
dos I, S.L.U.	and development of properties for lease													
LE Retail Hipermercados II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	829	721	(529)	14,524	14,719	17,424	14,837	2,587	16,416
LE Retail Hipermercados III, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	752	648	(520)	13,203	13,334	17,570	13,456	4,114	15,044
					35,320	24,883	16,118	(13,477)	646,218	684,179	1,411,779	1,025,176	376,919	745,844

* Company audited by Deloitte, S.L.

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

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b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating profit	Thousands of Euros			Carrying amount of investment
					Direct	Total			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	22,438	20,797	-	(23,946)	11,443

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a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	150	150	-	41,869	42,079	54,850	44,262	10,586	41,759
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	229	229	(209)	11,312	11,392	14,313	12,135	2,178	11,360
LE Retail Alisal, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	338	169	(135)	9,565	9,659	18,334	16,881	1,453	9,613
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	112	(498)	-	32,612	32,174	73,930	64,529	9,401	32,660
LE Offices Eloy Gonzalo 27, S.A.U.*	The acquisition and	Subsidiary	100%	100%	60	(142)	(141)	-	12,504	12,423	15,000	12,862	2,138	12,553

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Information on Group Companies
31 December 2016

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail As Termas, S.L.U.*	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	1,228	(358)	-	29,200	28,846	78,100	67,838	10,262	29,204
LE Logistic Alovera III y IV, S.L.U.	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	362	362	(346)	9,909	9,929	12,125	10,261	1,864	9,914
LE Logistic Almussafes, S.L.U.	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	294	294	(271)	8,129	8,156	9,500	8,381	1,119	8,134
LE Retail Hiper Ondara, S.L.U.	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	158	156	(153)	6,949	6,956	8,600	6,995	1,605	6,954
LE Offices Joan Miró 21, S.L.U.*	development of properties for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	4	264	(1)	-	10,284	10,287	21,420	19,805	1,615	10,514
LE Retail	The	Subsidiary	100%	100%	4	2,060	(885)	-	65,911	65,030	191,900	167,385	24,515	65,917

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

Information on Group Companies
31 December 2016

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Megapark, S.L.U.*	acquisition and development of properties for lease													
LE Retail Sagunto, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	(578)	(576)	-	8,466	7,894	6,190	4,771	1,419	8,794
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,029)	(2,971)	-	28,608	25,640	99,790	76,274	23,516	33,055
LE Retail Galaria, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	242	157	(149)	4,468	4,480	10,400	8,389	2,011	4,473
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,577)	(1,577)	-	47,432	45,858	39,112	36,000	3,112	47,436
Lar España Offices VI, S.L.U.	The acquisition and development of properties	Subsidiary	100%	100%	3	-	-	-	-	3	-	-	-	3

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Information on Group Companies
31 December 2016

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Vistahermosa, S.L.U.	for lease The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(119)	(119)	-	43,329	43,213	45,580	43,447	2,133	43,333
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(24)	(24)	-	2,092	2,071	-	-	-	2,096
LE Retail Villaverde, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	229	132	(106)	5,138	5,167	10,771	9,124	1,647	5,141
LE Offices Arturo Soria, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	241	(43)	-	11,495	11,455	27,160	24,166	2,994	11,497
LE Retail Anec Blau, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(793)	(793)	-	78,574	77,784	93,250	79,710	13,540	78,577
LE Retail Albacenter,	The acquisition	Subsidiary	100%	100%	3	(94)	(94)	-	28,977	28,886	35,464	29,840	5,624	28,980

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

Information on Group Companies
31 December 2016

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Thousands of Euros			
			Direct	Total							Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
S.L.U.	and development of properties for lease													
LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(122)	(122)	-	27,473	27,354	35,500	27,979	7,521	27,476
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(233)	(233)	-	12,196	11,966	13,300	12,321	979	12,199
LE Offices Marcelo Spínola 42, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,236)	(1,236)	-	28,504	27,271	33,500	28,213	5,287	28,507
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	502	(941)	(3,287)	-	110,143	107,358	144,500	109,489	35,011	137,970
LE Retail Portal de la Marina, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	27,240	457	621	(487)	8,852	36,226	98,500	80,037	18,463	35,889

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

Information on Group Companies
31 December 2016

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
					28,110	(524)	(10,688)	(1,856)	683,991	699,557	1,191,089	1,001,094	189,995	744,008

* 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 2016**b) Joint venture**

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

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

Lar España Real Estate SOCIMI, S.A.

Consolidated Management Report corresponding to the annual period ended on 31 December 2017

1 Situation of the Group

1.1 Situation of the real estate market

Investment market

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

- Limited **product availability** is the main cause behind the competitiveness.
- The volume of investment in offices, retail and logistics grew by 15% over 2016, maintaining its upward trend.
- **SOCIMIs** consolidate themselves as key players in the market.
- **International investors** seeking opportunities continue to enter the Spanish market.
- **Funding is improving** in terms of the Loan-to-value ratio (LTV), which is 64.9%.

Asset management capacities and market access will be key in the upcoming months. These trends have not changed the original plans in terms of the investment schedule or the profitability expected from said investments.

Shopping centres

The **investment volume** in 2017 increased by 30% over the same period in the previous year, totalling nearly EUR 4,000 million.

According to Shoppertrak data, **footfall levels** continued their upward trend, with a 19.3% month-on-month increase and 6.3% year-on-year increase in December. In the year as a whole, traffic at stores and shopping centres saw a +1.8% year-on-year growth.

In the year as a whole, retail sales increased by 1.4% (data have been adjusted for seasonal and calendar effects by the Spanish Statistics Institute or INE).

Logistics market

The year 2017 was a year of record figures in terms of logistic **investment volume**, with same exceeding EUR 1,400 million, 72% more than in 2016.

On the other hand, **logistic take-up** in Madrid during the first six months of the year totalled 800,000 m², representing a 70% year-on-year increase, while in Barcelona same saw a 32% year-on-year decrease, with 450,000 m² being contracted.

Levels of **returns** continued to fall in Madrid, with a 5.5% yield prime, and in Barcelona same

remained constant at 5.75%.

The **availability rate** increased in both markets as a result of the release of logistics spaces in Madrid, where the rate was 4.2%, and the termination of projects in Barcelona, where the rate was 3.2%.

Office Market

- **Madrid**

Supply: The dynamism of market demand caused availability to continue its quarter-on-quarter downward trend. In Madrid, the available surface area totalled 1,639,000 m² (1.56 million m² in 2016) which represents a 10.89% vacancy rate at the 2017 reporting date, a 98-point fall since the beginning of the year.

Take-up: In 2017 office contracts were boosted by the employment growth in Spain. Madrid recorded contracting levels that approached levels achieved prior to the economic crisis, exceeding 560,000 m², nearly 30% more than the surface contracted in 2016 (430,000 m²).

Rental Income: In 2017 the office market continued the recovery and consolidation process it began in 2013. Last year, the prime income in Madrid's CBD increased by 7.76% to €31.25/m²/month at the annual reporting date (€29.00/m²/month at the previous annual reporting date), which was a return to 2009 levels. Second and Non-operating income increased year-on-year by 10.61% and 12.28%, reaching €18.25/m²/month and €16/m²/month respectively (€16.50/m²/month and €14.25/m²/month in 2016, respectively) while incomes remained stable in the Satellite District. The short- and medium-term forecasts are clearly positive.

- **Barcelona**

Supply: Likewise, availability continued its downward trend in the wake of the previous quarters, with strong demand and low availability rates. Q4 saw a 2-point decrease on Q3 2017, reaching levels not seen since the end of 2008 (7.68%).

Take-up: In Barcelona in Q4, 67,037 m² were contracted, making the accumulated volume for 2017 total 331,657 m². This represents a 30% increase on Q3, and a 9% increase in contracts if we compare with the previous year (305,000 m² in 2016). This year was defined by high-volume transactions, where 80 operations of more than 1,000 m² each were recorded.

Rental Income: Maximum income continued increasing in most areas, mainly due to the strength in contracting and the limited availability of high-quality product. The maximum income on Paseo de Gracia/Diagonal was €23.25/m²/month, which are levels not seen since 2009.

Residential market

In line with the residential market consolidation, there was a 10% increase in the number of mortgages on dwellings in Spain in 2017, where more moderate levels of growth were recorded than at the beginning of the recovery.

Despite the growth in started and finished dwellings, the result of the expensive trend recorded in the sector, the levels thereof remain low. The forecast for upcoming years is that the market

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Management report for the period ended 31 December 2017

will gradually stabilise, supported on global economic growth. The cycle is expected to expand at least until reaching production values that suit demand, around 120,000 dwellings.

After the 59% increase in New Dwelling Licences in 2016, the year 2017 was a year of restraint, with 5% growth throughout Spain.

New Dwelling transactions grew 17% in 2017. Second-hand transactions continued to greatly improve over the 2016 data in all Autonomous Communities.

Out of all buyers, 17%, representing around 94,000 transactions, were foreign. This is a 19% increase over 2016.

The price of non-subsidised dwelling in Spain changed to an upward trend in 2014, with 2017 seeing 5.2% growth, at €1,540/m².

Spain continued the pace of reduction in terms of New Dwelling available stock.

The increase in dwelling prices drives up rental prices in Spain, especially in Madrid, Barcelona and the islands, increasing by 26% in the last year. A continued rise in rental prices could increase dwelling transactions as mortgage expenses level with rental prices.

1.2 Organisational structure and operations

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

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

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

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

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

- Offices: the rental of offices.

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

- Logistics: the rental of logistics bays.

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

- Residential.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Management report for the period ended 31 December 2017

The Group invests in the residential market focusing mainly on first homes located in the most consolidated area of Madrid.

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

- In accordance with the Group investment strategy, said Group shall focus 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 investment plans as forecast.

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

2 Evolution and result of the businesses

2.1 Introduction

At the 2017 reporting date, the Group's ordinary revenue amounted to 77,600 thousand euros, corresponding to the business in which the Group is engaged: the rental business.

During 2017 the Group incurred "Other expenses" amounting to 35,487 thousand euros, corresponding essentially to the fees for management provided by Grupo Lar Inversiones Inmobiliarias, S.A. to the Group (19,023 thousand euros) and professional services (accounting and legal advice, audit and property valuations (11,343 thousand euros).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) stood at 46,923 thousand euros.

The appreciation in value during 2017 of the real estate investments held by the Group at 31 December 2017, according to the independent valuation conducted by Cushman & Wakefield and Jones Lang Lasalle at the close of the financial year is 101,558 thousand euros.

As at 31 December of 2017, the Group's rental business has been valued, by the same independent appraisers referred to in the previous paragraph. The values of the appraisals are updated every half-year, in accordance with best market practices.

The financial result was negative amount of 10,722 thousand euros.

The Group's profit for the period was 135,606 thousand euros.

By area of activity, we should be emphasised:

- A significant percentage of the Group's revenue is the result of rent from retail centres, accounting for 85% of total revenue, as opposed to 8% from offices and 7% from logistics.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Management report for the period ended 31 December 2017

- Around 43% of rental revenue is generated by the Megapark, Gran Vía de Vigo and Portal de la Marina retail centres.

As at 31 December 2017, the Group occupied across its whole business 97.1% the gross leasable area (GLA), the occupancy rate at retail centres being 93.4%, 94.1% for offices and 100% for logistics.

As at 31 December 2017, the Group has a portfolio of real estate rental projects covering retail centres (411,297 m²), business premises (28,822 m²), office buildings (41,967 m²), and logistics warehouses (161,841 m²). The overall total gross leasable area of 643,927 m².

The information in the previous paragraph does not take into account the Vidanova Parc, Cheste and Palmas Altas sites, since they have not been built to date.

2.2 Other financial indicators

As at 31 December 2017, the Group revealed the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 115,198 thousand (EUR 65,512 thousand as at 31 December 2016).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 2.1 (2.8 as of 31 December 2016).
- 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 (1.1 as of 31 December 2016).

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 15.77% (13.40% as of 31 December 2016). 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 9.15% (7.74% as of 31 December 2016), 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 2017", which was published on the same date as these Financial Statements and explanatory notes, state how the EPRA indicators are calculated and defined.

2.3 Environment and staff issues

Environment

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

Staff

As at 31 December 2017 the Group has 4 employees (3 men and 1 woman). See Note 31 of the consolidated report.

3 Liquidity and capital resources

3.1 Liquidity and capital resources

As at 31 December 2017, the Group's financial debt stands at EUR 557,094 thousand. The level of debt is related to the purchases of the Egeo and Joan Miró office buildings, the As Termas, el Rosal, Megapark, Portal de la Marina, Vistahermosa, Gran Vía de Vigo and Parque Abadía shopping centre, and the Villaverde, Nuevo Alisal and Parque Galaria single-tenant commercial properties. In a similar way the bonds issued by the Parent Company on the year 2015 are included.

As at 31 December 2017, the Group's short-term financial debt stands at EUR 10,502 thousand, considering the mortgage loans connected with the non-current assets held for sale, as their classification does not correspond with the contractual maturity. In a similar way the bonds issued by the Parent Company on the year 2015 are included.

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

On 27 March 2017, the Company formalised and executed the acquisition of:

(i) 100% of the share capital of the company LE Retail Abadía, S.L.U. (formerly NPS European Property Toledo, S.L.) owner of the Parque Abadía retail complex in Toledo with a gross leasable area (GLA) of approximately 37,114 m², totally occupied;

(ii) 100% of the share capital of the companies LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U. (formerly NPS European Property (Retail) I, S.L.U, NPS European Property (Retail) II, S.L.U and NPS European Property (Retail) III, S.L.U., respectively) owners of a portfolio of 22 retail units in various places in Spain, a portfolio of 22 retail units with a total gross leasable area (GLA) of 28,822 m², totally occupied.

The acquisition was carried out for a total amount of EUR 110.2 million, subject to the subsequent customary price adjustments in this kind of transactions, and has been fully paid with the funds of the Company.

Additionally, on 27 October 2017, the Company has acquired from Arcona Ibérica the assets that allow the management of 33 units with a gross leasable area (SBA) of approximately 19,800 m², intended to be used as recreational and leisure facilities, located in the retail complex Megapark Barakaldo (Vizcaya).

The acquisition has been carried out for a total amount of approximately €8.7 million, subject to the subsequent customary price adjustments in this kind of transactions, and has been fully paid with the funds of the Company.

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

As at 31 December 2017, the Group has no contractual obligations that may require a future outflow of liquid resources, over and above those mentioned in point 3.1 or in the explanatory notes of the consolidated report.

As at 31 December 2017, 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 Oversight Committee. The Group's Risk Management and Oversight System groups together the risks that could potentially affect the Group in the following spheres, which constitute the Group's corporate risk map.

5 Significant circumstances occurring after the close

There have been no significant developments since the end of the year.

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 2018 and in subsequent years.

7 R&D&I activities

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Management report for the period ended
31 December 2017

8 Acquisition and disposal of treasury stock

With respect to treasury share transactions, see Note 16 of the consolidated report.

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 at 31 December 2017, the share price was EUR 8.89.

As at 31 December 2017, the Company holds a total of 19,880 shares, representing 0.02% of total issued shares.

9 Other relevant information

9.1 Stock exchange information

The initial share price at the start of the year was EUR 7.05 and the nominal value at the reporting date was EUR 8.89. During the year 2017, the average price per share was EUR 7.87.

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

9.2 Dividend policy

On 29 May 2017, the Shareholders' General Meeting approved the distribution of a dividend of EUR 3,416 thousand, at EUR 0.038 per share (taking into account all the shares issued) charged to the results for the financial year 2016, and of EUR 26,566 thousand, at EUR 0.294 per share (taking into account all the shares issued), charged to the share premium. The amount distributed totalled EUR 29,979 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 29 May 2017, and adjusting the difference for the greater number of treasury shares against the share premium. The distributed dividend was paid in full in May 2017.

9.3 Average number of days payable outstanding to suppliers

The average number of days payable outstanding to suppliers is 29, complying with the maximum legal payment period applicable to the Company in the year 2017 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 2017 Annual Corporate Governance Report forms part of this Management Report.

11 Events after the reporting period

On 16 January 2018, after executing the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of its company shares in its subsidiary LE

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Management report for the period ended
31 December 2017

Offices Egeo, S.A.U., a company owned 100% and owner of the Egeo office building located in Madrid, to Inmobiliaria Colonial SOCIMI, S.A. for a total amount of EUR 79,280 thousand. The shares were sold after observing the three-year property holding period pursuant to the Law on SOCIMIs (Note 1).

On 31 January 2018, an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the credit facility drawn down by the Company with the full amount of the ordinary loan of EUR 2.2 million and EUR 5.3 million of the participating loan extended to this associate.

On 6 February 2018, Lar España Real Estate SOCIMI, S.A. acquired 100% of the shares of Legaro Spain, S.L.U. (owner of the Rivas Futura Retail Park) for a total of EUR 34,632 thousand, subject to the usual adjustments in these types of transactions.

On 19 February 2018 the Parent entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement ("IMA"). Pursuant to this amendment, the IMA shall remain in force for a period of four years as of 1 January 2018. The structure of fees and commissions payable to the management company (base fee and performance fee) has also been amended. From 2018 onwards, the base fee payable to the management company will be calculated on the basis of an annual amount equal to the higher of (i) EUR 2 million and (ii) the sum of (a) 1.00% of the EPRA NAV (excluding net cash) at 31 December of the prior year up to an amount not exceeding EUR 1,000 million, and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December of the prior year for the amount in excess of those EUR 1,000 million. Furthermore, from 2018 onwards the performance fee payable to the management company shall be calculated based on the EPRA NAV and the Company's stock market capitalisation, and shall be capped at a total amount equal to 3% of the Company's EPRA NAV at 31 December of the prior year. The presentation attached to this notice includes additional information relating to the calculation and payment of the performance fee.

On 20 February 2018, the Group company LE Retail Abadía, S.L.U. acquired the Parque Abadía trading estate in Toledo for EUR 14 million, subject to the usual adjustments for this type of transaction.

an amount not exceeding EUR 1,000 million, and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December of the prior year for the amount in excess of those EUR 1,000 million. Furthermore, from 2018 onwards the performance fee payable to the management company shall be calculated based on the EPRA NAV and the Company's stock market capitalisation, and shall be capped at a total amount equal to 3% of the Company's EPRA NAV at 31 December of the prior year. The presentation attached to this notice includes additional information relating to the calculation and payment of the performance fee.

On 20 February 2018, the Group company LE Retail Abadía, S.L.U. acquired the Parque Abadía trading estate in Toledo for EUR 14 million, subject to the usual adjustments for this type of transaction.

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

Authorisation of the consolidated annual accounts
Yearly period ended on 31 December 2017 and
statement of compliance of
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 23 February 2018, pursuant to the requirements of Article 253 of the Revised Spanish Companies Act and Article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the consolidated annual accounts for the period ended 31 December 2017. The consolidated annual accounts comprise the documents that precede this certification and are issued on the accompanying pages of ordinary paper, all of which have been initialized by the Deputy Secretary of the Board of Directors, with all the members of the Board of Directors signing the last page.

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

To the best of their knowledge, the consolidated annual accounts for the annual period ended 31 December 2017, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Group and that the consolidated management report accompanying the consolidated annual accounts includes a reliable analysis of the development and business results and position of Lar España and Subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

Mr. José Luis del Valle Doblado (Chairman)

Mr. Alec Emmott

Mr. Roger Maxwell Cooke

Mr. Pedro Luis Uriarte Santamarina

Mr. Miguel Pereda Espeso

Mr. Laurent Luccioni

Ms. Isabel Aguilera Navarro

Madrid, 23 February 2018

Appendix I

ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY- LISTED COMPANIES

DATA IDENTIFYING THE ISSUER

Financial year end:

31/12/2017

Tax ID no. (CIF):

A-86918307

Registered business name:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Registered office:

Rosario Pino 14-16, Madrid.

ANNUAL CORPORATE GOVERNANCE REPORT FORM  FOR PUBLICLY LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
02/08/2017	185.248.194	92.624.097	92.624.097

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		3.407.640	3,679%
BRANDES INVESTMENT PARTNERS, L.P.	0		4.659.918	5,031%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		13.890.835	14,997%
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	5.265.761		0	5,685%
PIMCO BRAVO II FUND, L.P.	0		18.157.101	19,603%
SANTA LUCIA S.A. CIA DE SEGUROS	1.838.588		1.045.726	3,115%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4.653.434	5,024 %

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

Name or company name of shareholder	Transaction date	Transaction background
BRANDES INVESTMENT PARTNERS, L.P.	16/01/2017	Increased its shareholding
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	09/08/2017	Increased its shareholding
PIMCO BRAVO II FUND, L.P.	24/08/2017	Decreased its shareholding
SANTA LUCIA S.A. CIA DE SEGUROS	22/11/2017	increased its shareholding
THREADNEEDLE ASSET MANAGEMENT LIMITED	19/07/2017	Decreased its shareholding

A.3 Complete the following tables detailing the directors who have voting shares in the company:

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of the direct shareholder	Number of voting rights	
José Luis Del Valle		Eugemor, SICAV, S.A.	22.425	0,024%
Alec Emmott	1.155			0,001%
Roger Cooke.	2.500			0,002%
Miguel Pereda	16.905	Grupo Lar Inversiones Inmobiliarias S.A.	5.265.761	5,703%
Pedro Luis Uriarte	54.930			0,059%

% of total voting rights held by the board of directors	5,789%
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Complete the following table detailing the directors who have stock options in the company:

Name or company name Director	Number of options held directly	Options held indirectly		Number of equivalent shares	% of total voting rights
		Direct holder	No. of voting rights		

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

Name or company name of related party	Type of relationship	Brief description

A.5 Where applicable, list commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are scanty material or derive from the company's ordinary course of business:

Name or company name of related party	Type of relationship	Brief description
LVS II LUX XII, S.A.R.L.	Contractual "Subscription Agreement"	Right of first refusal in relation to certain opportunities to jointly invest in service and residential properties.
Grupo Lar Inversiones Inmobiliarias	Investment Management Agreement	Company management agreement

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

Yes No

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
19,880	0	0.021%

(*) Held through:

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

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

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

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

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

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

A.9 bis Estimated free float:

Estimated free float	97.1%
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A.10 Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

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

Yes No

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

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

Yes No

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

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

Yes No

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

B GENERAL MEETING

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

Yes No

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

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

Yes No

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

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

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

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

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

General meeting date	Attendance data				Total
	% attending in person	% attending by proxy	% correspondence voting		
			Votes cast electronically	Other	
29/05/2017	3.699%	57.364%	0.009%	9.476%	70.548%

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

Yes No

B.6 Section repealed

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other general meeting related disclosures which must be provided to shareholders on the corporate website.

<http://larespana.com/gobierno-corporativo/>

<http://larespana.com/gobierno-corporativo/junta-general-ordinaria-2017/>

C CORPORATE GOVERNANCE STRUCTURE

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or company name of director	Representative	Director class	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis Del Valle		Independent	Independent Chairman	05/02/2014	29/05/2017	N/A
Alec Emmott		Independent	Independent director	05/02/2014	29/05/2017	N/A
Roger Cooke		Independent	Independent director	05/02/2014	29/05/2017	N/A
Miguel Pereda		Proprietary	Proprietary director	05/02/2014	29/05/2017	N/A
Pedro Luis Uriarte		Independent	Independent director	05/02/2014	29/05/2017	N/A
Isabel Aguilera		Independent	Independent Director	30/05/2017	29/05/2017	N/A
Laurent Luccioni		Proprietary	Proprietary Director	30/05/2017	29/05/2017	N/A

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

Name or company name of director	Class of director upon resignation	Date of departure

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	28.6%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Background
José Luis, del Valle	<p>Mr. del Valle has extensive experience in the banking and energy sector. From 1988 to 2002 he held various positions with Banco Santander, one of the most relevant financial entities in Spain. In 1999 he was appointed General Manager and Financial Manager of the bank (1999-2002). Subsequently he was Development and Strategy Manager of Iberdrola, one of the main Spanish energy companies (2002-2008), Managing Director of Scottish Power (2007-2008), Strategy and Research Manager of Iberdrola (2008-2010) and Advisor to the Chairman of the aerogenerator manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Director of the insurance group Ocaso; Director of Abengoa, S.A., which provides innovative technological solutions for sustainable development; Director of Verditek Plc, an investor in clean technologies; and Director of the Instituto de Consejeros-Administradores.</p> <p>Mr. José Luis is a Mining Engineer from Universidad Politécnica (Madrid, Spain), number one of his class, Master of Science and Nuclear Engineer from the Massachusetts Institute of Technology (Boston, USA). Furthermore, Mr. del Valle holds an MBA with high honours from Harvard Business School (Boston, USA).</p>
Pedro Luis Uriarte	<p>Mr. Pedro Luis Uriarte, after working in the industrial sector for nine years, from 1975 to 2001 he held various positions with BBVA and subsequently in BBVA, one of the main Spanish Banks, as Chief Executive Director since 1994, and also Vice Chairman thereof. He held the position as Vice Chairman of the Board of Telefónica, leader in the Spanish telecommunications market. In the area of public administration, he was appointed Minister of Economy and Finance of the Basque Government from 1980 to 1984. In 2007, Mr. Uriarte founded and chaired Innobasque, the Basque Innovation Agency, which he headed until 2009. Since then, he has collaborated on a number of different R+D+i initiatives. Currently, he is Chief Executive Officer of the strategy consulting firm Economía, Empresa y Estrategia, and is member of several boards and consulting bodies of other boards of directors of several different companies, both Spanish and international. He was also a Board member of</p>

	<p>UNICEF Spain.</p> <p>Mr. Pedro Luis graduated from Universidad de Deusto (Bilbao, Spain) with a degree in business and administration, and is a member of the board of Deusto Business School, and has been honoured with numerous awards such as the "Gran Cruz al Mérito Civil" (Spanish government) in 2002, the Gold Medal of Guipuzkoa in 2005 and the "Directivo del año" award (awarded by the Spanish Confederation of Managers & Executives - CEDE) in 2011.</p>
Alec Emmott	<p>Mr. Emmott has a wide career in the listed and unlisted real estate sector in Europe, and is based in Paris. He served as CEO of Société Foncière Lyonnaise (SFL) from 1997 to 2007 and subsequently as senior advisor to SFL until 2012.</p> <p>He is currently the Principal of Europroperty Consulting, and since 2011, is a Director of CeGeREAL S.A. (representing Europroperty Consulting). He is also member of the advisory committee of Weinberg Real Estate Partners (WREP I and II). He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. Mr. Emmott holds an MA from Trinity College (Cambridge UK).has built an extensive career in the real estate sector in Europe, having worked at listed and unlisted companies. He resides in Paris. He worked as CEO of Société Foncière Lyonnaise (SFL) between 1997 and 2007 and later as executive advisor to SFL until 2012. He is currently Director of Europroperty Consulting, and has been a Director of CeGeREAL S.A. (where he represents Europroperty Consulting) since 2011. He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I/II), Cityhold AP and MITSUI FUDOSAN. He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He holds an MA from Trinity College (Cambridge, UK).</p>
Roger Cooke MBE	<p>Mr. Cooke is an experienced professional with more than 30 years of experience in the real estate sector. Mr. Cooke joined Cushman & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as Chief Executive Officer of Cushman & Wakefield Spain, leading the company to attain a leading position in the sector.</p> <p>In the 2017 New Year's honours' list, Mr. Cooke was awarded an MBE for his services to British businesses in Spain and to Anglo-Spanish trade and investment</p> <p>Mr. Cooke holds an Urban Estate Surveying degree from Trent Polytechnic University (Nottingham, UK) and is currently a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Until May 2016, he was the President of the British Chamber of Commerce in Spain. Since May 2014, Mr. Cooke has been a Senior Advisor at Ernst & Young. Likewise, since September 2017, Mr. Roger Maxwell is Chairman of the Editorial Board of Iberian Property.</p>
Isabel Aguilera	<p>Mrs. Isabel Aguilera Navarro developed her professional career at various companies across several sectors. She served as President</p>

	<p>for Spain and Portugal at General Electric, General Manager for Spain and Portugal at Google, Chief Operating Officer at NH Hoteles Group, CEO for Spain, Italy and Portugal at Dell Computer Corporation and member of the board of directors at different companies such as Indra Sistemas, Banco Mare Nostrum, Aegon and Laureate Inc. Mrs. Isabel is currently a member of the Board of Directors at Grupo Egasa and Oryzon Genomics.</p> <p>Mrs. Isabel has a degree in Architecture and Urbanism from the Escuela Técnica Superior de Arquitectura of Seville, a master's degree in Commercial and Marketing Management from IE, and completed the General Management Programme at IESE and the Executive Management of Leading Companies and Institutions Programme at San Telmo Institute. Mrs. Isabel is currently Associate Professor at ESADE.</p>
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Total number of independent directors	5
% of total board members	71.4%

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			
	2017	2016	2015	2014	2017	2016	2015	2014
Executive	0	0	0	NA	0	0	0	N/A
Proprietary	0	0	0	N/A	0	0	0	N/A
Independent	1	0	0	N/A	20	0	0	N/A
Other external	0	0	0	N/A	0	0	0	N/A
Total:	1	0	0	N/A	14	0	0	N/A

C.1.5 Outline the measures taken, if any, to endeavour to include enough women on the board to achieve balanced gender representation.

Article 34.4 of the Articles of Association state that the shareholders in general meeting and the Board of Directors should attempt to foster balanced gender representation on the Board.

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

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

In 2015, Lar España drew up a director selection and appointment policy (which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016). This policy is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. The policy pursues the target of having at least 30% of all Board members be female by 2020.

The Appointments and Remuneration Committee will verify compliance with this policy annually and report on its findings in the Annual Corporate Governance Report. Moreover, it will strive to make sure the candidates put forward are sufficiently honourable, suitable, solvent, competent, experienced, qualified, trained, available and committed to their duties, that the candidate selection process results in adequate balance in the boardroom as a whole, enriches the decision-making process and helps prevent conflicts of interest such that the common interest always prevails over individual interests.

When the number of female directors is scant or nil despite these measures, provide an explanation:

Despite the fact that Lar España was incorporated recently, the Company is already working on achieving the target stipulated in its director selection policy in relation to having 30% of boardroom represented by women, albeit without neglecting other policy stipulations with regard to required solvency, competence, experience, qualifications, training, availability and job commitment on the part of its candidates.

During 2017 a female director has joined the board of directors in order to achieve the proposed target.

C.1.6.bis Explain the results of the nomination committee's annual check on compliance with the director selection policy. In particular, describe how the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020:

The director selection policy was drawn up in 2015 and approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016. It specifically states the target of having 30% of its membership occupied by women by 2020. It is not possible to verify compliance at this juncture as the policy has only been in effect for a year.

During 2017 an independent female director has joined the board of directors in order to achieve the target set by the Appointments and Remunerations Committee.

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

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

Further, article 8.4 of the Regulations stipulates that the Board must prevent discrimination among shareholders in terms of boardroom access via proprietary directorships.

C.1.8 Explain any reasons why proprietary directors have been appointed at the urging of shareholders controlling less than 3% of capital:

Name or company name of shareholder	Reasons

Indicate whether any formal requests for a board seat from shareholders whose equity interest is equal to or greater than that of others applying successfully for a proprietary directorship have been rejected. If so, explain why these requests have not been entertained.

Yes No

Name or company name of shareholder	Explanation

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

Yes No

Name of director	Reasons for resignation

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

Yes No

Name or company name of shareholder	Brief description

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

Name or company name of director	Registered name of the group company	Position	Do they have executive duties?
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL PORTAL DE LA MARINA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL MEGAPARK, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA OFFICES VI, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE 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	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.	Director
Pedro Luis Uriarte	Técnicas Reunidas, S.A.	Director, President of the Audit and Control Committee
Isabel Aguilera	Oryzon Genomics	Director

C.1.13 Indicate whether the company has any rules about the number of directorships its board members can hold and if so explain them:

Yes No

Explanation of the rules
The Company's directors may sit on the boards of up to four other listed companies (in addition to that of the Company). Article 19.4 of the Board Regulations.

C.1.14 Section repealed

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

Board remuneration (thousands of euros)	389
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	0
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	0

C.1.16 Identify the members of senior management who are not executive directors and indicate total remuneration accruing to them during the reporting period:

Name or company name	Position(s)
Jon Armentia Mendaza	Corporate Director
Sergio Criado Cirujeda	CFO
Susana Guerrero Trevijano	Legal Director
Hernán San Pedro López de Uribe	Director of Investor Relations

Total senior management remuneration (in thousands of euros)	477
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C.1.17 Indicate the identity of any board members who likewise sit on the boards of directors of companies having significant shareholdings and/or their group companies:

Name or company name of director	Company name of significant shareholder	Position
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director

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

Name or company name of related director	Name or company name of related significant shareholder	Description of relationship
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director

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

Yes No

Description of the amendments

In 2017, articles 8 (“qualitative composition”) and 14 (“Audit and Control Committee” - Composition, responsibilities and functioning”) and 15 (“Appointments and Remuneration Committee - Composition, responsibilities and functioning”) of the Board regulations were amended.

The reasons for the amendment were, firstly, to incorporate the basic principles and criteria set out in CNMV Technical Guide 3/2017 and expressly include certain related recommendations from the Good Governance Code, and secondly, to integrate the boardroom diversity criteria established by Royal Decree Law 18/2017.

In addition, amendments of a technical nature were made, the most salient of which was the assignment of the corporate social responsibilities, currently assigned as per article 14 to the Audit and Control Committee, to the Appointments and Remuneration Committee.

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing directors. List the competent bodies and the processes and criteria used for each of these procedures.

In 2015, Lar España drew up a director selection policy, which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016 and is designed with the following objectives in mind:

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

1. Director aptitudes

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

On the other hand, a candidate shall be understood to lack these attributes when:

- i. they have been declared bankrupt or are party to an insolvency agreement, whether in Spain or abroad, without have been discharged or the terms of the agreement fully complied with;
- ii. they are being prosecuted or, in the case of the proceedings referred to in titles II and III of book IV of Spain's Criminal Prosecution Act, have been indicted;
- iii. they have a criminal record for any of the following crimes: fraud, tax evasion, criminal bankruptcy, disloyal custody of documents, theft of trade secrets, money laundering, embezzlement of public funds, the discovery and disclosure of trade secrets, property-related crime; or
- iv. they have been banned or suspended, under criminal or administrative law, from holding public office or from administering or managing financial institutions.

In the case of legal-person directors, the above requirements must be met by both the natural person representing the latter and the legal-person director itself.

(ii) Have adequate expertise and experience to carry out their duties

The Board of Directors must comprise professionals with adequate expertise and experience. However, it is not necessary for all directors to possess the same level of expertise and experience so long as the Board as a whole has the right combination of both.

(iii) Be in a position to govern the company well

The directors must be in a position to discharge their duties and comply with their legally-imposed and bylaw-stipulated duties with due diligence, bearing in mind the nature of the position and the duties associated with each. To this end they must:

- i. Devote sufficient time to the Company and adopt appropriate measures for ensuring its correct management and control.
- ii. Get from the company the level of information they need to correctly fulfil their obligations.
- iii. Devote sufficient time to becoming informed, to familiarising themselves with the Company's paradigm and business performance and to participating in the meetings of the Board and any of the committees on which they sit.
- iv. Inform the other members of the Board of Directors of any direct or indirect conflicts they or their related parties may have vis-à-vis the Company's interests.

2. Selection and appointment procedure

The Appointments and Remuneration Committee will first analyse the Board of Director's needs, to which end:

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors.
- ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

Having verified the documentation received from the candidates, it will issue its explanatory report, proceeding as follows:

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

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

In the event of director appointments by means of co-option, the above procedure must be followed and the appointment must be ratified at the Annual General Meeting. The corresponding motion must be accompanied by an explanatory report issued by the

Appointments and Remuneration Committee, which must be put in the public domain in conjunction with the General Meeting call notice.

3. Ongoing assessment

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

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

Description of changes:

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

C.1.20. bis Describe the evaluation process and the areas evaluated by the board, with the assistance of an external facilitator as the case may be, with respect to the diversity of its membership and competences, the performance and membership of its committees, the performance of the chairman of the board of directors and the company's chief executive and the performance and contribution of each individual director.

The Chairman of the Board of Directors was tasked with spearheading the process of evaluating the board, its members and its committees; however, in order to guarantee the objectivity and confidentiality of the individual responses provided by the various directors, an external consultant was engaged to execute the process. The specific areas assessed included:

- The quality and efficiency of the work performed by the Board of Directors of Lar España.
- Diversity in the backgrounds and skills represented on the Board of Directors of Lar España.
- The performance of the Chairman of the Board of Directors of Lar España.
- The performance and contribution of individual directors, with particular attention to the chairmen of various Board committees.
- The operations and composition of the Board committees.

The process undertaken is detailed below:

Phase 1: Submission of questionnaires

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

Phase 2: Interviews

- The external consultant interviewed each of the directors with the goal of ensuring that the performance criteria employed were homogeneous, gathering the evidence needed to back this up.
- The external consultant also interviewed the Board secretary in order to gather enough evidence to substantiate the answers provided in his questionnaire and to evaluate in greater detail any aspect deemed significant.

Phase 3: Final report

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

Phase 4: Action plan

- Once in possession of the results of the self-evaluation process, the Board members will meet to debate and analyse the results of the evaluation exercise.
- The Board of Directors will then define an action plan with measures specifically designed to address any shortcomings detected. Preparation and execution of this action plan will enable Lar España to further develop and fine-tune its corporate governance model.

C.1.20.ter Give a breakdown, as the case may be, of the business dealings that the facilitator or any company in its corporate group maintains with the company or any company in its corporate group.

In 2017, Ernst & Young, S.L. assisted Lar España with the following tasks:

- Preparation of the Annual Corporate Governance Report
- Preparation of the Annual Director Remuneration Report
- Assessment on the elaboration of Lar España's Annual report

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
 - a. When they resign from the executive position associated with their directorship.
 - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.
 - c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
 - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons

for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).

- e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause. Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

C.1.22 Section repealed

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

Yes No

Describe the differences, if any:

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

Yes No

Description of the requirements

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

Yes No

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

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

Yes No

Age limit for chairman

Age limit for CEO

Age limit for directors

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

Yes No

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

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

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

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

Number of board meetings	19
Number of board meetings held without the chairman in attendance	0

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

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

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

Number of executive committee meetings	N/A
Number of audit & control committee meetings	13
Number of appointments and remuneration committee meetings	8
Number of nomination committee meetings	N/A
Number of remuneration committee meetings	N/A
Number of sustainability committee meetings	N/A

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

Number of meetings held with all members in attendance	19
% 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.

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

Yes No

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

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

C.1.34 Section repealed

C.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Article 14.2 of the Board Regulations stipulates, notwithstanding any other duties that may be vested in it from time to time by the Board of Directors, that the Audit and Control Committee, among other, shall have the following basic duties:

- f. Proposing to the Board of Directors, for submission at the Annual General Meeting, the appointment, re-election or replacement of the auditor, in keeping with applicable legislation, and the terms and conditions of its engagement; obtaining from the auditor regular feedback on execution of the audit plan; and ensuring that the auditor acts independently in carrying out its duties.
- h. Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee, and on any other matters related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation.
- i. Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report and opinion must extend to the provision of the additional services referred to above, considered individually and as a whole, other than the legally-stipulated financial statement audit service, in relation to the independence regime and/or audit regulations.

Further, article 14.3.b of the Board Regulations states that the Audit and Control Committee's duties include that of safeguarding the independence of the external auditor, specifically undertaking the duties of: (i) notifying the securities market regulator of any change in auditor, accompanied by a statement of the fact of disagreement with the outgoing auditor, if any, and the nature of such disagreement, in the form of a price-sensitive filing; (ii) ensuring that the Company and the auditor uphold prevailing rules governing the provision of non-audit services and, in general, the other rules in place to safeguard auditor independence; (iii) should the auditor resign, investigating the circumstances giving rise to such decision; and (iv) in the case of groups, urging the group auditor to take on the auditing of all constituent companies.

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

Yes No **X**

Outgoing auditor	Incoming auditor

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

Yes No **X**

Explanation of the disagreements

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

Yes **X** No

	Company	Group	Total
Fees for non-audit work (thousands of euros)	182	0	194
Fees for non-audit work / total amount invoiced by the audit firm (%)	55%	4%	39%

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

Yes No **X**

Explanation of the reasons

C.1.39 State the number of consecutive years the current audit firm has been auditing the annual financial statements of the company and/or its group. Likewise, indicate how many years the current audit firm has been auditing the annual financial statements as a percentage of the total number of years for which the financial statements have been audited:

	Company	Group
Number of consecutive years	4	4

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

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

Yes No

Details of the procedure:

Article 26 of the Board Regulations stipulates:

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

2. The decision to hire external advisers at a cost to the Company must be notified to the Chairman and may be vetoed by the Board of Directors if it can certify that:
 - a. It is not necessary to due performance of the duties incumbent upon the external directors;
 - b. Its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues; or
 - c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

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

Yes No

Details of the procedure:

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings must be called with at least three days' notice. The call notice must always include the meeting agenda and be accompanied by the relevant information, duly summarized and documented.

4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.
2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.
3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.
4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

C.1.42 Indicate whether the company has any rules obliging directors to inform the board of any circumstance that might harm the organisation's good name or reputation and tendering their resignation as the case may be:

Yes No

Details of the rules

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.
2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.
3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings. If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

C.1.43 Indicate whether any member of the board of directors has notified the company that he or she has been indicted or tried for any of the offences listed in article 213 of the Spanish Corporate Enterprises Act:

Yes No

Name of director	Offence	Observations

Indicate whether the board has analysed the case. If so, give a substantiated explanation of the decision taken as to whether or not the director in question

should remain in office and, as warranted, outline the actions taken or planned by the board of directors as of the date of this report.

Yes No

Decision/action taken	Substantiated explanation

C.1.44 List any significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

C.1.45 Indicate (individually and on aggregate) the agreements between the company and its directors, officers or employees that provide for termination benefits or guarantee or golden parachute clauses upon their resignation or unfair dismissal or termination of the employment relationship as a result of a takeover bid or other kind of transaction.

Number of beneficiaries	
Type of beneficiary	Description of the agreement

Indicate whether these agreements must be reported to and/or approved by the governing bodies of the company or its group:

	Board of directors	General meeting
Body authorising the clauses		

	Yes	No
Are shareholders informed of these clauses in general meeting?		

C.2. Board committees

C.2.1 List all the board committees, their members and their make-up in terms of proprietary and independent directors:

EXECUTIVE OR STEERING COMMITTEE

Name	Position	Job category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee. The rules governing the make-up and operation of the Executive or Steering Committee are set forth in article 41 of the Articles of Association and article 13 of the Board Regulations.

Organisation and operation

The Executive Committee shall comprise at least three and at most seven members, and it may also appoint a Chief Executive Officer at the proposal of the Chairman of the Board of Directors; the Board of Directors may delegate in them, on a temporary or permanent basis, any and all powers that are not reserved to the Board under law. Valid delegation and the designation of the members of the Board of Directors to such positions shall require the favourable vote of two-thirds of the members of the Board of Directors and shall not take effect until the resolution has been duly registered in the Companies Register.

The Company shall endeavour, to the extent possible, to have the composition of the Executive Committee mirror that of the Board of Directors in terms of the mix of director types. The Secretary of the Board of Directors shall also serve as the Secretary of the Executive Committee.

The Chairman of the Executive Committee shall report to the Board of Directors on the matters debated and resolutions taken at its meetings; it shall record the minutes of all its meetings and submit copies thereof to all of the Board members.

Activities

Note that Lar España did not avail of this power to set up an Executive Committee in 2017.

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
Pedro Luis Uriarte	Chairman	Independent
José Luis del Valle	Member	Independent
Isabel Aguilera	Member	Independent
Juan Gómez-Acebo	Secretary	Non-board member

% of proprietary directors	0
% of independent directors	100
% of other external directors	0

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

As outlined in article 42.2 of Lar España's Articles of Association and article 14.2 of its Board Regulations, and notwithstanding any other duties vested in it by law or entrusted to it by the Board of Directors, the Audit and Control Committee shall have, at least, the following responsibilities: a) supervising calculation of the fees received by the Management Company in the course of performing its duties; b) reporting at the General Meeting on those matters raised by shareholders concerning the areas falling under its remit; c) supervising effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems; d) analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process; e) monitoring the process of drawing up and disclosing regulated financial information; f) proposing the appointment, re-election or replacement of the account auditor to the Board of Directors for submission at the general meeting, in keeping with prevailing regulations; g) supervising the work of the Company's internal audit service; h) establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the auditing process. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation; i) issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report should refer specifically to the provision of the non-audit services referred to above; j) naming and supervising the external asset appraisers commissioned to value the Company's assets; and k) reporting, before resolutions have to be taken, to the Board of Directors on all matters contemplated in prevailing law, the Articles of Association and the Board Regulations, particularly with respect to: (i) the financial information the Company must disclose periodically; (ii) the creation or acquisition of interests in special-purpose vehicles or companies domiciled in tax havens; (iii) related-party transactions; and (iv) the economic conditions and accounting impact and, when applicable, the exchange ratio proposed in respect of any fundamental changes or corporate transactions the Company is planning.

Organisation and operation

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

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

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

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

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

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

Activities

The main activities carried out by the Audit and Control Committee in 2017:

- Review of periodic financial information
- Review the financial statements
- Oversight of relations with and independence of the external auditor
- Oversight of the internal audit, internal control and risk management system
- Oversight of compliance with corporate governance regulations
- Related-party transactions
- Oversight of commissions received by the management company
- Valuation of the Company's assets
- Approval of dividend payments to subsidiaries
- Analysis of compliance with SOCIMI regime eligibility requirements

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	Pedro Luis Uriarte
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

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

Pursuant to article 43.2 of the Articles of Association and article 15.4 of the Board Regulations, and notwithstanding any other duties vested in it by law or assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have, at least, the following basic duties: a) evaluating the universe of skills, knowledge and experience needed on the Board of Directors; b) establishing a targeted level of representation for the gender in minority on the Board of Directors and establishing guidelines for how to achieve this target; c) raising to the Board of Directors: (i) proposals for the appointment of independent directors for designation; and (ii) proposals for the re-election or removal of such directors for submission to the shareholders in general meeting; d) reporting on: (i) proposals for the appointment of all other classes of directors; and (ii) proposals for their re-election or removal for submission to the shareholders in general meeting; e) reporting on proposals to appoint or remove senior officers and the basic terms and conditions of their contracts; f) analyzing and organizing the succession of the chairman of the Board of Directors and the Company's chief executive officer and making recommendations, as warranted, to the Board of Directors so that succession planning is executed in a planned and orderly manner; and g) making proposals to the Board of Directors with respect to remuneration policy applicable to the Company's directors and its senior officers or those who carry out senior management duties and report directly to the Board or its executive or delegated committees and the individual remuneration and other contractual terms of any executive directors, overseeing observance with such policies.

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

Organisation and operation

The Board Regulations stipulate the Committee's remit and its rules of organisation and operation. The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board from amongst its external members, at the proposal of the Chairman of the Board.

The Board shall appoint a Committee chair from among the independent directors comprising the Committee. The Secretary of the Board shall also serve as the Secretary of the Appointments and Remuneration Committee.

The directors sitting on the Committee, who must be mostly independent and possess the right balance of knowledge, skills and experience for the functions they are called on to discharge, shall hold their offices as long as their appointments as Company directors remain valid, unless the Board resolves otherwise. The renewal, re-election and dismissal of the members of the Committee shall be governed by the terms and conditions agreed by the Board of Directors.

The Appointments and Remuneration Committee shall meet, ordinarily, at least once a year. Similarly, the Committee shall meet when called on to do so by any of its members and whenever convened by its Chairman, who in turn is obliged to do so whenever the Board or its Chairman requests it to issue a report or adopt a resolution, and, in any event, whenever a meeting is considered advisable to correctly fulfilling its duties.

The quorum for validly calling Appointments and Remuneration Committee meetings to order shall be the majority of its members, present or duly represented, and its resolutions shall be ratified by means of majority vote. In the event of a draw, the Committee Chairman shall have the casting vote. Committee meetings shall be minuted and a copy sent to all Board members.

The Committee shall consult with the Chairman, especially on matters relating to executive directors and senior officers.

Activities

The Appointments and Remuneration Committee met eight times in 2017 and performed the following activities:

- Re-election of the The Board were raised to the shareholders in general meeting. The committee also approved the proposal for the appointment of an independent director.
- The Committee also took care that diversity criteria were upheld in the election of new members.
- Review of the conclusions of each director's evaluation and their degree of compliance with the 2016 objectives and approved payment of the variable remuneration.
Review and qualify employee objectives for 2017 (75% common and 25% personal).
Approved director salary increases for 2017.
- Approved the compensation for the new board member, as well as travel and expense policy for the Board.
- Preliminary work for updating and approving a new Remuneration Policy for the Board.
- Reviewed the design and implementation of the Company's CSR policy.
- Approved the Annual Report on the Board of Directors' Remuneration and approved the draft report on the evaluation of the operation of the Board and its committees for 2016

COMMITTEE

Name	Position	Class of director

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

C.2.2 Fill out the following table indicating the number of female directors represented on the board committees over the last four years:

	Number of female directors			
	2017 Number %	2016 Number %	2015 Number %	2014 Number %
Executive committee	N/A	N/A	N/A	N/A
Audit committee	1 - 14.28%	0	0	N/A
Appointments and remuneration committee	0	0	0	N/A
Nomination committee	N/A	N/A	N/A	N/A
Remuneration committee	N/A	N/A	N/A	N/A
_____ committee	N/A	N/A	N/A	N/A

C.2.3 Section repealed

C.2.4 Section repealed

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees, where they are available for consultation and any amendments to the same during the financial year. State whether any annual report has been drawn up voluntarily on the activities of each committee.

In 2017, articles 14 (“Audit and Control Committee - Composition, responsibilities and functioning ”) and 15 (“Appointments and Remuneration Committee - Committee’s composition, responsibilities, and functioning”) were amended to incorporate the basic criteria set out in CNMV Technical Guide 3/2017 as were the boardroom diversity criteria established by Royal Decree Law 18/2017.

In addition, amendments of a technical nature were made, the most salient of which was the assignment of the corporate social responsibilities, currently assigned as per article 14 to the Audit and Control Committee, to the Appointments and Remuneration Committee;

Lar España prepared annual reports on the functioning, composition, and activities of Board committees.

The Board Regulations govern the workings of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). The Board Regulations are available on the corporate website and can be reached using the following link:

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

C.2.6 Section repealed

D**RELATED PARTY AND INTRA-GROUP TRANSACTIONS****D.1. Outline the procedure, if any, in place for approving related-party and intra-group transactions.**

The Board's powers include approving, subject to a prior report by the Audit and Control Committee, related-party transactions, as defined under prevailing applicable legislation (article 5.4.o of the Board Regulations).

The Audit and Control Committee's duties include reporting to the Board of Directors before the latter takes the corresponding decisions regarding related-party transactions, as defined under prevailing applicable legislation (article 14.3.d.iii of the Board Regulations).

However, Board authorisation shall not be required for related-party transactions that simultaneously meet the following three conditions: (i) they are governed by standard-form agreements applied on an across-the-board basis to a large number of customers; (ii) they go through at market rates, generally set by the person supplying the goods or services; and (iii) their amount is no more than 1% of the Company's annual revenues (article 37.3 of the Board Regulations).

The Investment Management Agreement in force between Grupo Lar Inversiones Inmobiliarias, S.A. as Management Company and Lar España Real Estate SOCIMI, S.A. as the Company Managed, entered into on 12 February 2014, specifies (in its fifth clause) the following:

The Management Company shall be entitled to provide services and perform and participate in transactions, subject to obtaining prior written consent from the Company, in relation to any of the following matters:

- (i) Any acquisition/disposal of a real estate investment or the arrangement of a binding agreement for the acquisition/disposal of a real estate investment, when the cost of the acquisition/total gross proceeds exceed(s) 30 million euros;
- (ii) Any new financing or refinancing, including related hedging agreements, arranged in connection with a real estate investment when its amount exceeds 30 million euros;
- (iii) Any expenditure on capital goods for real estate investment purposes of 10 million euros or more;
- (iv) Any proposed lease agreement or termination of such an agreement when the annual rent is equivalent to over 10% of the Company's total rental income;
- (v) Any joint investment or joint venture in properties for commercial usage; if approved, the Lar Group will have the right to manage the joint investment or joint venture in full on its own behalf and on behalf of the Company;
- (vi) Any joint investment or joint venture in properties for residential usage that include an investment by the Company in excess of 10 million euros;
- (vii) Any hedge or use of derivatives, including those related to debt instruments, interest or real estate investments, unless such investments are part of the pertinent financing, as outlined in item (ii) above;
- (viii) The Company's participation in any transaction for the acquisition of the assets of any company, firm or person that happens to be: (1) a subsidiary of the Management Company; (2) a direct or indirect shareholders of the Management Company (other than the shareholders of Grupo Lar who are not members of the Pereda family (the "Minority Shareholders")); or (3) a subsidiary controlled directly or indirectly, control within the meaning of article 42 of the Spanish Code of Commerce, by the entities mentioned in (2)

above (that are not Minority Shareholders), or in the sale of goods or provision of services deemed material to any subsidiary of the Management Company, unless those activities are covered by a framework agreement approved by the Board of Directors. The Company's participation in any transaction for the purchase of assets from a person related to a subsidiary of the Management Company or the provision of services deemed material by such a person shall similarly be deemed matters subject to approval. For the avoidance of doubt, Gentalia is not a subsidiary of the Management Company for the purposes of this Agreement.

- (ix) The disposal of any right, title or interest whatsoever in the properties of the Company for an amount that is less than they were acquired for;
- (x) Transactions and situations with related parties that could lead to conflicts of interest;
- (xi) The appointment by the Management Company of one or more estate managers or the execution of any third-party services contracts worth more than 1 million euros a year; and
- (xii) Any transaction executed by Gentalia, unless regulated by a framework agreement arranged on an arm's length basis, approved by the Board of Directors, and so long as the assets in question are in keeping with the terms of such framework agreement.

Notwithstanding the foregoing, the Management Company shall be entitled to provide services and participate in transactions related with the matters subject to approval without having to obtain prior written consent from the Company:

- (i) For legal reasons; or
- (ii) In order to respond to a *bona fide* emergency for which time is of the essence.

When Company approval is required for a transaction under the terms of this Agreement, the Management Company must present the Board of Directors a proposal regarding the transaction and provide the Company with the information the Board may reasonably request in order to evaluate and, if it so decides, approve that transaction.

D.2. List any transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Nature of the transaction	Amount (thousands of euros)
Grupo Lar Inversiones Inmobiliarias S.A.	Grupo Lar Inversiones Inmobiliarias S.A.	Contract	Management contract	19.023

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

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

D.4. Report any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated

financial statements and whose purpose or terms fall outside the company's ordinary course of business:

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

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

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

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

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

D.6. List the mechanisms established to detect, analyse and resolve any possible conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.

Article 31 of the Board Regulations

A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of the director clash, directly or indirectly. The director shall be deemed to have a personal interest in a matter when that matter affects him or a person related to him or, in the case of a proprietary director, the shareholder(s) that proposed his appointment or persons related directly or indirectly to them.

For Board regulation purposes, the following definitions apply:

a. Persons related to natural person directors:

- i. Their spouses or significant others.
- ii. The ancestors, descendants and siblings of the director and of the spouse (or significant other) of the director.
- iii. The spouses of the ancestors, descendants and siblings of the director.
- iv. The companies or entities at which the director or any of his related parties, directly or through a representative, fulfils any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- v. The companies or entities at which the director or any of his related parties, directly or through a representative, holds a directorship or management position or from which he receives any compensation for any reason.
- vi. In the case of proprietary directors, additionally, the shareholders appointing him as their representative.

b. Persons related to legal person directors:

- i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- ii. The companies in the same group, as group is defined in article 42 of of Spain's Code of Commerce, and their owners.
- iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.
- iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

Directors are obliged to report the existence of conflicts of interest to the Board of Directors and abstain from intervening as Company representative in the transaction underlying the conflict in question, except as carved out in applicable legislation.

Internal Securities Markets Code of Conduct

A conflict of interest is deemed to exist when the Bound Parties meet any of the following conditions in relation to the entities referred to in this article:

1. Serves as a director or senior executive.
2. Owns a significant interest (understood in the case of a company listed on any official Spanish or foreign stock exchange as the shareholdings referred to in article 53 of the Spanish Securities Markets Act and enacting regulations, and in the case of unlisted Spanish or foreign companies, any direct or indirect shareholding of over twenty per cent of issued share capital).
3. Has kinship within the second degree by affinity or third degree of consanguinity with the Company's directors, owners of significant shareholdings or senior executives.
4. Has significant contractual relationships, direct or indirect.

Conflicted Bound Parties must observe the following general codes of conduct:

Independence: Bound Parties must act in good faith in what they consider to be the interests of the Company and its shareholders, irrespective of their own or other interests. Accordingly they must refrain from placing their own interests over those of the Company, and from placing the interests of one shareholder over those of others.

Abstention: Bound Parties must abstain from participating in or influencing decisions that may affect conflicted persons or entities and from obtaining confidential information concerning the conflict in question.

Disclosure: Bound Parties must notify the head of compliance of potential conflicts of interest deriving from their activities outside of the Company, their family relationships, their personal finances or arising on any other grounds with:

- a. The Company or any of the companies comprising Grupo Lar España.
- b. Significant suppliers or customers of the Company or the companies comprising Grupo Lar España.
- c. Entities devoted to the same business as or that compete with the Company or any of its subsidiaries.

Any questions regarding a potential conflict of interest must be addressed to the head of compliance. The final decision is ultimately the responsibility of the Audit and Control Committee.

Code of Conduct

A conflict of interest is understood to arise whenever any of the Bound Parties who must decide, perform or omit an action, in the course of his or her job duties, faces the option of choosing between the interests of the Company and his/her own interests or those of a third party, such that choosing those of either of the latter two would benefit a third party, giving rise to a gain that would otherwise not accrue.

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

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

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

Yes No

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

E.1. Explain the scope of the company's risk management system, including the fiscal risk management system.

The enterprise risk management (ERM) system of de Lar España Real Estate SOCIMI, S.A. and subsidiaries (hereinafter, Lar España) has been implemented at the corporate level and is designed to mitigate the risks (including fiscal risks) to which the organisation is exposed on account of its business activities. This system establishes the policy for identifying, assessing, prioritising and managing risks effectively and efficiently, factoring in the Company's specific circumstances and the economic and regulatory environments in its operating markets. The system's overriding goal is to guarantee reasonable assurance that the Company will be able to achieve its strategic, operating, reporting and compliance objectives. The system is aligned with the key guidelines established in the "Enterprise Risk Management - Integrated Framework. Committee of Sponsoring Organizations of the Treadway Commission (COSO)" report (hereinafter, COSO).

As set out in its ERM system, Lar España views risk management as a continuous and dynamic process which encompasses the following steps:

- Identification and assessment of the risks that may affect the organisation, evaluating their probability of occurrence and potential impact.
- Identification of the controls in place for mitigating these risks.
- Identification of the processes in which these risks are generated and controls performed, determining the relationship between the organisation's key risks and processes.
- Evaluation of the effectiveness of the controls in place to mitigate these risks.
- Design of action plans in response to the risks identified.
- Risk monitoring and reporting.
- Ongoing evaluation of the suitability and effectiveness of the system in use and benchmarking of best practices and recommendations in risk management.

Ultimately, having identified the risks and analysed the suitability and effectiveness of the decisions taken to mitigate them, management, under the supervision of the internal audit function, establishes risk management priorities and the measures to be implemented, ensuring that the Company's processes are performed and working as intended.

E.2. Identify the bodies responsible for designing and implementing the enterprise system for managing risks, including fiscal risks.

The enterprise risk management (ERM) system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain risk management activities are performed by specialist service providers which assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar
- Preparation of the organisation's financial, accounting and tax information
- Half-yearly asset appraisals

However, Lar España follows detailed processes for supervising the third parties responsible for these outsourced services to ensure that these suppliers perform the activities contemplated in the ERM model.

The main participants in the ERM model are:

Process manager or owner

These people are directly responsible for managing risk in its everyday manifestations; their work encompasses the identification, analysis, assessment and management of the risks which are crucial to delivery of the objectives set for each area, under the scope of current business plans.

Risk officer

The risk officer's job is to analyse and consolidate the risk information prepared by the process owners, which is gradually crystallising in the form of 'risk files'. He or she is also tasked with identifying new events, gathering and assessing information regarding the key risk indicators intrinsic to the Company's processes and proposing any monitoring action plans, as required. Once the priority risk factors have been identified, the 'risk files' are allocated to the parties responsible for their management and control.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties to the Audit and Control Committee:

- *“Identifying the different types of risk (operational, technological, financial/reporting, legal, reputational) to which the Company is exposed”.*
- *“Identifying the risk levels the Company deems acceptable”.*
- *“Identifying measures for mitigating the identified risks”.*
- *“Identifying the internal reporting and control systems to be used to control and manage the said risks”.*

In light of the above, the Audit and Control Committee is tasked with monitoring application of the Risk Control and Management Policy defined by the Board of Directors. This Policy includes the various classes of risk to which the organisation is exposed (strategic, operational, compliance and financial), including fiscal risks (paying close attention to oversight of the requirements associated with the REIT regime). Lastly, the Audit and Control Committee has to report to the Board on its activities throughout the course of the year.

Board of Directors

The Board of Directors is the body tasked with approving the Group's Risk Control and Management Policy.

It assumes, among other powers, the duty of identifying the Company's main risks and supervising the internal control systems, to which end it is kept informed by its Audit and Control Committee.

E.3. State the main risks that could prevent the company from achieving its business targets.

Lar España has identified the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify these risks, management's experience in the real estate sector and the Company's specific circumstances were factored in, as were the medium-term strategic initiatives contemplated by the firm.

Lar España has an updated risk map depicting the universe of risks that could affect the organisation. The risks listed below are the risks that have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2017, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- Management of REIT regime-related requirements
- The sale-purchase of real estate assets: Planning, information and execution.
- Property valuations
- Internal talent retention
- Reputation
- Socio-economic and political changes
- Board of Directors operation
- Financing activities
- Dependence on the investment/asset manager
- Accounting and financial information reporting
- Investor and media relations
- Integrity and security of the information
- Confidentiality

The risk monitoring process consists of tracking all internal and external variables that could help anticipate or foresee the materialisation of these or other risks of relevance to the Lar España.

E.4. State whether the company has a defined risk tolerance threshold, including with respect fiscal risk

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated, including tax risks, are evaluated considering various indicators of impact and likelihood.

Lar España's ERM system defines risk tolerance as “*the acceptable level of variation in outcomes relative to the achievement of objectives*”. The proposed risk tolerance criteria are used to prioritise and itemise the level of management and monitoring assigned to each risk category. Accordingly, the more critical the objective with which an identified risk is associated, the lower the level of tolerance accepted by Lar España.

Against this backdrop, three levels of risk have been defined: high, medium and low, depending on how critical the objective with which the risk is associated is deemed. The risk tolerance determination system is reviewed at least annually by the Audit and Control Committee.

E.5. State the risks, including fiscal risks, that materialised during the reporting period.

As far as the Company is aware, no material risks of any kind, including fiscal risks, materialised in 2017.

E.6. Outline the response and monitoring plans for the company’s key risk factors, including fiscal risk factors

The specific characteristics of Lar España, coupled with those of the business sector in which it operates, make it of tantamount importance to correctly monitor and update the various risks to which the organisation is exposed, including tax risks.

The level and frequency with which it monitors the risks identified varies as a function of the perceived importance or criticality of these risk factors and the level of effectiveness of the controls currently in place. Accordingly, Lar España has defined different scenarios for managing its risks: a) exhaustive analysis of the risks deemed highly critical to achieving an

adequate level of control; b) assessment and surveillance of risks deemed of medium importance to achieving adequate control as a function of the real level of risk; and c) rationalisation and optimisation of the controls applied to risks of relatively less importance. Based on these levels, Lar España has established four kinds of strategies in relation to the level of risk assumed in each instance:

- Reduction: this implies undertaking response activities designed to reduce the probability of occurrence or impact of the risk, or both simultaneously. This may entail the introduction of new controls or the improvement of existing ones.
- Sharing: a risk's probability of occurrence or impact can be reduced by transferring or sharing a portion of that risk (e.g., via insurance policies).
- Avoidance: this implies withdrawal from the risk-generating activities. In this instance, the risk response may be to get out of a given business unit or line and/or decide not to pursue new business activities associated with such risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact; risk is assumed at its inherent level as this is deemed appropriate for the activity and established objectives.

Lar España prioritises action plans depending on how critical the risks being mitigated are, the cost/benefit analysis of the proposed course of action and available resources. To this end, the organisation's most significant risks have been identified; work has begun on documenting these risks in individual risk files in order to enable enhanced monitoring. These files specify the controls in place and the key indicators (KRIs) that enable anticipation and/or monitoring of the associated risks. The plan is to further advance this risk management and monitoring process in the years to come.

Note that the Audit and Control Committee will periodically analyse the effectiveness of the organisation's risk map at least annually and will add, modify or disregard risks as warranted as a result of changes in the Company's strategic objectives, organisational structure, legislative environment, etc.

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the risk control and management systems as they affect your company's internal control over financial reporting (ICFR) system

F.1. The entity's control environment

Indicate the existence of at least the following components, describing their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR system; (ii) its implementation; and (iii) its monitoring.

The internal control over financial reporting (hereinafter, ICFR) system has been designed and configured to provide reasonable assurance as to the reliability of the financial information disclosed to the markets.

The bodies responsible for the existence and/or oversight of Lar España's ICFR model are:

Board of Directors

The Board of Directors is ultimately responsible for the existence and maintenance of a suitable and effective ICFR system.

To this end, article 5 of the Board Regulations reserves the following power to the Board in plenary session:

- “Approving the financial information which the Company must report periodically in its capacity as a listed entity”.
- “Approving the risk control and management policy and the periodic monitoring of the internal information and control systems”.

To achieve these objectives, the Board is assisted by its Audit and Control Committee, which is tasked with supervision of the ICFR system (with the help of the internal audit function). It is additionally supported by the work performed by the process owners tasked with implementation of the ICFR system and the firm's Corporate Management, which is ultimately responsible for ensuring the system is adequate and effective.

Each time the Board of Directors authorises annual financial statements for issue, in conjunction with approval of the annual corporate governance report, it approves and validates the existence of an effective ICFR system and its description.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties and powers to the Audit and Control Committee:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

As a result, the Audit and Control Committee's work is articulated and focused around four main areas:

- The risk identification and internal control system
- The review and approval of financial information
- The external audit of the annual financial statements
- Compliance with the law and the Company's body of internal rules and regulations

The Audit and Control Committee supervises effectiveness of the ICFR system by verifying that it addresses all the issues itemised in the securities market regulator's recommendations and reporting on its findings to the Board of Directors.

Corporate Management

The Corporate Management team is responsible for the design, implementation and workings of the ICFR system, which effort includes:

- *“Defining, proposing and implementing a model for generating financial information”.*
- *“Defining, implementing and documenting the ICFR system”.*
- *“Assisting the Audit and Control Committee in preparing the financial statements and other financial information and in selecting the criteria used in the process”.*
- *“Verifying, at least annually, the comprehensiveness and suitability of ICFR documentation and performance”.*
- *“Reporting on developments in terms of ICFR documentation to the Audit and Control Committee and to the Internal Audit Service so they are familiar with and can appraise such developments”.*

Internal Audit Service

The Audit and Control Committee has tasked the Internal Audit Service with assisting it with supervision of the ICFR system, which remit specifically includes:

- *“Supervising the operation of the ICFR system and its general controls and processes”.*
- *“Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter”.*
- *“Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process”.*
- *“Assisting Corporate Management to prepare reports on the status and description of the ICFR system”.*

Process owners involved in the financial reporting process

The parties responsible for the various processes related to the generation of financial information, whether internal or external, must perform specific activities, as dictated by Corporate Management guidelines, with a view to:

- *“Defining, documenting, and updating the internal processes and procedures”.*

- *“Executing the control activities as designed and intended and documenting evidence of their performance for traceability purposes”.*
- *“Reporting to Corporate Management on any change to their modus operandi or transactions that could trigger the need to update how their processes and controls are defined and documented and on any control shortcomings they may detect”.*
- *“Defining and implementing action plans in response to incidents observed within their sphere of responsibility”.*

Lar España has outsourced the performance of certain material financial reporting activities to specialist third parties (including investment and asset management, preparation of its financial, accounting and tax information and periodic appraisal of its assets). In respect of the ICFR function, Corporate Management ensures that these service providers perform the controls that, despite being executed by the latter, have been identified as key controls for the ICFR system. As part of this model, supervision of the Internal Audit Service is tasked to the Audit and Control Committee.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of duties and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company:**

Corporate Management, following the guidelines set by the Board of Directors, ensures the existence of an adequate organisational structure, allocation of roles and accountability and the staggered deployment of sufficient procedures, which are allocated among the parties intervening in the processes.

The Corporate Director can call on the resources, whether internal or external, he or she needs to manage the different activities of the Company, for assistance and advice. Against this backdrop, Lar España has entered into a Management Agreement with Grupo Lar under which the Manager undertakes to devote the staff and resources needed to fulfil its functions, including its financial reporting related duties.

Lar España's ICFR Manual provides that whenever the services provided by a “service organisation” are part of the Company's IT system, they must be encompassed by the IFRS evaluation process either by means of specific and direct assessment of the controls applied by the service organisation or by obtaining an internationally recognised SSAE certificate (Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization) or by carrying out alternative procedures. At the moment the second option is being carried out, through a third party confirmation, who provides accounting services.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

On 24 February 2015, the Board of Directors approved the Company's Code of Conduct, the purpose of which is to establish the guidelines governing the conduct of any and all people acting in the name of Lar España and its subsidiaries. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's Management Company, and any other person which could be related to Lar España even if they are not employees.

The body responsible for ensuring due compliance with, updating of and dissemination of the Code is the Audit and Control Committee.

Principle 4, regarding the recording of transactions and the financial reporting process specifies that *“Lar España pledges to ensure that the Company's financial information, most particularly its annual financial statements, reflects its financial reality, in keeping with applicable generally accepted accounting principles and international financial reporting standards. To this end, no professional may conceal or distort the information contained in the Company's accounting registers and reports, which must be complete, accurate and precise.*

The failure to honestly report the Company's financial information, whether internally - to employees, subsidiaries, departments, internal bodies, governing bodies, etc. - or externally - to auditors, shareholders/investors, regulatory bodies, media, etc. - violates this Code. The delivery of incorrect information, its incorrect configuration or any attempt to confuse its recipients are similarly deemed to constitute financial reporting misconduct”.

- **‘Whistle-blowing’ channel, for the purpose of reporting any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation to the audit committee, stating whether reports made through this channel are kept confidential.**

Article 14.3.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

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

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

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

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: canaldenuncia@larespana.com
- A confidential explanatory letter

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received
- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee is made up of the person who heads up the Company's internal audit function, the Secretary of the Board of Directors of Lar España and the Chairman of the Audit and Control Committee of Lar España.

The Code of Conduct and the Operating Rules Governing the Whistle-blowing Channel are available on Lar España's corporate website. These documents outline the procedures to be followed in handling any incidents reported.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Corporate Management, in its capacity as the party responsible for the design, implementation and operation of the ICFR system, is obliged to make sure that all staff involved in preparing the Group's financial statements have received sufficient and up-to-date training on the International Financial Reporting Standards (IFRS) and the internal control over financial reporting principles. Corporate Management directly checks with the accounting expert engaged to prepare the Company's financial and accounting information that the teams assigned to these activities have the required ICFR-related skills and knowledge.

The Corporate Director, who is responsible for ICFR, boasts an extensive background in accounting and financial reporting, acquired during his years in auditing and financial management work. He is in frequent contact with the financial statement auditor and the firm tasked with the accounting function during the year, addressing any issues that may arise and receiving updates from them on any developments with an impact on ICFR.

Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically including, as detailed in other sections, some of the activities related to the financial statement preparation process and the implementation and rollout of the ICFR system.

Lar España selects the service organisations to which it outsources these activities rigorously so that it works with specialist firms of renowned prestige that are chosen for their quality and expertise. Corporate Management ensures that these advisors indeed have the expertise required and continuous learning policies in respect of these areas of expertise.

In addition, the Internal Audit Plan prepared by the Internal Audit Service and approved by the Audit and Control Committee of Lar España contemplates the training needed by the people involved in these matters.

F.2. Financial reporting risk assessment

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- **The process exists and is documented.**

The process of identifying financial reporting risks, including risks of error or fraud, is one of the most important aspects of Lar España's ICFR methodology. This process is documented in an internal methodology guide explaining the ICFR management and assessment process: "Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMI".

Lar España has assessed the risk associated with its financial accounts. Having determined the level of risk associated with each account, the most significant risks were related with the Company processes which generate and control its material financial information. The purpose of this mapping exercise is to identify the processes or business units within the Group of greatest importance in terms of financial information generation.

Lar España has documented the most significant processes. In 2017, it revised the documentation prepared the year before. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company to mitigate the risks associated with each process. Having documented the majority of the most significant processes in prior years, the idea is to continue to flesh out and fine-tune this information for these and other processes related with the financial reporting function.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

As stipulated in the ICFR Manual, the significant processes documentation covers existing risks and defines controls related with different financial reporting objectives: existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations. The documentation is updated whenever significant changes occur and is additionally subjected to an annual review.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Article 5 of the Board Regulations states that the Board of Directors “reserves the power to define the structure of the corporate group”.

Against this backdrop, each year, Corporate Management takes responsibility for continually analysing the companies added to the scope of consolidation and notifying any such additions to the Audit and Control Committee, enabling knowledge of the companies included at all times.

One of the Audit and Control Committee's duties is to supervise the process of drawing up and presenting the financial information the Company has to disclose. Specifically, the Audit and Control Committee reviews the Group's consolidated financial information on the occasion of each quarterly close.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The process of identifying the risk of financial reporting error takes into consideration the impact of all classes of risks, whether operational, technological, financial, legal, reputational, environmental, or tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

The Company has a Risk Control and Management Policy which:

- Describes and analyses the components and activities of the risk management process *per se*;
- Defines the organisational approach and the roles and duties needed from an enterprise risk management (ERM) standpoint.

- Defines the model for monitoring (information and reporting) ERM activities.
 - Outlines the criteria for updating the ERM system.
- **Which of the company’s governing bodies is responsible for overseeing the process.**

The Audit and Control Committee is in charge of overseeing the effectiveness of the Company's internal controls and enterprise risk management systems, including its fiscal risk management controls, which remit specifically includes oversight of the ICFR system.

As stipulated in article 42 of the Articles of Association of Lar España and article 14 of the Board Regulations, the Audit and Control Committee is tasked with the duty of *“identifying the different types of risk (operational, technological, financial/reporting, legal, reputational, etc.) to which the Company is exposed, including within financial risks contingent liabilities and other off-balance-sheet risks”*.

F.3. Control activities

Indicate the existence of at least the following components and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations and projections.

As stipulated in article 40.3 of the Board Regulations, the Board of Directors establishes *“the precise measures needed to ensure that the half-yearly and quarterly financial information, and any other information that warrants public disclosure in keeping with prudent strategy, is prepared applying the same principles, criteria and professional practices as are used to draw up the annual financial statements so that the interim information is as reliable as the annual disclosures”*.

The Board of Directors is ultimately responsible for the existence and maintenance of an appropriate and effective ICFR system and has authority over the financial reporting function. It also approves the Risk Control and Management Policy and the periodic monitoring of the internal information and control systems established by Lar España. In order to perform these duties, it is assisted by the Audit and Control Committee, which, in conjunction with the Internal Audit Service, supervises the Company's ICFR system. The Board is also supported in this task by the process owners and Corporate Management, which is responsible for ensuring the ICFR system is appropriate and effective.

Lar España publicly discloses financial information quarterly. This information is prepared by a specialist external firm and reviewed by Corporate Management. The information is subsequently sent to the Audit and Control Committee for review.

This process is documented in an internal methodology guide explaining the ICFR management and assessment process: *“Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMP”*.

The Company's ICFR principles, definitions and management criteria are documented in its ICFR Manual.

Lar España has documented the organisation's General Controls and its most significant processes (including the period-end closing - providing for a specific review of critical judgements, estimates, valuations and projections -, revenue recognition, asset appraisals and property acquisitions). Last year, it also reviewed and updated the documentation detailing some of the processes related with the generation of financial information.

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. In 2017, Corporate Management continued the process of gradually implementing the policies and procedures itemised in the ICFR Manual.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

Lar España has outsourced its accounting services to a specialist firm. As a result, the Company does not have proprietary IT systems of significance to the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise both the outsourcing agreement and the financial information reported by this third party to ensure that it does not contain errors.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Since it has outsourced some of its financial reporting activities to a third party that is not part of Grupo Lar, Lar España has identified all of the organisations that provide it with services in the various business processes, determining the impact of their activities on the financial reporting system.

Specifically, the Company has identified certain services provided by third parties which are considered part of its financial reporting system. These services include the analysis performed to document and assess the ICFR system, with the outsourcing of the accounting function and the half-yearly asset appraisals to accredited and independent entities standing out in this respect.

As for the policies and procedures in place for evaluating and overseeing the management of outsourced activities, the Company has exhaustive external advisor engagement procedures that are designed to ensure the providers' competence, independence, expertise and legal know-how with respect to the services provided.

All of the information prepared by independent experts deemed material in respect of the financial statements is reviewed and validated by Lar España's Corporate Management.

F.4. Information and communication

Indicate the existence of at least the following components and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their

interpretation, which is in regular communication with the team in charge of operations.

Corporate Management is responsible for informing and communicating, internally and externally, the main accounting policies applied and for resolving any queries about their application.

Lar España has an effective and duly-approved Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the organisation's companies.

The book-keeping process *per se* is handled at present by an outsourced, prestigious, specialist firm which is working with Lar España on the definition and application of accounting criteria, in keeping with prevailing legislation. This process is supervised continually by Corporate Management, which reports to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor is contacted as required to confirm certain stances taken in order to resolve any questions and avoid any potential conflicts arising from the interpretation of any given accounting standard.

Lastly, the Board of Directors approves the financial information which the Company must report periodically in its capacity as a listed entity.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

As already noted in section F.4.1 above, the book-keeping process and the preparation of the Company's individual and consolidated financial statements have been outsourced to a prestigious, specialist firm.

Nevertheless, Lar España and the external firm that provides the accounting services have mechanisms for the capture and preparation of financial information, configured with adequate formats and applications, which are used on an across-the-board basis at all Group units and companies. In addition, the Company has established adequate controls over the financial preparation and reporting process. Lastly, Corporate Management supervises and reviews the financial information before presenting it to the Audit and Control Committee.

F.5. System monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. Describe the ICFR monitoring activities performed by the audit committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Also describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The Audit and Control Committee is the advisory body through which the Board of Directors supervises the ICFR system. Against this backdrop, article 14 of the Board Regulations attributes multiple duties to the Audit and Control Committee, specifically including the following:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

The Audit and Control Committee is assisted by the Internal Audit Service in overseeing the ICFR system, to which end the latter function's work includes the following tasks:

- Supervising the operation of the ICFR system and its general controls and processes.
- Including supervision of the critical ICFR-related processes within the Business Plan and the Annual Internal Audit Plan.
- Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter.
- Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process.
- Assisting Corporate Management with preparation of reports on the status and description of the ICFR system.

The Internal Audit Plan is approved annually by the Audit and Control Committee at the end of each year or in the early months of the following year. This Plan defines a work and process schedule which customarily includes supervision of implementation of the ICFR function. The Internal Audit Service periodically reports to the Audit and Control Committee on progress on executing the Plan and its results.

The gradual rollout of the ICFR system continued in 2017, identifying the most critical accounts and processes and working to document them in detail. Also, the processes for asset valuation, incomes, and accounts consolidations without finding any significant evidence. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Corporate Management and the Audit and Control Committee reviewed the financial information submitted to the securities market regulator (and its timeliness) quarterly.

The ICFR Manual contemplates the annual assessment and oversight of the system's various components.

F.5.2. Indicate whether there is a discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As already noted, Lar España is implementing its ICFR system and documenting the most critical processes gradually. It is worth noting in this respect that Corporate Management meets regularly with the external auditor to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

In addition, all required steps were taken to enable the provisions of the Board Regulations with respect to its mandate to the Audit and Control Committee, specifically that of:

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process and adopting the opportune measures for addressing them, as required.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee or for any other purpose related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards.

F.6. Other relevant disclosures

Not applicable.

F.7. External auditor report

State whether:

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

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

G**DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE
RECOMMENDATIONS**

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

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

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

Compliant Explain

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

Compliant Partially compliant Explain Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) **Changes taking place since the previous annual general meeting.**
- b) **The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant Partially compliant Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant Explain

Lar España has a formal policy of communication and contact with shareholders, institutional investors and proxy advisors.

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

In keeping with prevailing legislation and regulations, as well as the Company's Articles of Association, and subject to the prerequisite that any candidate put forward must be duly qualified to serve as a member of the Board of Directors, and once his or her candidacy has been approved by the Company's Appointments and Remuneration Committee (which approval may not be withheld, conditioned or delayed without good reason), the Management Company is entitled to require the Board of Directors to present the following appointments to the Company's shareholders in general meeting:

- (i) one non-executive director of the Company appointed by the Management Company, on the condition that the Board of Directors is made up of five members or fewer; or
- (ii) up to two non-executive directors appointed by the Management Company, to the extent that the Board of Directors is made up of more than five people.

Subject to delivery of the above-listed prerequisites, the Management Company is entitled to require the Board of Directors to submit to the shareholders in general meeting a resolution to revoke or substitute any person who has been appointed a member of the Board of Directors on the understanding that, in the event of revocation, the Management Company shall indemnify and exonerate the Company (and any member of its group) from any liability in respect of any costs, losses, liability and/or charges whatsoever sustained by the entity in question as a result of the revocation.

No Company director appointed by the Management Company under the terms of this clause shall receive fees or other remuneration from the Company for his or her services as such.

The Chairman of the Board of Directors is entitled to require the presence of the Chairman of Grupo Lar at the meetings of the Board of Directors, and the Management Company must endeavour to have the Chairman of the Grupo Lar attend such meetings when so required, barring material impediment. This attendance requirement is enabled and regulated in the Company's Articles of Association and its Board Regulations.

17. Independent directors should be at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Compliant 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 X Explain

22. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant X Partially compliant Explain

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant X Partially compliant Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant 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

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.**
- b) The performance and membership of its committees.**
- c) The diversity of board membership and competences.**
- d) The performance of the chairman of the board of directors and the company's chief executive.**
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Compliant Partially compliant Explain Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant Partially compliant Explain Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant Partially compliant Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant Partially compliant Explain Not applicable

42. The audit committee should have the following functions over and above those legally assigned.

1. With respect to internal control and reporting systems:

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 X 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 X Partially compliant Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.**

Compliant X Partially compliant Explain

47. Appointees to the 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 X Partially compliant Explain

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

50% of the Appointments and remuneration Committee are independent

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 X

Lar España and its Remuneration Policy does not consider variable awards

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant Partially compliant Explain Not applicable X

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Partially compliant Explain Not applicable X

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable X

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain Not applicable X

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable X

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant Partially compliant Explain Not applicable X

H**OTHER INFORMATION OF INTEREST**

- 1. If you consider that there is any material corporate governance related matter relating to your company or its group that has not been addressed anywhere else in this report that is necessary to provide a more comprehensive and substantiated picture of corporate governance structure or practices at your company or its group, outline them briefly here.**
- 2. You may include in this section other relevant, but not reiterative, information, clarification or qualification related to the earlier sections of this report.**

The breakdown of the indirect and direct holders of significant interests in Lar España reported in section A.2 corresponds with the breakdown gleaned from the CNMV's shareholder records as of year-end.

This annual corporate governance report was approved by the Company's Board of Directors on February 23rd 2018.

Specifically, indicate whether the company is subject to the corporate governance legislation of any country other than Spain and, if so, include any mandatory disclosures that are different from those required for this report.

- 3. State also whether the company voluntarily subscribes to other business ethics or corporate governance codes, whether international, sector-specific or other. If so, identify the codes applied and the date of adhesion. State specifically whether the company subscribes to the Good Tax Practice Code (of 20 July 2010).**

Indicate whether any directors voted against or abstained from voting on the approval of this report:

Yes No

Name or company name of any directors who did not vote in favour of authorising this report for issue.	Reason (vote cast against abstention non-attendance)	Explanation for the reason given

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Assurance' report on the 2017
"Information Relating to the system of
internal control over financial reporting
(ICFR)" of the LAR ESPAÑA REAL
ESTATE SOCIMI, S.A.

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 2017 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2017

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 11 December 2017, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for 2017, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by Lar España in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of Lar España was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2017 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

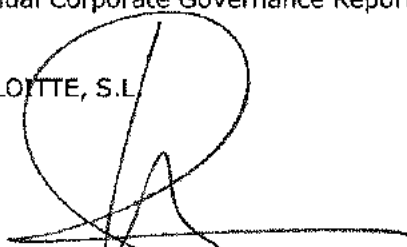
Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of 22 December, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.


Antonio Sánchez-Covisa Martín-González
Partner
February 23rd, 2018

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 FINANCIAL STATEMENTS

To the Shareholders of Lar España Real Estate SOCIMI, S.A.:

Report on the Financial Statements

Opinion

We have audited the financial statements of Lar España Real Estate SOCIMI, S.A. (the Company), which comprise the balance sheet as at 31 December 2017, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-b to the financial statements) and, in particular, with the accounting principles and rules contained therein.

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 Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Compliance with the REIT tax regime

Description

The Company is regulated by Spanish Real Estate Investment Trusts (SOCIMI) Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December. One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%.

The REIT tax regime is conditional upon compliance with certain relatively complex rules that require the use of significant judgements and estimates by management, since the obligations under this regime include, inter alia, certain investment requirements and requirements in relation to the nature of the revenue obtained, to the length of time for which property assets must be held and to the distribution of dividends.

Compliance with the aforementioned regime is a key matter in our audit because the applicability of this regime is the basis of its business model given the material impact of the tax exemption on the financial statements and on the returns of the shareholders.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with compliance with the REIT tax regime, as well as tests to verify that the aforementioned controls operate effectively.

Company management furnished us with the calculations performed in relation to compliance with the obligations associated with this tax regime, together with the related supporting documentation and we involved internal experts from the tax area to assist in the analysis of the reasonableness of the information obtained, as well as the completeness thereof in relation to all the aspects provided for in the legislation in force at the analysis date.

We also verified that Notes 1, 6 and 15 to the financial statements for 2017 contain the disclosures relating to compliance with the conditions required by the REIT tax regime and other matters associated with the taxation of the Company.

Measurement of the non-current and current investments in Group companies and associates

Description

The Company has ownership interests in the share capital of Group companies and associates, which engage in the ownership and lease of their investment property, as detailed in Note 7 to the accompanying financial statements.

Those ownership interests are the main items in the Company's financial statements, and account for approximately 90% of the total assets in the Company's balance sheet as at 31 December 2017.

As indicated in Note 4-a to the financial statements, the determination of the recoverable amount of those ownership interests requires the use of significant judgements and estimates by management, both in determining the valuation method (usually the underlying carrying amount of the investments plus the amount of the unrealised gains existing at each measurement date) and in considering the key assumptions used for determining the existing unrealised gains. In this regard, since investment property accounts for substantially all the assets of the Group companies and associates, small percentage changes in the measurements of the property assets owned by the Group companies and associates can give rise to significant changes that would affect the recoverable amount of the related financial asset.

Specifically, the valuation method generally used for determining the unrealised gains associated with the rental property assets is the discounted cash flow method, 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

Procedures applied in the audit

Our audit procedures included, among others, the assessment of the conclusion reached by Company management regarding the recoverability of the investments in the Group companies. In this connection, in view of the real estate nature of the investees, which means that their recoverable amount is closely linked to the valuation of the property assets owned by them, we reviewed the design and implementation of the relevant controls that mitigate the risks associated with the valuation of investment property, and performed tests to verify that the aforementioned controls operate effectively. In particular, those used by the directors to supervise and approve the hiring of and work performed by the experts employed for this purpose, and to ensure no influence is exercised over the result of the work performed by those experts.

Also, we obtained the valuation reports of the experts hired by the Company to value the entire real estate portfolio of the investees 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 Company management;
- performed an independent valuation of all the assets taking into consideration available industry information and transactions with property assets similar to those in the investees' real estate portfolio; and
- assessed, in conjunction with our internal experts, the most significant assessed risks, including the occupancy rates and expected returns on the real estate assets.

- the exit yield.

The measurement of those ownership interests was identified as a key matter in our audit due to, among other factors, the significant amount that those ownership interests represent in the context of the financial statements taken as a whole.

In addition, we evaluated whether the disclosures provided in Note 7 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Other Information: Directors' Report

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the 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 directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those 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 this part of the 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 above, we have checked that the information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix I to this auditor's report. This description, which is on pages 6 and 7 below, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 23 February 2018.

Engagement Period

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

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

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



Antonio Sánchez-Covisa Martín-González
Registered in ROAC under no. 21251

23 February 2018

Appendix I 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 financial statements.

Auditor's Responsibilities for the Audit of the 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 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity'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 entity'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 entity's audit committee, we determine those matters that were of most significance in the audit of the 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.

**Annual Accounts and Management Report
31 December 2017**

Prepared in compliance with Royal Decree 1514/2007, of 16 November, which approved the General Chart of Accounts, taking into consideration the industry adaptations and amendments approved subsequently thereto.

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Income Statement for 2017

(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>31/12/2017</u>	<u>31/12/2016</u>
Investment property		99	-
Land	5	40	-
Buildings	5	59	-
Long-term investments in group companies and associates		703,937	757,721
Equity instruments	7a	701,776	755,451
Loans to companies	7b, 9a, 16	2,161	2,270
 Total non-current assets		<u>704,036</u>	<u>757,721</u>
Non-current assets held for sale	7,10	55,510	-
Trade and other receivables		28,610	40,440
Client receivables for sales and rendering of services	9a	106	92
Clients, group companies and associates	9a	25,962	38,231
Current tax assets	9a, 15a	1,214	1,684
Public entities, other	9a, 15a	1,328	433
Short-term investments in group companies and associates		41,194	47,144
Loans to companies	7b, 9, 16	27,717	45,288
Other financial assets	7b, 9, 16	13,476	1,856
Short-term financial investments	7,8	4,201	115
Other financial assets		4,201	115
Short-term accruals		354	303
Cash and other cash equivalent assets		7,816	11,211
Treasury	6	7,816	11,211
 Total current assets		<u>137,684</u>	<u>99,213</u>
 Total assets		<u>841,720</u>	<u>856,934</u>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the balance sheet at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Income Statement for 2017

(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>31/12/2017</u>	<u>31/12/2016</u>
Share capital			
Capital		<u>185,248</u>	<u>181,081</u>
Issued capital	11a	<u>185,248</u>	<u>181,081</u>
Issue premium	11b	<u>487,349</u>	<u>498,914</u>
Reserves	11c	<u>(16,682)</u>	<u>1,991</u>
Legal and statutory		<u>1,047</u>	<u>667</u>
Other reserves		<u>(17,729)</u>	<u>1,324</u>
(Treasury stock)	11d	<u>(175)</u>	<u>(823)</u>
Other shareholder contributions		<u>240</u>	<u>240</u>
Profit for the period		<u>19,211</u>	<u>3,800</u>
Total equity		<u>675,191</u>	<u>685,203</u>
Long-term borrowings		<u>138,826</u>	<u>156,100</u>
Bonds and other fair values	12	<u>138,787</u>	<u>138,506</u>
Bank borrowings	12	<u>-</u>	<u>17,336</u>
Other financial liabilities	12	<u>39</u>	<u>258</u>
Total non-current liabilities		<u>138,826</u>	<u>156,100</u>
Short-term borrowings		<u>3,627</u>	<u>6,306</u>
Bonds and other marketable securities	12	<u>3,482</u>	<u>3,481</u>
Bank borrowings	12	<u>-</u>	<u>2,584</u>
Other financial liabilities with third parties	12	<u>-</u>	<u>48</u>
Other financial liabilities with the group	12	<u>145</u>	<u>193</u>
Short-term debts with group companies and associates	12,16	<u>7,505</u>	<u>-</u>
Trade and other payables		<u>16,571</u>	<u>9,325</u>
Short-term suppliers, related companies	13	<u>10,756</u>	<u>6,936</u>
Sundry creditors	13	<u>1,622</u>	<u>1,712</u>
Personnel (<i>salaries payable</i>)	13	<u>136</u>	<u>107</u>
Other Public Entity payables	13, 15	<u>57</u>	<u>570</u>
Customer advances	13	<u>4,000</u>	<u>-</u>
Total current liabilities		<u>26,703</u>	<u>15,631</u>
Total equity and liabilities		<u>841,720</u>	<u>856,934</u>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the balance sheet at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Income Statement for 2017

(Expressed in thousands of Euros)

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

	Note	<u>2017</u>	<u>2016</u>
On-going transactions			
Net turnover		27,811	14,913
Revenue from leases	17a	-	3,814
Revenue from stakes in equity instruments	17a	13,829	3,808
Revenue from investments in group companies and associates	17a	2,072	3,968
Revenue from invoicing financial expenses within the Group	17a	4,341	3,323
Revenue from disposing of equity instruments	17a	7,569	-
Other operating income		-	263
Non-trading and other operating income		-	263
Staff expenses		(541)	(446)
Salaries and wages	17b	(477)	(383)
Benefits	17b	(64)	(63)
Other operating expenses		(3,491)	(5,022)
External services	17c	(3,486)	(4,474)
Taxes other than corporate income tax	17c	(5)	(474)
Losses on, impairment of and change in allowances for trade operations	17c	-	(74)
Amortisation of fixed assets	5	(1)	(766)
Operating profit		<u>23,778</u>	<u>8,942</u>
Financial income		1	35
From negotiable securities and other financial instruments		1	35
From third parties		1	35
Financial costs	12c	(4,567)	(5,149)
From debts with third parties		(4,567)	(5,149)
Exchange rate differences		(1)	(12)
Impairment and gains/(losses) on disposal of financial instruments		-	(16)
Impairment and losses		-	(16)
Finance profit		<u>(4,567)</u>	<u>(5,142)</u>
Profit before income tax		<u>19,211</u>	<u>3,800</u>
Income tax	15b	-	-
Profits/(losses) for the period from on-going transactions		<u>19,211</u>	<u>3,800</u>
Profit for the period		<u>19,211</u>	<u>3,800</u>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the income statement at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Statement of Changes in Equity for 2017

A) Statement of recognised income and expenses for 2017

(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>2017</u>	<u>2016</u>
Income statement result	<u>19,211</u>	<u>3,800</u>
Total income and expense recognised directly in equity	-	-
Total transfers to the income statement	-	-
Total recognised income and expenses	<u><u>19,211</u></u>	<u><u>3,800</u></u>

The accompany Notes 1 to 20 and Appendix I form an integral part of the statement of changes in equity at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Statement of Changes in Equity for 2017

B) Statement of Total Changes in Equity at
31 December 2017

(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)

	Issued capital	Issue premium	Reserves	Treasury stock	Other shareholder contributions	Profit for the period	Total
Balance at 31 December 2015	119,996	415,047	(7,799)	(709)	240	5,006	531,781
Recognised income and expenses	-	-	-	-	-	3,800	3,800
Transactions with equity holders or owners							
Capital increases	61,085	91,388	(9,435)	-	-	-	143,038
Recognition of payments based on shares	-	-	19,169	-	-	-	19,169
Distribution of profit							
To reserves	-	-	507	-	-	(507)	-
To dividends	-	(7,521)	11	-	-	(4,499)	(12,009)
Treasury shares	-	-	(464)	(114)	-	-	(578)
Other operations	-	-	2	-	-	-	2
Balance at 31 December 2016	181,081	498,914	1,991	(823)	240	3,800	685,203
Recognised income and expenses	-	-	-	-	-	19,211	19,211
Capital increases (Note 11a)	4,167	15,001	(19,168)	-	-	-	-
Issue premium distribution		(26,566)	-	-	-	-	(26,566)
Distribution of profit							
To reserves	-	-	384	-	-	(384)	-
To dividends	-	-	3	-	-	(3,416)	(3,413)
Treasury shares (Note 11b)	-	-	131	648	-	-	779
Other operations	-	-	(23)	-	-	-	(23)
Balance at 31 December 2017	185,248	487,349	(16,682)	(175)	240	19,211	675,191

The accompanying Notes 1 to 20 and Appendix I form an integral part of the statement of changes in equity for the 2017 period.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Statement of Cash Flows at 31 December 2017
(Expressed in thousands of Euros)

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

	Note	2017	2016
Cash flows from operating activities			
Profit/(loss) before tax		19,211	3,800
Adjustments to the profit/(loss)		(18,903)	17,347
Amortisation of fixed assets (+)	5	1	766
Valuation adjustments due to impairment (+/-)		.	74
Revenue from stakes in equity instruments (-)	17a	(13,829)	(3,808)
Revenue from investments in group companies and associates (-)	17a	(2,072)	(3,968)
Finance income (-)		(1)	(35)
Income from disposal of investments (-)	17a	(7,569)	-
Financial costs (+)	12	4,567	5,149
Expenses from payment based on shares	11e	-	19,169
Changes in operating assets and liabilities		18,790	(24,690)
Debtors and other receivables (+/-)		11,831	(30,495)
Creditors and other payables (+/-)		7,212	4,993
Other current assets (+/-)		62	812
Other current and non-current liabilities (+/-)		(315)	-
Other cash flows from operating activities		(1,976)	9,058
Interest payments (-)		(4,185)	(4,942)
Receipt of dividends (+)		2,209	13,965
Receipt of interest (+)		-	35
Cash flows from operating activities		17,122	5,515
Cash flows from investing activities			
Payments for investments (-)		(210,754)	(160,843)
Group companies and associates	7a	(210,406)	(158,443)
Loans to Group companies and associates		(248)	-
Investment property	5	(100)	(2,400)
Proceeds from sales on investments (+)		231,940	27,114
Group companies and associates	7a	196,500	25,205
Disposal of equity instruments	7a	15,440	-
Loans to Group companies and associates	7b	20,000	-
Other financial assets		-	1,909
Cash flows from investing activities		21,186	(133,729)
Cash flows from financing activities			
Payments made and received for equity instruments		779	142,460
Issue of equity instruments (+)	11	-	143,038
Disposal of equity instruments (+/-)	11	779	(578)
Receivables and payments for financial liability instruments		(12,500)	(8,508)
a) Issue of:			
Associates (+)	16	7,500	-
b) Returns of:			
Bank borrowings (-)	12	(20,000)	(5,000)

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.
Statement of Cash Flows at 31 December 2017
(Expressed in thousands of Euros)

	Note	2017	2016
Other financial liabilities (-)		-	(3,508)
Payments for dividends and remuneration from other equity instruments		(29,982)	(12,009)
Dividends (-)	11	(29,982)	(12,009)
Cash flows from financing activities		(41,703)	121,943
Net increase / decrease in cash or cash equivalents		(3,395)	(6,271)
Cash or cash equivalents at the beginning of the period		11,211	17,482
Cash or cash equivalents at the end of the period		7,816	11,211

The accompanying Notes 1 to 20 and Appendix I form an integral part of the statement of cash flows at 31 December 2017.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

(1) NATURE AND ACTIVITIES OF THE COMPANY

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

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

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

1. The acquisition and development of urban properties for lease.
2. The holding of investments in the capital of other SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs") or in other entities not resident in Spain that have an identical statutory activity and are subject to a regime similar to that applicable to SOCIMIs, insofar as they have a legal or statutory obligation to distribute profits.
3. The holding of investments in the capital of other resident or non-resident entities in Spain, the main activity of which is the acquisition of urban properties for lease. These entities must be subject to the same regime established for SOCIMIs insofar as they have a legal or statutory obligation to distribute profits and must also comply with the investment requirements stipulated in Article 3 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 which governs SOCIMIs.
4. The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November 2003 on collective investment undertakings, amended by Royal Decree 83/2015 of 13 February 2015 on property collective investment undertakings.
5. In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not amount to more than 20% of the total earnings of the Company in each tax period or those which can be considered complementary pursuant to prevailing legislation.

The principal activity of Lar España Real Estate SOCIMI, S.A. is the holding of investments in the share capital of other resident or non-resident entities in Spain, the statutory and principal activity of which is the acquisition of urban real estate for lease.

Lar España Real Estate SOCIMI, S.A. has been listed on the Spanish Stock Exchanges and the Spanish automated quotation system since 5 March 2014. The quoted price at 31 December 2017 was EUR 8.89 per share and the average quoted price for the 2017 period was EUR 7.84 per share.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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(Expressed in thousands of Euros)

Lar España Real Estate SOCIMI, S.A., as a company included under the SOCIMI tax regime, is regulated by Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs. Article 3 establishes the investment requirements for this type of company, namely:

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

Asset value will be based on the average of the asset values reflected in the consolidated quarterly balance sheets for the period. To calculate this value, the Company may replace the carrying amount of the items comprising those balance sheets with their market value, which would apply to all the balance sheets for the period. For these purposes, cash or receivables derived from transfers of these properties or investments, if any, carried out in the current period or previous periods shall not be included provided, in the latter case, that the period for reinvestment stipulated in Article 6 of the aforementioned Law has not expired.

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

This will be calculated as a percentage of consolidated profit if the company is the parent of a group in accordance with the criteria established in Article 42 of the Spanish Code of Commerce, irrespective of domicile and of the obligation to draw up consolidated annual accounts. This group shall comprise solely the SOCIMIs and other entities to which Article 2.1 of the above Law refers.

3. The properties that constitute the SOCIMI's assets must be leased for at least three years. The period of time during which the properties have been available for lease, up to a maximum of one year, shall be included for the purposes of this calculation. The period shall be calculated as follows:
 - a) For properties included in the SOCIMI's holdings prior to availing of the regime, from the starting date of the first tax period in which the special tax regime established in the Law is applied, provided that on that date the asset was leased or available for lease. If not, the provisions of the following letter shall apply.
 - b) For properties developed or acquired subsequently by the Company, from the date on which they were leased or available for lease for the first time.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

For shares or investments in the entities referred to in Article 2.1 of the aforementioned Law, they should be maintained as assets on the SOCIMI's balance sheet for at least three years from their acquisition or, where applicable, from the start of the first tax period in which the special tax regime established in the above Law is applied.

Pursuant to the first transitional provision of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 governing SOCIMIs, such entities may opt to apply the special tax regime under the provisions of Article 8 of that Law, even if they do not meet the requirements set forth therein, provided these requirements are met within two years of the date on which they opt to apply the aforementioned regime.

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

- Flexible criteria for acquiring and maintaining properties: there is no lower limit regarding the number of properties that may be contributed when constituting a SOCIMI, except for residential properties, of which the minimum number of properties contributed shall be eight. Properties are no longer required to be kept on the SOCIMI's balance sheet for seven years, only for a minimum of three years.
- Reduced capital requirements and unlimited financial leverage: the minimum capital requirement has been reduced from EUR 15 million to EUR 5 million and the ceiling on borrowing by the property investment vehicle has been lifted.
- Reduced dividend distribution: until this Law entered into force, it was compulsory to distribute 90% of profits; this pay-out requirement has been reduced to 80%, applicable as of 1 January 2013.
- The tax rate for SOCIMIs for corporate income tax purposes is 0%. However, when a SOCIMI distributes dividends to shareholders with an interest greater than 5%, or that are exempt from tax or are subject to tax at less than 10%, a special tax which shall have the consideration of corporate income tax shall be levied on the SOCIMI at a rate of 19% of the dividend distributed to those shareholders. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date.

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

- The exclusion from trading on regulated markets or in a multi-lateral trading system.
- The substantial breach of the information obligations referenced in Article 11 of said Law, unless the following report corrects such breach.
- The failure to agree to the total or partial distribution or payment of the dividends under the terms and within the periods referenced in Article 6 of said Law. In this case, taxation

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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(Expressed in thousands of Euros)

under the general regime shall take place in the tax period referencing the reporting period in which the profits giving rise to said dividends were made.

- The renouncement of the application of this special tax regime.

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

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

The transition period ended in 2017 and the Company must now comply with all the requirements of the regime. The directors of the Parent consider that it meets all of these requirements at 31 December 2017 (see note 6).

As mentioned in Note 7, the Company owns shares in subsidiaries and associates. Consequently, the Company is the parent of a group of companies in accordance with current legislation. Presenting the consolidated annual accounts is necessary, in accordance with generally accepted accounting principles and regulations, to fairly present the Group's financial condition, results from operating activities, changes in equity and cash flows. The information on investments in group companies and associates is presented in Appendix I.

On 23 February 2018 the Company's Directors prepared the consolidated annual accounts of Lar España Real Estate SOCIMI, S.A. and subsidiaries for 2017, which show consolidated profits of EUR 135,606 thousand, consolidated equity of EUR 918,219 thousand and assets of EUR 1,554,352 thousand. The consolidated figures were obtained from the consolidated annual accounts prepared by the Company based on International Financial Reporting Standards, adopted by the European Union, and other provisions of the framework regulations on financial information to which the Group is subject in Spain,

(2) BASIS OF PRESENTATION

(a) Fair image

The annual accounts for 2017 have been prepared from the accounting records of Lar España Real Estate SOCIMI, S.A. The annual accounts for 2017 have been prepared according to current business legislation and with the standards established in the General Accounting Plan, with the purpose of showing the true and fair image of the equity and the financial situation at 31 December 2017 and of the gains and losses from its operations, the changes in the equity and the corresponding cash flows for the period ended on said date.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

The Company's Directors expect the annual accounts for 2017, which were prepared on 23 February 2018, will be approved by the General Shareholders' Meeting without any amendments thereto. The annual accounts for the 2016 financial year were approved by the Shareholders' General Meeting held on 29 May 2017.

(b) Regulatory framework on financial information

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

1. The Spanish Code of Commerce and related mercantile legislation,
2. General Chart of Accounts approved by R.D. 1514/2007 and its industry adaptations, specifically those regarding real estate companies.
3. Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs.
4. Any mandatory regulations approved by Spain's Accounting and Audit Institute to implement the General Chart of Accounts and its supplementary rules.
5. All other applicable Spanish accounting principles.

(c) Non-mandatory account principles applied.

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

(d) Comparative information

The information contained in this report on the annual period ended in 2017 is presented for the purposes of comparison with the information related to the annual period ended in 2016.

(e) Functional and presentation currency

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

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

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

(i) *Relevant accounting estimates and assumptions*

1. The assessment of possible losses due to the impairment of certain assets.
2. The market value of certain financial instruments.
3. Assessment of provisions and contingencies.
4. Financial risk management.
5. Calculation of fair value of payments based on shares or equity instruments (Note 11e).
6. Compliance with the requirements that regulate SOCIMIs (Note 1).

(ii) *Changes in accounting estimates*

Although estimates were calculated by the Company's directors based on the best information available at 31 December 2017, future events may require changes to these estimates in subsequent periods. The effect on the annual accounts of any changes that, where appropriate, arise from the adjustments to be made in subsequent periods would be recognised prospectively.

(g) Grouping together of items

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

(h) Changes in accounting criteria

During the annual period ended on 31 December 2017 there were no changes in accounting criteria with respect to those applied when preparing the annual accounts of 2016.

(i) Correction of errors

In preparing the attached annual accounts, no significant error has been detected that has required that the amounts included in the annual account for 2016 be re-stated.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

(3) DISTRIBUTION OF PROFIT

The proposal for allocating the profits for the period ended 31 December 2017 and other reserves of the Company to be presented to the General Shareholder's Meeting is the following:

	<u>Euros</u>
<u>Basis of allocation</u>	
Profit for the period	19,211,128.53
Issue premium	27,713,695.30
<u>Distribution</u>	
Legal reserve	1,921,112.85
Dividends	45,000,000.00
Voluntary reserve	3,710.97
	<u>46,924,823.83</u>

(4) RECORD AND VALUATION STANDARDS

These annual accounts corresponding to 2017 were prepared in accordance with the recognition and valuation criteria established in the General Chart of Accounts approved by Royal Decree 1514/2007, industry adaptations and amendments approved subsequently thereto, and other applicable legislation.

(a) Financial instruments

(i) Classification of financial instruments

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

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

(ii) Offsetting principles

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

(iii) Loans and receivables

This item comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They basically consist of receivables from group

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(Expressed in thousands of Euros)

companies. They are included in current assets, except for maturities greater than twelve months as of the date of the balance sheet which are classified as non-current assets. Loans and receivables generated in exchange for cash deliveries or current transactions are included under Loans to companies and Trade and other receivables in the balance sheet.

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

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

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

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

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

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

After the initial valuation, investments in Group companies, associates and jointly-controlled companies are valued at their cost, less, where appropriate, the accumulated amount of impairment adjustments. Said adjustments are calculated as the difference between the carrying amount adjusted by any implicit capital gains (market value - carried cost of the asset) as of the date of measurement and the book value of the stakes.

Because the investees are real estate companies, their recoverable amount is closely linked to the valuation of the real estate assets they own. The Company therefore determines the recoverable amount of these investments to be their fair value; i.e. the Company's best estimate of their carrying amount, adjusted for any unrealised gains at the measurement date, which are supported by independent expert appraisals.

When determining the fair value of investment property held by Group companies and associates, Company management engages independent appraisers not related to the Company to appraise all of their real assets at 30 June and 31 December each year. Valuation of these investments is conducted in accordance with the statements of the RICS Valuation - Professional Standards published by The Royal Institution of Chartered Surveyors ("Red Book"), based in the United Kingdom.

Specifically, buildings are valued individually, taking into consideration each of the lease

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

contracts in force at the appraisal date. The method used to calculate the market value of buildings with rented areas consists of preparing 10-year projections of income and expenses for each type of asset, which are subsequently discounted to the reporting date for each analysis period using a market discount rate. The residual amount at the end of year 10 is calculated applying a rate of return (“exit yield”) to the net income projected for year 10. The market values thus obtained are analysed by calculating and analysing the yield capitalisation implicit in these values. Both the rate of return and the discount rate are defined considering local real estate companies and prevailing institutional market conditions, as well as the reasonableness of the market value thus obtained, which is tested in terms of initial gain.

Buildings with areas that have not been rented out are valued on the basis of estimated future rents, minus a marketing period.

(v) Impairment of financial assets

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

- Impairment of financial assets carried at amortised cost.

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. For floating-rate financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used. If the asset is secured by collateral, this calculation will be carried out net of any sales allocation costs discounted at the effective interest rate.

The Company recognises the impairment loss and uncollectibility of loans and receivables and debt instruments by recognising an allowance account for financial assets, which is charged against profit and loss and is reversible in subsequent periods up to the amortised cost the assets would have had if the impairment loss had not been recognised.

(vi) Financial liabilities

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

Nevertheless, trade payables falling due in less than one year that have no contractual interest rate are carried at all times at their nominal amount, since the effect of discounting the cash flows is immaterial.

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(vii) Derecognition of financial assets

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

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

(viii) Derecognition of financial liabilities

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

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

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

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

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

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(b) Own equity instruments held by the Company

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

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

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

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

(c) Distributions to shareholders

Dividends are in cash and are recognised as a reduction in equity when approved by the Shareholders' General Meeting.

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

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

- (i) 100% of profits deriving from dividends or shares of profits distributed by the entities referred to in Article 2.1 of Law 11/2009.

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

(d) Cash and other cash equivalent assets

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

(e) Short-term 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.

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

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

(f) Payments based on shares

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The Company recognises, on one hand, goods and services received as an asset or an expense, according to the nature thereof, when same is received, and on the other, the corresponding increase under Equity, if the transaction is settled with equity instruments or the corresponding liability if the transaction is settled with an amount that is based on the value of the equity instruments.

For transactions that are settled with equity instruments, provided services and the increase in equity are measured at the fair value of the received services.

(g) Provisions

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

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

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

The financial effect of provisions is recognised as a finance cost in the income statement.

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

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

(h) Revenue recognition

Pursuant to the publication in September 2009 on the consultation included in Gazette No. 79 of the Institute of Accounting and Account Auditing (ICAC), as of the 2016 period, due to the Company's being a holding company after the sales of the investment property, it presents revenue from dividends received from investee companies, finance revenue from financing granted thereto and revenue from disposing of equity instruments as net turnover.

Revenue from stakes in equity instruments

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The amount of income from stakes in equity instruments resulting from subsidiary dividends is measured by the compensation received, once the dividend has been approved by the Shareholders' Meeting of the subsidiary company.

Revenue from investments in group companies and associates

Revenue from investments in group companies and associates is recognised on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned rather than the period in which the cash is actually received or disbursed. Said revenue is measured at the fair value of the consideration received.

Revenue from disposing of equity instruments

Revenue from disposing of equity instruments is recognised when the risks and benefits inherent to the ownership of the sold asset are transferred to the purchaser and the day-to-day management and effective control over said asset are not retained. Said revenue is measured at the fair value of the consideration received.

Costs re-invoiced to Group companies

(i) Interests related to liabilities

Financial costs re-invoiced to group companies whose investees are guarantors of the bond or otherwise own assets with a mortgage guarantee on said bond are considered by the Company to be revenue from service provisions. The distribution criterion applied by the Company is established according to the relative weight of each asset's market value against the total market value of the pledged assets.

(ii) Costs from independent professional and service organisations

Costs passed on to subsidiary companies for services received from external independent professional and service organisations are not considered by the Company to be revenue from service provisions. The invoicing for these items is included under "External services" on the accompanying income statement. Said re-invoiced costs totalled EUR 21,335 thousand in 2017 (EUR 32,416 in 2016).

(i) Income tax

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

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

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

This special SOCIMI tax regime, following the amendment introduced by Law 16/2012 of 27 December 2012, is based on paying a corporate income tax rate of 0%, provided certain requirements are met. Among these, it bears mentioning that at least 80% of their assets must comprise urban properties for rental under outright ownership or through shares in companies fulfilling these same investment and profit distribution criteria, whether Spanish or foreign and whether quoted in organised markets or not. Similarly, the main source of income for these companies must be the real estate market, whether through rentals, the subsequent sale of properties following a minimum rental period, or income from shareholdings in companies of a similar nature. Nevertheless, tax is accrued proportionately to the distributed dividends. Dividends received by shareholders are exempt from tax, unless the recipient is a legal entity subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction is applied to the tax payable so that this income is taxed at the tax rate applicable to the shareholder. However, the remaining income is not subject to taxation provided it is not distributed to shareholders.

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

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

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

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

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

(k) Insurance contracts

The Company has taken out insurance in connection with the members of the Board of Directors and Senior Management. At 31 December 2017 the expense for amount of premiums related to the Board of Directors and Senior Management totalled EUR 48 thousands (EUR 99 thousand at 31 December 2016).

(l) Environmental information

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

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

(m) Transactions between group companies

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

(n) Statement of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments not subject to significant risk of changes in value.
- Operating activities: the usual activity of the Company and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

(o) Non-current assets held for sale

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The Company classifies a non-current asset or a disposal group 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 income statement under the item line that corresponds to the nature of said asset or disposal group.

(5) INVESTMENT PROPERTY

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

	Thousands of Euros		
	2017		
	Land	Buildings	Total
Cost at 1 January 2017	-	-	-
Additions	40	60	100
Cost at 31 December 2017	40	60	100
Accumulated amortisation at 1 January 2017	-	-	-
Allocations	-	(1)	(1)
Accumulated amortisation at 31 December 2017	-	(1)	(1)
Carrying amount at 31 December 2017	40	59	99

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	Thousands of Euros		
	2016		
	Land	Buildings	Total
Cost at 1 January 2016	67,788	112,594	180,382
Additions	-	2,400	2,400
Transfers through subsidiarisation	(60,588)	(114,814)	(175,402)
Remaining transfers	(7,200)	(180)	(7,380)
Cost at 31 December 2016	-	-	-
Accumulated amortisation at 1 January 2016	-	(3,363)	(3,363)
Allocations	-	(766)	(766)
Transfers through subsidiarisation	-	4,129	4,129
Accumulated amortisation at 31 December 2016	-	-	-
Impairment at 1 January 2016	(52)	(276)	(328)
Transfers through subsidiarisation	52	276	328
Accumulated impairment at 31 December 2016	-	-	-
Carrying amount at 31 December 2016	-	-	-

On 27 March 2017, for EUR 100 thousand the Company acquired a property comprised of a building used as the office and permanent safety post, providing management services for the entire Abadía, business park, located in Toledo. Said business park is owned by LE Retail Abadía, S.L., a company that is 100% owned by Lar España Real Estate SOCIMI, S.A.

The transfers recorded in 2016 are due to the subsidiarisation of the Anec Blau, Albacenter, Txingudi, and Las Huertas shopping centres and the Cardenal Marcelo Spínola office building.

On 29 April 2016, the Company incorporated the following companies through a non-monetary contribution, all of which have a share capital of 3,000 shares with a par value of EUR 1 per share and an issue premium:

- LE Retail Anec Blau, S.L.U., with a share capital of EUR 3 thousand and a total business establishment bonus of EUR 79,584 thousand, by means of the contribution of the Anec Blau shopping centre, which at the date of the transaction had a carrying value of EUR 79,587 thousand.
- LE Retail Albacenter, S.L.U., with a share capital of EUR 3 thousand and a total business establishment bonus of EUR 28,627 thousand, by means of the contribution of the Albacenter shopping centre, which at the date of the transaction had a carrying value of EUR 28,630 thousand.

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- LE Retail Txingudi, S.L.U., with a share capital of EUR 3 thousand and a total business establishment bonus of EUR 27,222 thousand, by means of the contribution of the Txingudi shopping centre, which at the date of the transaction had a carrying value of EUR 27,225 thousand.
- LE Retail Las Huertas, S.L.U., with a share capital of EUR 3 thousand and a total business establishment bonus of EUR 11,943 thousand, by means of the contribution of the Las Huertas shopping centre, which at the date of the transaction had a carrying value of EUR 11,946 thousand.
- LE Offices Marcelo Spínola, S.L.U., with a share capital of EUR 3 thousand and a total business establishment bonus of EUR 23,554 thousand, by means of the contribution of the Cardenal Marcelo Spínola office building, which at the date of the transaction had a carrying value of EUR 23,557.

(6) RISK MANAGEMENT POLICY

(a) Financial risk factors

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

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

(i) Market risk

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

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

- Environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the companies of 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 time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

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Cash and cash equivalents

At 31 December 2017 the Company has cash totalling EUR 7,816 thousand, which represents its maximum exposure to risk associated with these assets (EUR 11,211 thousand at 31 December 2016).

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

The Company has entered into a liquidity contract with a financial intermediary in accordance with the Spanish National Securities Market Commission (CNMV) Circular 3/2007 of 19 December 2007 on liquidity contracts for their acceptance as market practice, and other applicable legislation, and therefore holds a restricted cash balance of EUR 500 thousand.

(ii) Liquidity risk

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

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

The Company's exposure to liquidity risk at 31 December 2017 and 2016 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

	2017					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	
Financial liabilities from issue of bonds (*)	-	3,482	-	138,787	-	142,269
Other non-current liabilities - security deposits and guarantees	-	-	-	-	39	39
Group companies and associates	7,505	-	145	-	-	7,650
Trade and other payables	4,136	12,378	57	-	-	16,571
Total	11,641	15,860	202	138,787	39	166,529

*The effect of measuring financial liabilities from bonds at amortised cost is a decrease in the nominal amount of these liabilities of EUR 1,213 thousand (EUR 1,495 thousand in 2016).

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	2016					Total
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	
Financial liabilities from issue of bonds	-	3,481	-	138,506	-	141,987
Loans and borrowings	2,584	-	-	17,336	-	19,920
Other non-current liabilities - security deposits and guarantees	-	241	-	219	39	499
Trade and other payables	1,807	7,518	-	-	-	9,325
Total	4,391	11,240	-	156,061	39	171,731

(iii) Cash flow and fair value interest rate risks

At 31 December 2017 the Company held no short-term fixed-rate deposits.

At the reporting date, income and cash flows from the Company's operating activities are not significantly affected by fluctuations in market interest rates.

At 31 December 2017, the Company held a financial liability for simple, fixed-rate bonds issued for a nominal amount of EUR 140,000 thousand (Note 12).

(iv) Tax risk

As mentioned in note 1, the Company and some of its subsidiaries have availed of the special tax regime for SOCIMIs. The transition period ended in 2017 and compliance with all the requirements of the regime (see notes 1 and 5.15) is now mandatory. The requirements that must be met by the Parent include certain obligations of a more formal nature, such as incorporating the term SOCIMI into the corporate name, disclosing certain information in the notes to the individual annual accounts, the requirement to be quoted on a stock market, etc.; and others that, in addition, require management to make estimates and use judgement (determining taxable income, tests of income and assets, etc.). In the latter case, this could be somewhat complex, especially considering that the regime for SOCIMIs is relatively new and has essentially been developed on the basis of the response of the Spanish Directorate-General of Taxes to queries raised by different companies. With the support of its tax advisors, Group management has assessed its compliance with the requirements of the regime, concluding that such requirements have been met at 31 December 2017.

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Furthermore, in order to take into account the financial effect of the regime also, pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting this regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month of the date of the agreement (see note 5.7).

Should the Company not comply with the requirements of the regime, or should the shareholders of the companies not approve the dividend distribution proposed by the board of directors, calculated in accordance with the requirements set forth in the aforementioned law, they 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.

(7) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

(a) Investments in equity instruments

Details of investments in equity instruments in group companies and associates at 31 December 2017 and 2016 are as follows (see further information in Appendix I):

Stocks in Group Companies (all at 100%)

Company	Thousands of Euros					
	2017					
	Opening balance	Voluntary contributions	Returns	Transfers (Note 10)	Disposals	Closing balance
Cost						
LE Logistic Alovera I y II, S.A.U.	41,759	4,615	(3,780)	-	-	42,594
LE Retail Hiper Albacenter, S.L.U.	11,360	1,349	(800)	-	-	11,909
LE Offices Egeo, S.A.U.	32,660	4,267	(500)	(36,427)	-	-
LE Retail Alisal, S.A.U.	9,613	2,098	(2,630)	(9,081)	-	-
LE Offices Eloy Gonzalo 27, S.A.U.	12,553	3,007	(300)	-	-	15,260
LE Retail As Termas, S.L.U.	29,204	3,021	(2,100)	-	-	30,125
LE Offices Joan Miró, S.L.U.	10,514	878	(1,000)	-	-	10,392
LE Logistic Alovera III y IV, S.L.U.	9,915	523	(600)	-	-	9,838
LE Logistic Almussafes, S.L.U.	8,134	408	(450)	-	-	8,092
LE Retail Hiper Ondara, S.L.U.	6,954	324	(500)	-	-	6,778
LE Retail Sagunto, S.L.U.	8,793	14,133	(1,500)	-	-	21,426
LE Retail Megapark, S.L.U.	65,917	16,265	(5,000)	-	-	77,182
LE Retail Galaria, S.L.U.	4,473	410	(70)	(4,813)	-	-
LE Retail El Rosal, S.L.U.	33,055	3,904	(3,900)	-	-	33,059
Lar España Shopping Centres VIII, S.L.U.	47,436	5,856	(7,000)	-	-	46,292
LE Retail Vistahermosa, S.L.U.	43,333	1,116	(22,500)	-	-	21,949
Lar España Offices VI, S.L.U.	3	-	-	-	-	3
Lar España Inversión Logística IV, S.L.U.	2,096	2,315	(1,988)	-	-	2,423
LE Retail Villaverde, S.L.U.	5,141	429	(381)	(5,189)	-	-

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LE Retail Arturo Soria, S.L.U.	11,496	1,335	(760)	-	(12,071)	-
LE Offices Marcelo Spínola, S.L.U.	28,507	1,957	(150)	-	-	30,314
LE Retail Albacenter, S.L.U.	28,980	1,646	(1,250)	-	-	29,376
LE Retail Anec Blau, S.L.U.	78,577	3,592	(3,590)	-	-	78,579
LE Retail Gran Vía de Vigo, S.L.U.	137,970	3,202	(84,132)	-	-	57,040
LE Retail Las Huertas, S.L.U.	12,200	492	(253)	-	-	12,439
LE Retail Portal de la Marina, S.L.U.	35,889	4,529	(1,100)	-	-	39,318
LE Retail Txingudi, S.L.U.	27,476	3,154	(350)	-	-	30,280
LE Retail Abadía, S.L.U.	-	66,289	(37,230)	-	-	29,059
LE Retail Hipermercados I, S.L.U.	-	25,243	(10,097)	-	-	15,146
LE Retail Hipermercados II, S.L.U.	-	17,608	(1,192)	-	-	16,416
LE Retail Hipermercados III, S.L.U.	-	16,441	(1,397)	-	-	15,044
	<u>744,008</u>	<u>210,406</u>	<u>(196,500)</u>	<u>(55,510)</u>	<u>(12,071)</u>	<u>690,333</u>

Stocks in
Associates

Company	Thousands of Euros					
	2017					
	Opening balance	Additions	Share losses	Impairment reversal	Returns	Closing balance
Inmobiliaria Juan Bravo 3, S.L.	11,443	-	-	-	-	11,443
	<u>11,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,443</u>

Stocks in Group Companies (all at 100%)

Company	Thousands of Euros				
	2016				
	Opening balance	Voluntary contributions	Transfers	Returns	Closing balance
LE Logistic Alovera I y II, S.A.U.	44,309	-	-	(2,550)	41,759
LE Retail Hiper Albacenter, S.L.U.	11,660	-	-	(300)	11,360
LE Offices Egeo, S.A.U.	34,560	200	-	(2,100)	32,660
LE Retail Alisal, S.A.U.	9,410	203	-	-	9,613

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(Expressed in thousands of Euros)

LE Offices Eloy Gonzalo 27, S.A.U.	12,553	-	-	-	12,553
LE Retail As Termas, S.L.U.	31,339	165	-	(2,300)	29,204
LE Offices Joan Miró, S.L.U.	10,514	-	-	-	10,514
LE Logistic Alovera III y IV, S.L.U.	10,494	-	-	(580)	9,914
LE Logistic Almussafes, S.L.U.	8,534	-	-	(400)	8,134
LE Retail Hiper Ondara, S.L.U.	7,254	-	-	(300)	6,954
LE Retail Sagunto, S.L.U.	3,621	6,172	-	(1,000)	8,793
LE Retail Megapark, S.L.U.	4,482	166,317	-	(104,882)	65,917
LE Retail Galaria, S.L.U.	4,473	-	-	-	4,473
LE Retail El Rosal, S.L.U.	7,720	28,335	-	(3,000)	33,055
Lar España Shopping Centres VIII, S.L.U.	3	49,423	-	(1,990)	47,436
LE Retail Vistahermosa, S.L.U.	3	43,330	-	-	43,333
Lar España Offices VI, S.L.U.	3	-	-	-	3
Lar España Inversión Logística IV, S.L.U.	3	2,093	-	-	2,096
LE Retail Villaverde, S.L.U.	4,948	193	-	-	5,141
LE Offices Arturo Soria, S.L.U.	12,337	160	-	(1,000)	11,497
LE Offices Marcelo Spínola, S.L.U.	-	5,450	23,557	(500)	28,507
LE Retail Albacenter, S.L.U.	-	1,700	28,630	(1,350)	28,980
LE Retail Anec Blau, S.L.U.	-	190	79,587	(1,200)	78,577
LE Retail Gran	-	79,481	62,890	(4,401)	137,970

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(Expressed in thousands of Euros)

Vía de Vigo, S.L.U.					
LE Retail Las Huertas, S.L.U.	-	254	11,946	-	12,200
LE Retail Portal de la Marina, S.L.U.	20,689	612	14,588	-	35,889
LE Retail Txingudi, S.L.U.	-	251	27,225	-	27,476
	<u>238,909</u>	<u>384,529</u>	<u>248,423</u>	<u>(127,853)</u>	<u>744,008</u>

Stocks in
Associates

Company	Thousands of Euros					
	2016					
	Opening balance	Additions	Share losses	Impairmen t reversal	Returns	Closing balance
Lavernia Investments, S.L.	9,748	-	(472)	456	(9,732)	-
Inmobiliaria Juan Bravo 3, S.L.	11,610	-	-	-	(167)	11,443
	<u>21,358</u>	<u>-</u>	<u>(472)</u>	<u>456</u>	<u>(9,899)</u>	<u>11,443</u>

In the 2017 period the Company carried out contributions and returns, and recovered contributions of EUR 210,406 thousand and EUR 196,500 thousand, (EUR 384,529 thousand of contributions and EUR 127,853 thousand of returns in 2016).

In addition, the following specific transactions were carried out in the 2017 period:

- On 31 December 2017, the Company classified 100% of the company shares held in LE Retail Villaverde, S.L.U., LE Retail Galaria, S.L.U. and LE Retail Alisal, S.A.U. as non-current assets held for sale, based on the decision to sell same and the expectation to do so in the short-term.
- On 27 September 2017, the Company classified 100% of the company shares held in its subsidiary LE Offices Egeo, S.L.U. as non-current assets held for sale. On said date a purchase option was signed with the company Inmobiliaria Colonial SOCIMI, S.A. regarding said unencumbered shares, for a base price of EUR 79,300 thousand. At 31 December 2017 trade payables include EUR 4,000 thousand received in respect of a premium on the call option on LE Offices Egeo, S.L.U. shares.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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(Expressed in thousands of Euros)

- On 16 January 2018, after the exercise of the call option signed on 27 September 2017, Lar España Real Estate Socimi, S.A. transferred to Inmobiliaria Colonial Socimi, S.A. all of the shares held in the wholly-owned subsidiary LE Offices Egeo, S.A.U., owner of the Egeo office building located in Madrid, for a total of EUR 79,300 thousand, after repaying the EUR 30,000 thousand mortgage loan of the company. The base price could increase to up to EUR 2,124 thousand if the value of the building at 31 December 2018 exceeds EUR 80,000 thousand.
- On 27 September 2017, the Company sold 100% of the company shares in its subsidiary LE Offices Arturo Soria, S.L.U. to Inmobiliaria Colonial, SOCIMI, S.A. for a base price of EUR 19,640 thousand, generating profit of EUR 7,569 thousand (note 17).
- On 27 March 2017, the Company acquired 100% of the stakes in the company NPS European Property Toledo, S.L.U. (currently LE Retail Abadia, S.L.U.) from the company Rockspring NPS European Property Holding, B.V. The total amount paid by the Company was EUR 65,285 thousand, of which EUR 47,928 thousand was used to cancel the loan held by LE Retail Abadia, S.L.U. at the date of acquisition. Furthermore, EUR 1,004 thousand in contributions and EUR 37,230 thousand in returns were made after LE Retail Abadía, S.L.U. obtained funding.
- On 27 March 2017, the Company acquired 100% of the stocks in the companies NPS European Property Retail I, S.L.U., NPS European Property Retail II, S.L.U. and NPS European Property Retail III, S.L.U., (currently LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U. and LE Retail Hipermercados III, S.L.U.) from the company Rockspring NPS European Property Holding, B.V. The total amount paid by the Company was EUR 49,723 thousand, of which EUR 37,425 thousand was used to cancel the loan held by the three companies at the date of acquisition. Furthermore, EUR 9,569 thousand in contributions and EUR 12,686 thousand in returns were made.

In addition, in the 2016 period the following transactions were carried out:

- In the 2016 period the loan the Company granted LE Retail El Rosal, S.L.U. was capitalised for the amount of EUR 28,335 thousand and approval was granted for the return of EUR 3,000 thousand of the contributions.
- In the 2016 period the loan the Company granted LE Retail Megapark, S.L.U. was capitalised for the amount of EUR 166,317 thousand and approval was granted for the return of EUR 104,882 thousand of the contributions.
- On 30 March 2016, the Company acquired 41.22% of the stakes in LE Retail Portal de la Marina, S.L.U. from the company Grupo Lar Actividad de Arrendamiento, S.A.U., a company owned by Grupo Lar Inversiones Inmobiliarias, S.A., for a total of EUR 14,588 thousand. (At 31 December 2015, the Company already owned the remaining 58.78% of the share capital.) In addition, in the 2016 period contributions totalling EUR 612 thousand were carried out.

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(Expressed in thousands of Euros)

- On 29 April 2016, the Company incorporated LE Retail Anec Blau, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 26,527.95 per share, resulting in a total business establishment bonus of EUR 79,584 thousand. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016 the Company incorporated the company LE Retail Albacenter, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 9,542.23 per share, resulting in a total business establishment bonus of EUR 28,627 thousand. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016 the Company incorporated the company LE Retail Txingudi, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 9,074.29 per share, resulting in a total business establishment bonus of EUR 27,222 thousand. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Company incorporated the company LE Retail Las Huertas, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 3,981.01 per share, resulting in a total business establishment bonus of EUR 11,943 thousand. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Company incorporated the company LE Offices Marcelo Spínola 42, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 7,851.48 per share, resulting in a total business establishment bonus of EUR 23,554 thousand. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 15 June 2016, the Company made a contribution to LE Retail Vistahermosa, S.L.U. for the amount of EUR 42,800 thousand to, among others, effect the purchase of the Vistahermosa shopping centre located in Alicante. Furthermore, approval was granted to contributions of EUR 530 thousand.
- In the 2016 period approval was granted for EUR 49,423 thousand of contributions in Lar España Shopping Centres VIII, S.L.U., in order to effect the purchase of the land in Seville on which a shopping centre development is to be built, among other purposes. Approval was also granted for EUR 1,990 thousand of returns.
- In the 2016 period approval was granted for EUR 6,172 thousand of contributions for LE Retail Sagunto, S.L.U., among other tasks, to make an advanced payment for the purchase of the land

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(Expressed in thousands of Euros)

in Valencia on which a shopping centre development is to be built (VidaNova Parc project). Approval was also granted for EUR 1,000 thousand of returns.

- On 15 September 2016, the Company acquired 100% of the shares of LE Retail Gran Vía de Vigo, S.A.U. (formerly called Gran Via Centrum Holdings, S.A.), owner of the Gran Vía de Vigo shopping centre. The acquisition was carried out for a total amount of EUR 62,890 thousand, which was paid in full with the Company's share capital. In addition, the Company carried out contributions to cancel the debt of LE Retail Gran Vía de Vigo, S.A.U. for the amount of EUR 79,481 thousand. Furthermore, EUR 4,401 thousand in contributions were returned.
- With the sale of the building at Calle Claudio Coello, 108, in January 2016, Lavernia Investments, S.L. distributed the issue premium to its shareholders for a total amount of EUR 19,325 thousand. Since the Group owns 50%, it has received returns of contributions in the amount of EUR 9,663 thousand. In addition, on 21 September 2016, an agreement was made to wind up and simultaneously liquidate Lavernia Investments, S.L., where the approved end balance reflected EUR 138 thousand in assets, of which the Company received returned contributions totalling EUR 69 thousand as a result of its owning 50% of the liquidated company. The loss of EUR 472 thousand was recognised under Impairment and result from disposal of equity instruments on the adjoined income statement. In addition, the Company recognised the reversal of the impairment charged in previous periods of EUR 456 thousand with payment under "Impairment and result from disposal of financial instruments" on the adjoined income statement.

(b) Loans to Group companies and associates

The breakdown of this category at 31 December 2017 and 2016 is the following:

	Thousands of Euros	
	2017	
	Short-term	Long-term
Loans to Group companies and associates	27,718	2,161
Other financial assets (Note16a)	13,476	-
Total financial assets with associates	41,194	2,161

	Thousands of Euros	
	2016	
	Short-term	Long-term
Loans to Group companies and associates	45,288	2,270
Other financial assets	1,856	-
Total financial assets with associates	47,144	2,270

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(Expressed in thousands of Euros)

At 31 December 2017 and 2016 the Company had formalised the following loans with group companies and associates:

Thousands of Euros

2017

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

Thousands of Euros

2016

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

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

As this participating loan establishes, accrued, unpaid interest will be capitalised on a quarterly basis and will become part of the principal of the loan. This increase in the principal will accrue interest at the rate set in the contract. The amount at 31 December 2017 totalled EUR 27,718 thousand (EUR 45,480 thousand at 31 December 2016) and comprises a nominal amount of EUR 20,000 thousand, additional contributions amounting to EUR 1,184 thousand (EUR 558 thousand at 31 December 2016) and interest accrued and capitalised since the date on which the loan was granted amounting to EUR 6,532 thousand (finance income net of withholdings of 19%), (EUR 4,922 thousand at 31 December 2016). In the 2017 period EUR 1,988 thousand in revenue was recognised for said loan (EUR 3,886 thousand in 2016).

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(Expressed in thousands of Euros)

On 27 April 2017, the company Inmobiliaria Juan Bravo 3, S.L. assumed the loan that the Company had formalised with Banco Santander, which at that time had an outstanding amount of EUR 20 million, cancelling part of the granted participating loan.

On 11 January 2016, the Company granted a loan to Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 2,000 thousand, with maturity on 10 January 2019 and an interest rate of 12-month Euribor plus a 4% spread. Like the participating loan granted on 29 May 2015, accrued, unpaid interest on this loan will be capitalised on a quarterly basis and will become part of the principal of the loan. Accrued and capitalised interest totalled EUR 133 thousand (finance income net of 19% withholdings). In the 2017 period EUR 84 thousand in revenue was recognised for said loan (EUR 82 thousand in the 2016 period).

(8) OTHER FINANCIAL ASSETS

This category mainly includes the amount of EUR 4,200 thousand, which was outstanding at 31 December 2017, for the sale of stakes in the company LE Offices Arturo Soria, S.L.U. On 27 September 2017, the Company signed the sale of the stakes in the company Inmobiliaria Colonial SOCIMI, S.A. for a base price of EUR 19,639 thousand. The base price may be raised up to EUR 876 thousand depending on whether the property is valued at more than EUR 32,700 thousand at 31 December 2018. Profits earned in said transaction totalled EUR 7,569 thousand at 31 December 2017 (Note 17).

At the date these financial statements were prepared, all amounts that were outstanding at 31 December 2017 have been collected.

(9) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category.

The classification of financial assets held by the Company at 31 December 2017 and 2016 by category is as follows:

	Thousands of Euros	
	2017	
	Non-current	Current
	Carrying amount	Carrying amount
Loans and receivables		
Financial assets with group companies and associates (Note 7b)	2,161	27,718
Other financial assets with group companies (Note 16a)	-	13,476
Other financial assets (Note 8)	-	4,201
Trade and other receivables		
Client receivables for sales and rendering of services	-	26,068
Current tax assets (Note 15)	-	1,214
Public entities, other (Note 15)	-	1,328
Total financial assets	<u>2,161</u>	<u>74,005</u>

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(Expressed in thousands of Euros)

	Thousands of Euros	
	2016	
	Non-current	Current
	Carrying amount	Carrying amount
Loans and receivables		
Financial assets with group companies and associates	2,270	45,288
Other financial assets with group companies	-	1,971
Trade and other receivables		
Client receivables for sales and rendering of services	-	38,323
Current tax assets	-	1,684
Public entities, other	-	433
Total financial assets	2,270	87,699

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

"Other financial assets with Group companies and associates" mainly reflects interim dividends of the group companies and associates.

(b) Classification of financial assets by maturity

The classification of financial assets by maturity at December 2017 and 2016 is as follows:

	Thousands of Euros				
	2017				
	Less than 1 year	1 to 5 years	More than 5 years	Indefinite	Total
Financial assets with group companies and associates	27,718	2,161	-	-	29,879
Other financial assets with group companies	13,476	-	-	-	13,476
Other financial assets	4,201	-	-	-	4,201
Trade and other receivables	28,610	-	-	-	28,610
	74,005	2,161	-	-	76,166

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(Expressed in thousands of Euros)

	Thousands of Euros				Total
	Less than 1 year	1 to 5 years	More than 5 years	Indefinite	
Financial assets with group companies and associates	45,288	2,270	-	-	47,558
Other financial assets	1,971	-	-	-	1,971
Trade and other receivables	40,440	-	-	-	40,440
	<u>87,699</u>	<u>2,270</u>	<u>-</u>	<u>-</u>	<u>89,969</u>

(10) NON-CURRENT ASSETS HELD FOR SALE

The Company has the firm intention of selling its interests in the Group companies LE Retail Villaverde, S.L.U, LE Retail Alisal, S.A.U. and LE Retail Galaria, S.L.U. in the near future. As these assets meet the requirements set out in the Spanish General Chart of Accounts for their classification as non-current assets held for sale, the pertinent reclassifications have been made at the 2017 reporting date.

The Company has also classified the investments held in LE Offices Egeo, S.A.U. as non-assets held for sale, because a call option on these shares, free from financial debt, was signed with Inmobiliaria Colonial SOCIMI, S.A. on 27 September 2017 for a base price of EUR 79,300 thousand. On 16 January 2018, Lar España Real Estate Socimi, S.A. transferred to Inmobiliaria Colonial Socimi, S.A., after the exercise of the call option signed on 27 September 2017, all the shares held in its subsidiary LE Offices Egeo, S.A.U. (note 7a).

Details of investments classified under this category are as follows:

	Thousands of euros
LE Retail Villaverde, S.L.U.	5,189
LE Retail Alisal, S.A.U.	9,081
LE Retail Galaria, S.L.U	4,813
LE Offices Egeo, S.A.U.	36,427
	<u>55,510</u>

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(Expressed in thousands of Euros)

(11) EQUITY

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

(a) Capital

At 31 December 2017 the share capital of Lar España Real Estate SOCIMI, S.A. amounted to EUR 185,248 thousand (EUR 181,081 thousand at 31 December 2016) represented by 92,624,097 nominative shares (90,540,562 nominative shares at 31 December 2016), represented through book entries, with a par value of EUR 2 each, subscribed and fully paid, all granting the same rights.

On 29 May 2017 it was agreed that 3,416 thousand Euros would be distributed as dividend for the period, at 0.038 gross Euros per share; and that 26,584 thousand Euros would be distributed, at 0.294 gross Euros per share, charged to the issue premium, which was paid on 31 May 2017. The amount distributed totalled EUR 29,979 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Company's equity).

On 25 July 2017 the Company carried out a capital increase in the amount of EUR 4,167 thousand, by issuing 2,083,535 shares with a nominal value of EUR 2 each plus an issue premium of EUR 7.20.

The share issue was subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. with a charge to funds obtained from the "Performance Fee" accrued by Grupo Lar Inversiones Inmobiliarias, S.A. in 2016 pursuant to the management and investment agreement entered into by the parties at that date (note 16).

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

The quoted price at 31 December 2017 was EUR 8.89 per share and the average price per share in the 2017 period was EUR 7.84 (EUR 7.03 per share and EUR 7.54 average quoted price per share in 2016).

At 31 December 2017 and 2016 the Company's main shareholders are as follows:

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(Expressed in thousands of Euros)

	2017
LVS II Lux XII S.a.r.l.	19.6%
Franklin Templeton Institutional, LLC	15.0%
Grupo Lar Inversiones Inmobiliarias,S.A.	5.7%
Brandes Investment Partners, L.P.	5.0%
Threadneedle Asset Management	5.0%
Blackrock Inc.	3.7%
Santa Lucia S.A. Cia de Seguros	3.1%
Other shareholders with an interest of less than 3%	42.9%
Total	<u>100.0%</u>
	2016
LVS II Lux XII S.a.r.l.	20.0%
Franklin Templeton Institutional, LLC	15.0%
Threadneedle Asset Management Limited	5.2%
Bestinver Gestión SA, SGIIC	4.2%
Blackrock INC.	3.7%
Grupo Lar Inversiones Inmobiliarias, S.A.	3.5%
Brandes Investment Partners, LP	3.0%
Other shareholders with an interest of less than 3%	45.4%
Total	<u>100.0%</u>

(b) Issue premium

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

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

At 31 December 2017, after the distribution of dividends against the issue premium agreed on 29 May 2017, and the capital increases carried out on 25 July 2017, the issue premium of the Company totals EUR 487,349 thousand (EUR 498,914 thousand at 31 December 2016).

(c) Reserves

Reserve movements that took place during the 2017 and 2016 periods were as follows:

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(Expressed in thousands of Euros)

	Thousands of Euros	
	2017	2016
Opening balance	1,991	(7,799)
Profit for the period	384	507
Capital increase expenses	-	(4,137)
Capital increase	(19,168)	(5,298)
Result from treasury shares	131	(464)
Payments based on shares	-	19,169
Distribution of profit (treasury shares)	3	11
Other movements	(23)	2
Closing balance	(16,683)	1,991

(i) Legal reserve

The legal reserve is to be appropriated in compliance with Article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the 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 2017 the legal reserve of the Company totals EUR 1,047 thousand (EUR 667 thousand at 31 December 2016). Therefore, the legal reserve has not been fully appropriated at 31 December 2017.

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

(ii) Other reserves

This reserve mainly comprises expenses related to the incorporation and capital increases through share issues, and other non-distributed profits.

(d) Treasury shares

At 31 December 2017 the Company holds treasury shares amounting to EUR 175 thousand (EUR 823 thousand at 31 December 2016).

Movement during the 2017 and 2016 periods was as follows:

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(Expressed in thousands of Euros)

	Number of shares	Thousands of Euros
31 December 2016	117,998	823
Additions	3,993,001	31,371
Disposals	(4,091,119)	(32,019)
31 December 2017	<u>19,880</u>	<u>175</u>
	Number of shares	Thousands of Euros
31 December 2015	74,250	709
Additions	2,169,722	16,494
Disposals	(2,125,974)	(16,380)
31 December 2016	<u>117,998</u>	<u>823</u>

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

The average selling price of treasury shares was EUR 7.87 per share (EUR 6.87 in 2016). The proceeds for the period ended 31 December 2017 amounted to EUR 131 thousand (EUR 464 thousand of losses at 31 December 2016) have been recognised under "Other Reserves" in the statement of position.

The Company has a formalised 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 for purchase/sale of treasury shares.

Dividends paid

On 29 May 2017 the Shareholders' General Meeting approved the distribution of the Company's results in accordance with the proposal formulated by the Company's Directors in their meeting held on 24 March 2017. The distribution is as follows:

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	<u>Thousands of Euros</u>
<u>Basis of allocation</u>	
Profit for the period	3,800
Issue premium	26,556
<u>Distribution:</u>	
Legal reserve	380
Dividends	29,982
Voluntary reserve	4

After deducting the amount corresponding to treasury shares, the dividend distribution totalled EUR 3,413 thousand, at EUR 0.038 per share, recognised in profit and loss for the 2016 period, and of EUR 26,566 thousand, at EUR 0.294 per share, charged to the issue premium. The distributed dividend was paid in full in May of 2017.

(e) Payments based on shares

On 12 February 2014, the Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, consultancy on the acquisition and management of property assets on behalf of the Company and financial management. For said services the Manager will accrue fixed fees based on a percentage of the fair value (EPRA NAV) of the investments made. (Note 16a).

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

	<u>31/12/2017</u>	<u>31/12/2016</u>
Equity	918,219	812,135
Revaluation of non-current assets	18,468	14,990
Fair value of financial instruments	189	3,274
Deferred tax (*)	14,613	-
EPRA NAV	<u>951,489</u>	<u>830,399</u>

**the amount of deferred tax liabilities arising from the business combinations of LE Retail Gran Vía de Vigo, S.L.U., LE Retail Abadía, 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.*

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

In this respect, the annual profitability of shareholders is defined in the contract as the sum of the change to EPRA NAV of the Group during the period, less net funds obtained from the issue of shares during the period, plus the dividends distributed during said period.

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Pursuant to the contract, in the event the following thresholds are exceeded:

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

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

On 28 December 2017, the Company and the management company agreed to amend, with retroactive effect as of 1 January 2017, clause 7.2 of the investment management agreement, which includes the definition and calculation of the performance fee, as a result of which, the annual amount accrued by the management company in this respect could not exceed EUR 10,000 thousand.

The parties also agreed that the management company will be entitled to remuneration linked to the sale of real estate assets and on the condition that returns have been generated for the shareholder, provided that such sales amount to at least EUR 100 million. The amount of this remuneration will be accrued by the management company in the year the Group sells its investments at the aforementioned price or when, having generated value for the shareholder, the Parent unilaterally terminates the management agreement, neither of which has occurred at the date these annual accounts were authorised for issue. The amount of this remuneration will be the excess of EUR 10,000 thousand of the return generated for the shareholder, which is determined in accordance with the original clause of the agreement (20% of the shareholder's return if this exceeds 10%, and, additionally, if the return exceeds 12% and up to 22%, 20% of the excess of 12%).

The amount of the actual return for the shareholder is as follows:

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	Thousands of euros	
	31/12/2017	31/12/2016
EPRA NAV Current period (*)	961,489	836,788
EPRA NAV Previous period (**)	830,399	577,970
Adjustments to the change in EPRA NAV	30,000	(131,029)
Capital increase (net of expenses)	-	(143,038)
Dividends from the previous period paid during the period	30,000	12,009
Increase in EPRA NAV in the period	161,090	127,789
Increase in EPRA NAV in the period (%)	19.40%	22.11%

*Considering the effect on the EPRA NAV of the amount effectively accrued for the performance fee of EUR 10,000 thousand.

**Considering the fiscal effect.

At 31 December 2017 the shareholder's return calculated by the Company is EUR 27,898 thousand, having accrued a performance fee of EUR 10,000 thousand in 2017 (EUR 25,558 thousand in 2016), which has been recognised as a liability.

In accordance with clause 7.2.2 of the management contract, Grupo Lar Inversiones Inmobiliarias, S.A. should use the amount accrued in respect of performance fee (after deducting the amount of the applicable income tax) to subscribe the Parent's share issues or, at the Parent's option, acquire its treasury shares.

At 19 February 2018 the Company has entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement (see note 20).

(f) Capital management

The Company is essentially financed with its own capital and financial debt. The Company resorted to market financing through mortgage-backed loans or other means of funding to fund the acquisition of new investments. In addition, the Group issued bonds in 2015 (see note 12).

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

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

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(12) FINANCIAL LIABILITIES BY CATEGORIES

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	
	Non-current	Current
	Carrying amount	Carrying amount
Debts and payables		
Financial liabilities from issue of bonds	138,787	3,482
Loans and borrowings	-	-
Other financial liabilities with third parties (Note 12d)	39	-
Other financial liabilities with the group (Note 12)	-	145
Debts with group companies and companies associated with c/p (Note 12c)	-	7,505
Trade and other payables (Note 13)		
Creditors and Suppliers	-	12,378
Personnel	-	136
Public entities, other	-	57
Customer advances	-	4,000
Total financial liabilities	<u>138,826</u>	<u>27,703</u>

	Thousands of Euros	
	2016	
	Non-current	Current
	Carrying amount	Carrying amount
Debts and payables		
Financial liabilities from issue of bonds	138,506	3,481
Loans and borrowings	17,336	2,584
Other financial liabilities with third parties	258	48
Other financial liabilities with the group	-	193
Trade and other payables		
Creditors and Suppliers	-	8,648
Personnel	-	107
Public entities, other	-	570
Total financial liabilities	<u>156,100</u>	<u>15,631</u>

At 31 December 2017 and 2016 the carrying amounts of the financial liabilities recorded at amortised cost do not differ from the fair value.

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(b) Classification of financial liabilities by maturity

The details by maturity of financial liabilities at 31 December 2017 and 31 December 2016 are as follows:

	2017						Total
	2018	2019	2020	2021	2022 and remaining years	Indefinite	
Debt from issue of bonds (a)	3,482	-	-	-	138,787	-	142,269
Other financial liabilities - security deposits and other	145	-	-	-	-	39	184
Short-term debts with group companies and associates	7,505	-	-	-	-	-	7,505
Trade and other payables	16,571	-	-	-	-	-	16,571
Total	27,703	-	-	-	138,787	39	166,529

	2016					Total
	2017	2018	2019	2020	2021 and remaining years	
Debt from issue of bonds (a)	3,481	-	-	-	138,506	141,987
Debt with credit institutions (a)	2,584	17,336	-	-	-	19,920
Other financial liabilities - security deposits and other	241	-	-	-	-	258
Trade and other payables	9,325	-	-	-	-	9,325
Total	15,631	17,336	-	-	138,506	171,731

(a) *The effect of valuing financial liabilities from bonds held with credit institutions at amortised cost decreases the nominal value of these liabilities by EUR 1,213 thousand (EUR 1,495 thousand in bonds and EUR 164 thousand in borrowings in 2016).*

(c) Financial liabilities from borrowings

i) Main characteristics of debt from bonds

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

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

On 27 July 2017, by virtue of the deed granted before Mr Ignacio Paz-Ares, the investment properties pledged as collateral for bonds were modified. Said amendment comprised the cancellation of the mortgage on the Anec Blau shopping centre, as well as the pledge on the shares in LE Retail Anec Blau, S.L.U., and the establishment of a pledge on the Almussafes, Alovera C2 and Alovera C5/C6 logistics bays, the Marcelo Spinola office building and the Eroski hypermarkets, as well as the pledge on the shares in LE Logistic Almussafes, S.L.U., LE Logistic Alovera III y IV, S.L.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U and LE Retail Hipermercados III, S.L.U.

The main characteristics of the issue are therefore as follows:

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Amount of the issue: EUR 140,000 thousand.
- Nominal amount: 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 equity instruments of the 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, Albacentes, Las Huertas, and Albacenter Hipermercado shopping centres, the Almussafes, Alovera I, Alovera II, Alovera C2 and Alovera C5/C6 logistics bays, the Eloy Gonzalo and Marcelo Spinola office buildings and the Eroski hypermarkets. An ordinary pledge has also been established on the shares of LE Logistic Alovera I y II, S.A.U., LE Retail Hiper Albacenter, S.A.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Logistic Almussafes, S.L.U., LE Logistic Alovera III y IV, S.L.U., LE Offices Eloy Gonzalo 27, S.A.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 2017, EUR 282 thousand of these expenses (EUR 272 thousand in 2016) have been charged to the entry “Financial costs” on the income statement for the period. The interest accrued at 31 December 2017 totalled EUR 4,060 thousand (EUR 4,060 thousand at 31 December 2016). Of said total, the amount of EUR 3,482 thousand was outstanding at 31 December 2017, to be paid in February of 2018.

At 31 December 2017, the investment property that has been pledged as collateral for bonds

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has a fair value of EUR 311,135 thousand and reflects those described above, all of which comprise investment property that belongs 100% to the Company.

Covenants

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

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

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 2017 without the need for additional guarantees and they believe these ratios will be met in 2018.

ii) Main characteristics of loans and debt with credit institutions

On 30 January 2015, Banco Santander granted a loan of EUR 25 million to Lar España Real Estate SOCIMI, S.A. with a maturity of 3 years. The interest on the loan was accrued and paid quarterly at 3-month Euribor plus a spread of 2.83%. The purpose of this loan was to finance the real estate development of the associate Inmobiliaria Juan Bravo 3, S.L. In the 2017 period, interests accrued in the amount of EUR 206 thousand. On 27 April 2017, said loan held by the Company was cancelled. Said cancellation was effected through the replacement of the company Inmobiliaria Juan Bravo 3, S.L. as the borrowing entity and the cancellation of a loan for the same amount between the Company and this associate.

On 12 June 2017, the Company also obtained a EUR 15,000 thousand credit facility from Bankinter, which could be drawn down up to the limit set at each time through cheques, transfer orders, notes, or any other payment orders accepted by Bankinter. This credit facility should be fully repaid by 23 May 2018. This facility bears quarterly interest at a rate of 12-month EURIBOR plus a spread of 1.20%. This facility bears a 4.5% excess balance fee. At 31 December 2017 no amount has been drawn down on this credit facility.

iii) Short-term debts with group companies and associates

On 20 December 2017, Lar España Real Estate SOCIMI, S.A. and Inmobiliaria Juan Bravo 3, S.L. signed a liquidity line, by virtue of which Lar España Real Estate SOCIMI, S.A. may avail itself of a maximum amount of EUR 12,500 thousand, with maturity on 31 January 2018. This liquidity line generates interest at the fixed-rate of 5.95% of the availed capital. In the 2017 period, interest accrued in the amount of EUR 5 thousand.

At 31 December 2017, the availed amount totalled EUR 7,500 thousand.

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On 31 January 2018 an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the aforementioned credit facility with the full amount of the ordinary loan of EUR 2.2 million extended to this associate and a portion of the participating loan, amounting to EUR 5.3 million.

(13) TRADE AND OTHER PAYABLES

The details of trade and other payables at 31 December 2017 and 2016 are as follows:

	Thousands of Euros
	2017
Trade payables	1,622
Suppliers, related companies (Note 16)	10,756
Personnel	136
Public entities, other (Note 15)	57
Customer advances	4,000
Total	16,571

	Thousands of Euros
	2016
Trade payables	1,712
Suppliers, associates	6,936
Personnel	107
Public entities, other	570
Total	9,325

The "Customer advances" category includes EUR 4,000 thousand received as a purchase option premium for shares in the company LE Offices Egeo, S.A.U. On 27 September 2017, the Company signed a purchase option with the company Inmobiliaria Colonial SOCIMI, S.A. regarding said unencumbered shares in LE Offices Egeo, S.A.U., for a base price of EUR 79,280 thousand. Said right of option may be executed between 8 and 31 January 2018, both inclusive. The base price may be raised up to EUR 2,124 thousand depending on whether the property is valued at more than EUR 80,000 thousand at 31 December 2018.

On 16 January 2018, after the exercise of the call option signed on 27 September 2017, Lar España Real Estate Socimi, S.A. transferred to Inmobiliaria Colonial Socimi, S.A., all of the shares held in the wholly-owned subsidiary LE Offices Egeo, S.A.U., owner of the Egeo office building located in Madrid, for a total of EUR 79,300 thousand, generating a profit of EUR 12,873 thousand, after repaying the EUR 30,000 thousand mortgage loan of the company. The base price could increase to up to EUR 2,124 thousand if the value of the building at 31 December 2018 exceeds EUR 80,000 thousand.

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

Below appears the information required by the third additional Provision of Law 15/2010, of 5 July (amended by the second final Provision of Law 31/2014, of 3 December), which was prepared pursuant to the Resolution of 29 January 2016 by Spain's Accounting and Audit

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Institute on the information to be included in the report on the annual accounts in terms of the average number of days payable outstanding to suppliers in commercial transactions:

	2017	2016
	Days	Days
Average number of days payable outstanding to suppliers	29	25
Ratio of paid operations	29	25
Ratio of operations pending payment	5	33
	Thousands of Euros	Thousands of Euros
Total effected payments	48,184	44,840
Total pending payments	32	52

Pursuant to the Resolution by Spain's Accounting and Audit Institute on the calculation of the average number of days payable outstanding to suppliers, commercial transactions corresponding to the delivery of goods or rendering of services accrued since the date Law 31/2014 of 3 December entered into force were taken into consideration.

Trade payables as they relate to goods and services included in “Short-term suppliers, related companies”, “Suppliers, group and associated companies” and “Sundry creditors” of the current liability of the balance sheet are considered suppliers, for the exclusive purpose of providing the information established in this Resolution.

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

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

(15) PUBLIC ENTITIES AND TAXATION

(a) Current balances with public entities

Details on balances with public entities at 31 December 2017 and 2016 are as follows:

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Receivables

	2017	2016
	Thousands of Euros	Thousands of Euros
Taxation authorities, VAT recoverable	1,328	433
Taxation authorities, other withholdings	1,214	1,684
	<u>2,542</u>	<u>2,117</u>

Payables

	2017	2016
	Thousands of Euros	Thousands of Euros
Taxation authorities, VAT payable	-	475
Taxation authorities, personal income tax withholdings payable	52	90
Social Security contributions payable	5	5
	<u>57</u>	<u>570</u>

The amount recognised under taxation authorities, other withholdings reflects withholdings on income from loans extended to associates (note 7b). The Company subsequently requested the return of these withholdings.

(b) Reconciliation of accounting profits and losses and taxable income

At 31 December 2017 and 2016, the taxable fiscal base comprises the following items:

	Thousands of Euros	
	31/12/2017	31/12/2016
Profit before taxes	19,211	3,800
Permanent differences	38	-
Temporary differences	(95)	(4,674)
Taxable income (tax loss)	19,154	(874)
Tax payable (0%)	-	-
Income tax expense/income	-	-

As of the 2014 period the Company is included under the SOCIMI tax regime. Pursuant to what is established therein, the tax rate applicable to the tax base is 0%, such that no expense has been recorded for Corporate Income Tax.

Deferred tax assets and liabilities

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The Company has not recorded deferred tax assets for the temporary differences because the applicable rate is calculated at 0%.

(c) Periods pending verification and inspections

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the 2017 reporting date, the Company has open to inspection by the taxation authorities all the main applicable taxes since its incorporation (10 years for the tax bases pending compensation). The Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying annual accounts would not be significantly affected by any resulting liabilities.

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

	2017 Period
a) Reserves from periods prior to the application of the tax regime provided in Law 11/2009, amended by Law 16/2012 of 27 December.	-
b) Reserves for each period in which the special tax regime provided by that Law is applicable	2017 profits proposed to be distributed to reserves: EUR 1,921 thousand to the legal reserve and EUR 4 thousand to the voluntary reserves. 2016 profits proposed to be distributed to reserves: EUR 380 thousand to the legal reserve and EUR 4 thousand to the voluntary reserves. 2015 profits to be distributed to reserves: EUR 501 thousand to the legal reserve and EUR 6 thousand to voluntary reserves. 2014 profits to be distributed to reserves: EUR 166 thousand to the legal reserve and EUR 167 thousand to voluntary reserves.
a. Profits from income subject to the general income tax rate	-
b. Profits from income subject to a tax rate of 19%	-
c. Profits from income subject to a tax rate of 0%	2017 profits: EUR 19,211 thousand. 2016 profits: EUR 3,800 thousand. 2015 profits: EUR 5,006 thousand. 2014 profits: EUR 1,664 thousand.
c) Dividends distributed against profits for each period in which the tax regime provided by this Law is applicable	Proposed dividend distribution for 2017: EUR 17,286 thousand. Dividend distribution for 2016: EUR 3,416 thousand. Dividend distribution for 2015: EUR 4,499 thousand. Dividend distribution for 2014: EUR 1,331 thousand.
a. Dividends from income subject to the general income tax rate	-

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b. Dividends from income subject to a tax rate of 18% (2009) and 19% (2010 to 2012)	-
c. Dividends from income subject to a tax rate of 0%	Proposed dividend distribution for 2017: EUR 17,286 thousand Dividend distribution for 2016: EUR 3,416 thousand. Dividend distribution for 2015: EUR 4,499 thousand. Dividend distribution for 2014: EUR 1,331 thousand.
d) Distributed dividends charged against reserves,	-
a. Distribution charged against reserves subject to the general income tax rate	-
b. Distribution charged against reserves subject to a tax rate of 19%	-
c. Distribution charged against reserves subject to a tax rate of 0%	- Distribution of dividends from 2017 against the issue premium: EUR 27,714 thousand. Distribution of dividends from 2016 against the issue premium: EUR 26,565 thousand. - Distribution of dividends from 2015 against the issue premium: EUR 7,521 thousand.
e) Date of the agreement on the distribution of the dividends referenced in c) and d) above	2017 dividends: Pending approval by the shareholders at their general meeting 2016 dividends: 27/05/2017 2015 dividends: 21/04/2016 2014 dividends: 27/04/2015
f) Date of acquisition of properties for lease that generate income subject to this special regime	2016 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014 2015 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014 2014 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014 Arturo Soria office building: 29 July 2014 Villaverde single-tenant commercial premises: 29 July 2014
g) Date of acquisition of shares in the capital of the entities referenced in Article 2.1 of this Law.	<ul style="list-style-type: none"> • LE Logistic Alovera I y II, S.A.U.: 23 July 2014 • LE Retail Hiper Albacenter, S.A.U.: 04 November 2014 • LE Offices Egeo, S.A.U.: 04 November 2014 • LE Retail Alisal, S.A.U.: 04 November 2014

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	<ul style="list-style-type: none"> • LE Offices Eloy Gonzalo 27, S.A.U.: 18 December 2014 • LE Retail As Termas, S.L.U.: 18 December 2014 • LE Logistic Almussafes, S.L.U.: 04 March 2015 • LE Logistic Alovera III y IV, S.L.U.: 04 March 2015 • LE Retail Hiper Ondara, S.L.U.: 09 June 2015 • LE Offices Joan Miró 21, S.L.U.: 04 March 2015 • LE Retail El Rosal, S.L.U.: 07 July 2015 • LE Retail Sagunto, S.L.U.: 26 March 2015 • LE Retail Megapark, S.L.U.: 29 May 2015 • LE Retail Galaria, S.L.U.: 20 July 2015 • Lar España Shopping Centres VIII, S.L.: 04 August 2015 • LE Retail Vistahermosa, S.L.U.: 04 August 2015 • Lar España Offices VI, S.L.: 04 August 2015 • LE Offices Arturo Soria, S.L.U.: 21 September 2015 • LE Retail Villaverde, S.L.U.: 21 September 2015 • Lar España Inversión Logística IV, S.L.U.: 04 August 2015 • LE Retail Anec Blau, S.L.U.: 29 April 2016 • LE Retail Albacenter, S.L.U.: 29 April 2016 • LE Retail Txingudi, S.L.U.: 29 April 2016 • LE Retail Las Huertas, S.L.U.: 29 April 2016 • LE Retail Marcelo Spinola, S.L.U.: 29 April 2016 • LE Retail Portal de la Marina, S.L.U.: 41.22% on 30 March 2016 and 58.78% on 10 October 2014. • LE Retail Gran Vía de Vigo, S.L.U.: 15 September 2016 • LE Retail Abadia, S.L.U.: 27 March 2017 • LE Retail Hipermercados I, S.L.U.: 27 March 2017 • LE Retail Hipermercados II, S.L.U.: 27 March 2017 • LE Retail Hipermercados III, S.L.U.: 27 March 2017
<p>h) Identification of the asset included in the 80% mentioned in Article 3.1 of this Law</p>	<p>- Investment property:</p> <p>Txingudi shopping centre Las Huertas shopping centre Arturo Soria office building Villaverde single-tenant commercial premises Albacenter shopping centre Anec Blau shopping centre Marcelo Spínola office building Hiper Albacenter shopping centre Egeo office building Alisal single-tenant commercial premises Alovera I industrial bay Alovera II industrial bay Eloy Gonzalo 27 office building</p>

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	<p>As Termas shopping centre Almussafes industrial bay Alovera III industrial bay (C2) Alovera IV (C5-C6) industrial bay Hiper Ondara shopping centre Joan Miró office building El Rosal shopping centre Portal de la Marina shopping centre As Termas Petrol Station Galaria single-tenant commercial premises Palmas Altas shopping centre Vidanova Parc shopping centre Vistahermosa shopping centre Gran Vía de Vigo shopping centre Abadia business park Eroski hypermarkets Megapark leisure area</p>
	<p>- Capital investments:</p> <ul style="list-style-type: none"> • LE Logistic Alovera I y II, S.A.U.: 23 July 2014 • LE Retail Hiper Albacenter, S.A.U.: 04 November 2014 • LE Offices Egeo, S.A.U.: 04 November 2014 • LE Retail Alisal, S.A.U.: 04 November 2014 • LE Offices Eloy Gonzalo 27, S.A.U.: 18 December 2014
	<ul style="list-style-type: none"> • LE Retail As Termas, S.L.U.: 18 December 2014 • LE Logistic Almussafes, S.L.U.: 04 March 2015 • LE Logistic Alovera III y IV, S.L.U.: 04 March 2015 • LE Retail Hiper Ondara, S.L.U.: 09 June 2015 • LE Offices Joan Miró 21, S.L.U.: 04 March 2015 • LE Retail El Rosal, S.L.U.: 07 July 2015 • LE Retail Sagunto, S.L.U.: 26 March 2015 • LE Retail Megapark, S.L.U.: 29 May 2015 • LE Retail Galaria, S.L.U.: 20 July 2015 • Lar España Shopping Centres VIII, S.L.: 04 August 2015 • LE Retail Vistahermosa, S.L.U.: 04 August 2015 • Lar España Offices VI, S.L.: 04 August 2015 • LE Offices Arturo Soria, S.L.U.: 21 September 2015 • LE Retail Villaverde, S.L.U.: 21 September 2015 • Lar España Inversión Logística IV, S.L.U.: 04 August 2015 • LE Retail Anec Blau, S.L.U.: 29 April 2016 • LE Retail Albacenter, S.L.U.: 29 April 2016 • LE Retail Txingudi, S.L.U.: 29 April 2016 • LE Retail Las Huertas, S.L.U.: 29 April 2016 • LE Retail Marcelo Spinola, S.L.U.: 29 April 2016 • LE Retail Portal de la Marina, S.L.U.: 41.22% on 30 March 2016 and 58.78% on 10 October 2014.

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	<ul style="list-style-type: none"> • LE Retail Gran Vía de Vigo, S.L.U.: 15 September 2016 • LE Retail Abadia, S.L.U: 27 March 2017 • LE Retail Hipermercados I, S.L.U: 27 March 2017 • LE Retail Hipermercados II, S.L.U: 27 March 2017 • LE Retail Hipermercados III, S.L.U: 27 March 2017
i) Reserves from periods in which the special tax regime provided in this Law was applicable that have been applied in the tax period other than for the distribution thereof or to offset losses. The period from which these reserves have been taken must be specified.	-

(16) RELATED PARTY BALANCES AND TRANSACTIONS

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

Management expenses

As stated in Note 11, on 12 February 2014, the Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, consultancy regarding acquisition and management of property assets on behalf of the Company and financial management and accrues a fixed amount and an additional amount depending on EPRA NAV of the Company (Note 11).

The fixed amount accrued by the manager totalled EUR 9,023 thousand (net of expenses discounted on the basis of the management contract formalised between the parties, which totalled EUR 777 thousand). At 31 December 2017 EUR 749 thousand was outstanding. At 31 December 2016 the base fee expense totalled EUR 6,403 thousand of which EUR 535 thousand was outstanding at 31 December 2016. The Company calculates the base fee payable on the basis of EPRA NAV from the previous period, adjusted by the net cash flow of the investments financed with the cash available at the beginning of the period and less any expenses assumed or paid by Group companies.

Re-invoicing among group companies

In the 2017 period the Company formalised management and service provision contracts with group companies, with expenses of this nature incurred by the Company to be passed on to group companies.

In this respect, in the 2017 period, the Company invoiced EUR 21,335 thousand for management support services (EUR 32,416 thousand in the 2016 period). This amount is distributed among the subsidiaries in accordance with the weighted average of the market value of their investment properties at 30 June of the relevant period.

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In addition, the Company subscribed to agreements with certain group companies (owners of assets mortgaged with bonds and those subsidiaries whose shares were also pledged for the issue of bonds prior to the amendment mentioned in Note 5), to pass on the financial cost of the bonds. The amount passed on at 31 December 2017 in this respect totalled EUR 4,341 thousand (EUR 3,223 thousand in 2016), and is recorded under "Net turnover".

Revenue from loans and stakes in group, associate and multi-group companies

The amount of income obtained by the Company with respect to the credit delivered to Inmobiliaria Juan Bravo 3, S.L. (Note 7) and to the income obtained through dividends received from subsidiaries amounted to EUR 2,072 thousand and EUR 13,829 thousand in the 2017 period, respectively (EUR 3,968 thousand and EUR 3,808 thousand in the 2016 period).

The amount of income were recorded in 2017 as net turnover in accordance with the Company's standing as a holding company.

Transactions and balances with related parties in the 2017 and 2016 periods are as follows:

	2017					
	Thousands of Euros					
	Balances			Transactions		
	Loans and receivables		Trade payables	Current account	Income	Expense
	Long-term	Short-term	Short-term	Short-term		
Balances with group and related companies						
Balances with Group companies						
LE Retail Txingudi, S.L.U.	-	1,265	-	-	1,141	-
LE Retail Las Huertas, S.L.U.	-	419	-	-	378	-
LE Retail Anec Blau, S.L.U.	-	3,237	-	-	2,897	-
LE Retail Albacenter, S.L.U.	-	1,361	-	-	1,205	-
LE Offices Marcelo Spinola, S.L.U.	-	1,099	-	-	992	-
LE Logistic Alovera I y II, S.A.U.	-	1,966	-	-	1,774	-
LE Offices Egeo, S.A.U.	-	248	-	-	1,180	-
LE Offices Eloy Gonzalo 27, S.A.U.	-	618	-	-	557	-
LE Retail As Termas, S.L.U.	-	1,387	-	-	1,328	-
LE Logistic Alovera III y IV, S.L.U.	-	222	-	-	217	-
LE Logistic Almussafes, S.L.U.	-	158	-	-	155	-
LE Retail Hiper Ondara, S.L.U.	-	138	-	-	136	-
LE Offices Joan Miró 21, S.L.U.	-	342	-	-	336	-
LE Retail Megapark, S.L.U.	-	3,085	-	-	3,034	-
LE Retail Sagunto, S.L.U.	-	308	-	-	303	-
LE Retail Galaria, S.L.U.	-	166	-	-	164	-

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Lar España Shopping Centres VIII, S.L.U.	-	746	-	-	734	-
LE Retail Vistahermosa, S.L.U.	-	754	-	-	740	-
LE Retail Gran Via de Vigo, S.A.U.	-	2,549	-	-	2,473	-
LE Retail Hiper de Albacenter, S.A.U.	-	478	-	-	430	-
LE Retail Alisal, S.A.U.	-	300	-	-	296	-
LE Retail El Rosal, S.L.U.	-	1,725	-	-	1,660	-
LE Retail Portal de la Marina, S.L.U.	-	1,806	-	-	1,739	-
LE Retail Villaverde, S.L.U.	-	176	-	-	174	-
LE Retail Abadia, S.L.U.	-	774	-	-	761	-
LE Retail Hipermercados I, S.L.U.	-	201	-	-	198	-
LE Retail Hipermercados II, S.L.U.	-	201	-	-	198	-
LE Retail Hipermercados III, S.L.U.	-	201	-	-	198	-
Lar España Inversion Logística IV, S.L.U.	-	32	-	-	31	-
LE Offices Arturo Soria, S.L.U.	-	-	-	-	247	-
Inmobiliaria Juan Bravo 3, S.L.	2,161	27,718	-	(7,505)	2,072	-
Dividends receivable (a)	-	13,476	-	-	13,829	-
Balances with related companies						
Grupo Lar Inversiones Inmobiliarias, S.A.	-	-	(10,756)	-	-	(19,023)
	2,161	67,156	(10,756)	(7,505)	41,577	(19,023)

(*) Income from re-invoicing presented as a reduction in external service expenses, in accordance with note 4h, is EUR 21,335 thousand at 31 December 2017.

(a) The details of the dividends by company at 31 December 2017 are as follows:

Company	Payment on account of Interim dividends over profit and loss at 31/12/2017	Dividend over profit and loss at 31/12/2016	Total
LE Retail Alisal, S.A.U.	398	34	432
LE Logistic Almussafes, S.L.U.	387	24	411
LE Logistic Alovera I y II, S.A.U.	529	150	679
LE Logistic Alovera III y IV, S.L.U.	374	16	390
LE Retail As Termas, S.L.U.	956	-	956
LE Offices Egeo, S.A.U.	406	-	406

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LE Offices Eloy Gonzalo 27, S.A.U.	-	-	-
LE Retail Galaria, S.L.U.	307	8	315
LE Retail Hiper Albacenter, S.A.U.	251	20	271
LE Retail Hiper Ondara, S.L.U.	270	3	273
LE Offices Joan Miró 21, S.L.U.	166	-	166
LE Retail Megapark, S.L.U.	2,179	-	2,179
LE Retail Villaverde, S.L.U.	278	25	303
LE Retail Vistahermosa, S.L.U	473	-	473
LE Retail Portal de la Marina, S.L.U.	1,786	72	1,858
LE Retail Gran Via de Vigo, S.A.	1,139	-	1,139
LE Retail Abadia, S.L.U	905	-	905
LE Retail Hipermercados I, S.L.U.	478	-	478
LE Retail Hipermercados II, S.L.U.	529	-	529
LE Retail Hipermercados III, S.L.U	520	-	520
LE Retail Anec Blau, S.L.U.	622	-	622
LE Retail Txingudi, S.L.U	342	-	342
LE Retail Albacenter, S.L.U.	111	-	111
LE Retail Las Huertas, S.L.U.	70	-	70
Total	13,476	352	13,829

The Interim dividends over profit and loss at 31 December 2017 were approved on 29 December 2017. Similarly, same were paid on 10 January 2018.

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(Expressed in thousands of Euros)

	2016					
	Thousands of Euros					
	Balances			Transactions		
	Loans and receivables		Trade payables	Current account	Income	Expense
	Long-term	Short-term	Short-term	Short-term		
Balances with group and related companies						
Balances with Group companies						
LE Retail Txingudi, S.L.U.	-	1,199	(12)	-	1,086	-
LE Retail Las Huertas, S.L.U.	-	450	-	-	407	-
LE Retail Anec Blau, S.L.U.	-	3,278	-	-	2,969	-
LE Retail Albacenter, S.L.U.	-	1,256	-	-	1,138	-
LE Offices Marcelo Spinola, S.L.U.	-	1,012	-	-	916	-
LE Logistic Alovera I y II, S.A.U.	-	2,925	-	-	2,649	-
LE Offices Egeo, S.A.U.	-	2,622	-	-	2,485	-
LE Offices Eloy Gonzalo 27, S.A.U.	-	782	-	-	708	-
LE Retail As Termas, S.L.U.	-	2,635	-	-	2,497	-
LE Logistic Alovera III y IV, S.L.U.	-	405	-	-	384	-
LE Logistic Almussafes, S.L.U.	-	321	-	-	304	-
LE Retail Hiper Ondara, S.L.U.	-	283	-	-	268	-
LE Offices Joan Miró 21, S.L.U.	-	766	-	-	726	-
LE Retail Megapark, S.L.U.	-	6,563	-	-	6,219	-
LE Retail Sagunto, S.L.U.	-	586	-	-	555	-
LE Retail Galaria, S.L.U.	-	358	-	-	339	-
Lar España Shopping Centres VIII, S.L.U.	-	1,485	-	-	1,407	-
LE Retail Vistahermosa, S.L.U.	-	842	-	-	798	-
LE Retail Gran Via de Vigo, S.A.U.	-	1,508	-	-	1,429	-
LE Retail Hiper de Albacenter, S.A.U.	-	667	-	-	603	-
LE Retail Alisal, S.A.U.	-	602	-	-	571	-
LE Retail El Rosal, S.L.U.	-	3,404	-	-	3,226	-
LE Retail Portal de la Marina, S.L.U.	-	2,991	-	-	2,834	-
LE Retail Villaverde, S.L.U.	-	341	-	-	323	-
LE Offices Arturo Soria, S.L.U.	-	950	-	-	899	-
Inmobiliaria Juan Bravo 3, S.L.	2,270	45,288	-	(193)	3,967	-
Dividends receivable (a)	-	1,856	-	-	3,808	-

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(Expressed in thousands of Euros)

Balances with related companies

Grupo Lar Inversiones Inmobiliarias, S.A.	-	-	(6,925)	-	-	(31,961)
Gentalia 2006, S.L.	-	-	1	-	-	(218)
	2,270	85,375	(6,936)	(193)	43,515	(32,179)

(a) Dividends receivable

LE Retail Alisal, S.A.U.	135	162
LE Logistic Almussafes, S.L.U.	271	329
LE Logistic Alovera I y II, S.A.U.	-	351
LE Logistic Alovera III y IV, S.L.U.	346	452
LE Offices Arturo Soria, S.L.U.	-	15
LE Retail As Termas, S.L.U.	-	245
LE Offices Egeo, S.A.U.	-	357
LE Offices Eloy Gonzalo 27, S.A.U.	-	72
LE Retail Galaria, S.L.U.	149	175
LE Retail Hiper Albacenter, S.A.U.	209	303
LE Retail Hiper Ondara, S.L.U.	153	177
LE Offices Joan Miró 21, S.L.U.	-	62
LE Retail Megapark, S.L.U.	-	102
LE Retail Villaverde, S.L.U.	106	120
LE Retail Portal de la Marina, S.L.U.	487	886
	1,856	3,808

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

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2017 and 2016, classified by item, is as follows:

		Thousands of Euros							
		2017							
		Salaries	Allowances	Other items	Pension plans	Insurance premiums	Termination benefits	Payments based on equity instruments	Remuneration for individuals representing the company
Board of directors		-	464	-	-	49*	-	-	-
Senior management personnel		477	-	-	-	-	-	-	-

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

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

At 31 December 2017, allowances for the Board of Directors include EUR 75 thousand for the non-executive Secretary of the Board of Directors (EUR 75 thousand at 31 December 2016).

At 31 December 2017, the company has 7 Board members, of which 1 is a woman and 5 are men (at 31 December 2016, the company had 5 Board members, all of them men).

At 31 December 2017 and 2016 the Company has no pension or life insurance obligations with former or current members of the Board of Directors or Senior Management personnel of the Company.

At 31 December 2017 and 2016 no advances or loans have been extended to Members of the Board or Senior Management.

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

Apart from the transactions with related parties listed above, in 2017 the directors of the Company have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent Company or any other Group company.

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

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

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

- i. Board Member of Grupo Lar Inversiones Inmobiliarias S.A. (managing company of the Company). This situation of potential conflict of interest was expressly saved by the then sole shareholder of the company by the appointment of Mr Miguel Pereda as board member of Lar España Real Estate SOCIMI, S.A. on 5 February 2014 and by the Shareholders' General Meeting on 29 May 2017.
- ii. President of the Board of Villamagna, S.A.
- iii. Sole Administrator of Fomento del Entorno Natural, S.A. in which he is also a shareholder (holding property of 13.85% of the shares).

Positions in affiliated companies of Grupo Lar Inversiones Inmobiliarias S.A. as indicated below:

Company	Position/Role	Number of Shares	% of Participation
Grupo Lar Inversiones Inmobiliarias, S.A.	Executive Committee Director and Secretary	5,605	24.95%
Grupo Lar Europa del Este, S.L.U.	President and Chief Executive Officer	N/A	N/A
Grupo Lar Holding Residencial, S.A.U. (formerly Grupo Lar Actividad Arrendamiento, S.A.U.)	President and Chief Executive Officer	N/A	N/A
Inmobérica de Gestión, S.L.U.	Sole Administrator	N/A	N/A
Grupo Lar Terciario, S.L.U.	President of the Board of Directors	N/A	N/A
Grupo Lar Unidad Terciario, S.L.U. (formerly Desarrollo Residencial Padre Piquer, S.L.U)	President and Chief Executive Officer	N/A	N/A
Global Caronte, S.L.U.	Joint and Several Administrator	N/A	N/A
Grupo Lar Senior, S.L. (until 11/12/2017)	Individual representing the Sole Administrator of Desarrollos Ibéricos Lar, S.L.	N/A	N/A
GLB Senior, S.A.U. (until 07/12/2017)	Individual representing the Sole Administrator of GL Senior, S.L.	N/A	N/A
Desarrollo Residencial Teatinos, S.L.U. (until 19/06/2017)	Joint and Several Administrator	N/A	N/A
Global Byzas, S.L.U.	Sole Administrator	N/A	N/A
Oficinas Calle Albarracín, S.L.U.	Sole Administrator	N/A	N/A
Desarrollos Ibéricos Lar, S.L.U.	Joint and Several Administrator	N/A	N/A
Grupo Lar Desarrollo Suelo, S.L.U. (formerly Parque Comercial Cruce de Caminos, S.L.U.)	Joint and Several Administrator	N/A	N/A
Desarrollo Residencial Mijas, S.L.U. (until 19/06/2017)	Sole Administrator	N/A	N/A
Proactivo Servicios Generales, S.L.U.	Sole Administrator	N/A	N/A
Desarrollos Residenciales España, S.L. (until 19/06/2017)	Sole Administrator	N/A	N/A
Parque Castilleja, S.L.	President and Several and Joint Chief Executive Officer	N/A	N/A
Grupo Lar Grosvenor Dos Servicios S.L.	Individual representing the Sole Administrator of Grupo Lar Terciario, S.L.	N/A	N/A

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Inversiones Yarmuk, S.A.	Individual representing the sole administrator of Global Byzas, S.L.	N/A	N/A
Grupo Lar Oficinas Europeas, S.A.U.	Individual representing the Sole Administrator of Desarrollo Residencial Teatinos, S.L.	N/A	N/A
Acacia Inmuebles, S.L.	President of the Board of Directors	N/A	N/A
Desarrollo Residencial La Leala, S.L.U. (until 19/06/2017)	Sole Administrator	N/A	N/A

Notwithstanding the above, the board members Mr Miguel Pereda and Mr Roger Maxwell Cooke abstained from participating in those decisions that might have created a conflict of interest

(17) INCOME AND EXPENSES

a) Revenues

Details of revenues by category of activity and geographical market for 2017 and 2016 are as follows:

	2017	2016
	Thousands of euros	Thousands of euros
Lease income	-	3.814
Income from investments in equity instruments (note 16a)	13.829	3.808
Income from loans to Group companies and associates (note 7b)	2.072	3.968
Income from billings of finance costs to the Group (note 16a)	4.341	3.323
Gains on disposals of equity instruments (note 7a)	7.569	-
	<u>27.811</u>	<u>14,913</u>
	2017	2016
	Thousands of euros	Thousands of euros
Spain	27,811	14,913
	<u>27,811</u>	<u>14,913</u>

b) Personnel expenses

The details of employee benefits expense at 31 December 2017 and 2016 are as follows:

	Thousands of Euros
	2017
Salaries and wages	477
Other benefits and taxes	64
	<u>541</u>

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(Expressed in thousands of Euros)

	Thousands of Euros
	2016
Salaries and wages	383
Other benefits and taxes	63
	<u>446</u>
c) <u>Other operating expenses</u>	
	Thousands of Euros
	2017
Independent professional services	2,284
Insurance premiums	90
Bank fees and commissions	62
PR and advertising	51
Supplies	2
Other expenses	997
Taxes other than corporate income tax	5
	<u>3,491</u>
	Thousands of Euros
	2016
Repairs and maintenance	199
Independent professional services	2,987
Insurance premiums	190
Bank fees and commissions	33
PR and advertising	170
Supplies	25
Other expenses	870
Taxes other than corporate income tax	474
Impairment losses and uncollectibility of trade and other receivables	74
	<u>5,022</u>

On 31 December 2017 Lar España Real Estate SOCIMI, S.A. invoiced each subsidiary of which it controlled 100% the total amount of EUR 21,335 thousand for support services for the management of these companies (EUR 32,416 thousand in 2016), which services were rendered by the Company throughout the period and the values of which were calculated using the fair value, at 30 June 2017, of the properties owned by each company of the Group. This amount is presented after deducting the amount of Independent professional services.

(18) EMPLOYEE INFORMATION

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The average headcount of the Company at 31 December 2017 and 2016, distributed by category, is as follows:

	2017
Professional category	
Senior management personnel	4
Total	4
	2016
Professional category	
Senior management personnel	4
Total	4

The gender distribution in the Company at 2017 and 2016 year ends is as follows:

	Number	
	2017	
	Female	Male
Senior management personnel	1	3
Total	1	3
	Number	
	2016	
	Female	Male
Senior management personnel	1	3
Total	1	3

The expense corresponding to salaries and wages at 31 December 2017 is EUR 477 thousand (EUR 446 thousand at 31 December 2016).

In the 2017 and 2016 periods the Company had no employees with a 33% or greater disability.

(19) AUDIT FEES

During 2017 and 2016, fees for audit and other related services charged to the Group by the auditor of the Company, Deloitte, S.L., and by a company related to the auditor through control, shared property or management were as follows (in thousands of Euros):

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	Thousands of Euros
	2017
Audit and related services	
Audit services 2017	100.0
Other verification services	48.5
Professional services	
Other services	182.0
Total	<u>330.5</u>
	Thousands of Euros
	2016
Audit and related services	
Audit services 2016	101
Other verification services	220
Professional services	
Other services	12
Total	<u>333</u>

(20) EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, after executing the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of its company shares in its subsidiary LE Offices Egeo, S.A.U., a company owned 100% and owner of the Egeo office building located in Madrid, to Inmobiliaria Colonial SOCIMI, S.A. for a total amount of EUR 79,280 thousand.

On 31 January 2018, an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the credit facility drawn down by the Company with the full amount of the ordinary loan of EUR 2.2 million and EUR 5.3 million of the participating loan extended to this associate.

On 6 February 2018, Lar España Real Estate SOCIMI, S.A. acquired 100% of the shares of Legaro Spain, S.L.U. (owner of the Rivas Futura Retail Park) for a total of EUR 34,362 thousand, subject to the usual adjustments in these types of transactions.

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Notes to the Annual Accounts for the period ended 31 December 2017

(Expressed in thousands of Euros)

On 19 February 2018 the Parent entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement ("IMA"). Pursuant to this amendment, the IMA shall remain in force for a period of four years as of 1 January 2018. The structure of fees and commissions payable to the management company (base fee and performance fee) has also been amended. From 2018 onwards, the base fee payable to the management company will be calculated on the basis of an annual amount equal to the higher of (i) EUR 2 million and (ii) the sum of (a) 1.00% of the EPRA NAV (excluding net cash) at 31 December of the prior year up to an amount not exceeding EUR 1,000 million, and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December of the prior year for the amount in excess of those EUR 1,000 million. Furthermore, from 2018 onwards the performance fee payable to the management company shall be calculated based on the EPRA NAV and the Company's stock market capitalisation, and shall be capped at a total amount equal to 3% of the Company's EPRA NAV at 31 December of the prior year. The presentation attached to this notice includes additional information relating to the calculation and payment of the performance fee.

On 20 February 2018, the Group company LE Retail Abadia, S.L.U. acquired the Parque Abadia trading estate in Toledo for EUR 14 million, subject to the usual adjustments for this type of transaction.

(21) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	966	966	(529)	42,704	43,201	62,480	43,531	18,949	42,594
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	296	275	(251)	11,861	11,945	15,013	12,029	2,948	11,909
LE Retail Alisal, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	669	452	(398)	9,033	9,147	19,313	16,655	2,658	9,081
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	1,054	447	(406)	35,881	35,982	76,674	64,443	12,231	36,427

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Offices Eloy Gonzalo 27, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	(330)	(330)	-	15,070	14,800	26,500	15,231	11,269	15,260
LE Retail As Termas, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	2,487	1,424	(956)	29,382	29,854	82,250	67,806	14,444	30,125
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	620	620	(374)	9,833	10,083	13,900	10,293	3,607	9,839
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	463	463	(387)	8,087	8,167	10,300	8,296	2,004	8,092
LE Retail Hiper Ondara, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	297	297	(270)	6,773	6,804	9,300	6,903	2,397	6,778

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Offices Joan Miró 21, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	409	228	(166)	10,387	10,453	21,450	19,546	1,904	10,392
LE Retail Megapark, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	4,489	3,415	(2,179)	76,266	77,506	204,975	166,797	38,178	77,182
LE Retail Sagunto, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	(369)	(368)	-	20,522	20,158	24,780	11,788	12,992	21,426
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	675	(512)	-	24,588	24,079	108,950	73,807	35,143	33,059
LE Retail Galaria, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	422	337	(307)	4,808	4,842	10,700	8,356	22,344	4,813

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(930)	(930)	-	44,711	43,784	54,000	36,000	18,000	46,292
Lar España Offices VI, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	-	-	-	3
LE Retail Vistahermosa, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	1,116	717	(473)	21,820	22,067	50,390	43,607	6,783	21,949
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(104)	(92)	-	2,395	2,306	5,200	2,262	2,938	2,423
LE Retail Villaverde, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	422	324	(278)	5,188	5,237	11,343	9,060	2,283	5,189

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Anec Blau, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	982	982	(622)	77,784	78,147	95,380	78,706	16,674	78,579
LE Retail Albacenter, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	387	387	(112)	29,279	29,557	41,309	29,813	11,496	29,376
LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	449	449	(342)	30,155	30,265	39,000	31,244	7,756	30,280
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	126	126	(70)	12,203	12,262	12,600	12,044	556	12,439
LE Offices Marcelo Spínola, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,736)	(1,736)	-	29,076	27,343	37,500	27,945	9,555	30,314

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2017

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	502	3,983	2,242	(1,139)	25,344	26,949	163,000	107,018	55,982	57,040
LE Retail Portal de la Marina, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	27,240	3,012	2,645	(1,786)	12,343	40,442	110,500	79,090	31,410	39,318
LE Retail Abadía, S.L.U. *	The acquisition and development of properties for lease	Subsidiary	100%	100%	7,204	2,237	1,179	(905)	8,660	16,138	65,040	42,248	22,792	29,059
LE Retail Hipermercados I, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	850	742	(478)	14,339	14,606	17,538	14,613	2,925	15,146
LE Retail Hipermercados II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	829	721	(529)	14,524	14,719	17,424	14,837	2,587	16,416
LE Retail	The	Subsidiary	100%	100%	3	752	648	(520)	13,203	13,334	17,570	13,456	4,114	15,044

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Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Hipermercados III, S.L.U.	acquisition and development of properties for lease				35,320	24,883	16,118	(13,477)	646,218	684,179	1,411,779	1,025,176	376,919	745,844

* Company audited by Deloitte, S.L.

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

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Information on Group Companies
31 December 2017

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Thousands of Euros					Carrying amount of investment
					Direct	Total	Share capital	Operating profit	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	22,438	20,769	-	(23,946)	11,443

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2016

a) Subsidiaries

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

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2016

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2016

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies
31 December 2016

LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(122)	(122)	-	27,473	27,354	35,500	27,979	7,521	27,476
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(233)	(233)	-	12,196	11,966	13,300	12,321	979	12,199
LE Offices Marcelo Spínola 42, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,236)	(1,236)	-	28,504	27,271	33,500	28,213	5,287	28,507
LE Retail Gran Vía de Vigo, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	502	(941)	(3,287)	-	110,143	107,358	144,500	109,489	35,011	137,970
LE Retail Portal de la Marina, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	27,240	457	621	(487)	8,852	36,226	98,500	80,037	18,463	35,889

* 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.

Information on Group Companies
31 December 2016

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Thousands of Euros					Carrying amount of investment
					Direct	Total	Share capital	Operating profit	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	5,368	(2,586)	-	(36,702)	11,443

Lar España Real Estate SOCIMI, S.A.

Management Report corresponding to the annual period ended on 31 December 2017

1 Position of the Company

1.1 Situation of the real estate market

Investment market

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

- Limited **product availability** is the main cause behind the competitiveness.
- The volume of investment in offices, retail and logistics grew by 15% over 2016, maintaining its upward trend.
- **SOCIMIs** consolidate themselves as key players in the market.
- **International investors** seeking opportunities continue to enter the Spanish market.
- **Funding is improving** in terms of the Loan-to-value ratio (LTV), which is 64.9%.

Asset management capacities and market access will be key in the upcoming months. These trends have not changed the original plans in terms of the investment schedule or the profitability expected from said investments.

Shopping centres

The **investment volume** in 2017 increased by 30% over the same period in the previous year, totalling nearly EUR 4,000 million.

According to Shoppertrak data, **footfall levels** continued their upward trend, with a 19.3% month-on-month increase and 6.3% year-on-year increase in December. In the year as a whole, traffic at stores and shopping centres saw a +1.8% year-on-year growth.

In the year as a whole, retail sales increased by 1.4% (data have been adjusted for seasonal and calendar effects by the Spanish Statistics Institute or INE).

Logistics market

The year 2017 has been a year of record figures in terms of logistic **investment volume**, with same exceeding €1,400 million, 72% more than in 2016.

On the other hand, **logistic take-up** in Madrid during the first six months of the year totalled 800,000 m², representing a 70% year-on-year increase, while in Barcelona same saw a 32% year-on-year decrease, with 450,000 m² being contracted.

Levels of **returns** continued to fall in Madrid, with a 5.5% yield prime, and in Barcelona same remained constant at 5.75%.

The **availability rate** increased in both markets as a result of the release of logistics spaces in

Madrid, where the rate was 4.2%, and the termination of projects in Barcelona, where the rate was 3.2%.

Office Market

- **Madrid**

Supply: The dynamism of market demand caused availability to continue its quarter-on-quarter downward trend. In Madrid, the available surface area totalled 1,639,000 m² (1.56 million m² in 2016) which represents a 10.89% vacancy rate at the 2017 reporting date, a 98-point fall since the beginning of the year.

Take-up: In 2017 office contracts were boosted by the employment growth in Spain. Madrid has recorded contracting levels that approach levels achieved prior to the economic crisis, exceeding 560,000 m², nearly 30% more than the surface contracted in 2016 (430,000 m²).

Rental Income: In 2017 the office market continued the recovery and consolidation process it began in 2013. Last year, the prime income in Madrid's CBD increased by 7.76% to €31.25/m²/month at the annual reporting date (€29.00/m²/month at the previous annual reporting date), which is a return to 2009 levels. Second and Non-operating income increased year-on-year by 10.61% and 12.28%, reaching €18.25/m²/month and €16/m²/month respectively (€16.50/m²/month and €14.25/m²/month in 2016, respectively) while incomes remained stable in the Satellite District. The short- and medium-term forecasts are clearly positive

- **Barcelona**

Supply: Likewise, availability continues its downward trend in the wake of the previous quarters, with strong demand and low availability rates. Q4 saw a 2-point decrease on Q3 2017, reaching levels not seen since the end of 2008 (7.68%).

Take-up: In Barcelona in Q4, 67,037 m² were contracted, making the accumulated volume for 2017 total 331,657 m². This represents a 30% increase on Q3, and a 9% increase in contracts if we compare with the previous year (305,000 m² in 2016). This year was defined by high-volume transactions, where 80 operations of more than 1,000 m² each were recorded.

Rental Income: Maximum income continued increasing in most areas, mainly due to the strength in contracting and the limited availability of high-quality product. The maximum income on Paseo de Gracia/Diagonal was €23.25/m²/month, which are levels not seen since 2009.

Residential market

In line with the residential market consolidation, there was a 10% increase in the number of mortgages on dwellings in Spain in 2017, where more moderate levels of growth were recorded than at the beginning of the recovery.

Despite the growth in started and finished dwellings, the result of the expensive trend recorded in the sector, the levels thereof remain low. The forecast for upcoming years is that the market will gradually stabilise, supported on global economic growth. The cycle is expected to expand at least until reaching production values that suit demand, around 120,000 dwellings.

After the 59% increase in New Dwelling Licences in 2016, the year 2017 was a year of restraint, with 5% growth throughout Spain.

New Dwelling transactions grew 17% in 2017. Second-hand transactions continued to greatly improve over the 2016 data in all Autonomous Communities.

Out of all buyers, 17%, representing around 94,000 transactions, were foreign. This is a 19% increase over 2016.

The price of non-subsidised dwelling in Spain changed to an upward trend in 2014, with 2017 seeing 5.2% growth, at €1,540/m².

Spain continued the pace of reduction in terms of New Dwelling available stock.

The increase in dwelling prices drives up rental prices in Spain, especially in Madrid, Barcelona and the islands, increasing by 26% in the last year. A continued rise in rental prices could increase dwelling transactions as mortgage expenses level with rental prices.

1.2 Organisational structure and functional operation

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

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

Group companies, all of which are owned 100% by the Company, carry out their activity with the following types of assets:

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

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

- Offices: the rental of offices.

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

- Logistics: the rental of logistics bays.

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

- Residential.

The Company invests in the residential market focusing mainly on first homes located in the most consolidated areas of Madrid.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Management report for the period ended
31 December 2017

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

- In accordance with the Group investment strategy, said Group shall focus 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 investment plans as forecast.

2 Development and business results

2.1 Introduction

At the 2017 reporting date, the Company's revenue amounted to 27,811 thousand euros, which corresponded to returns from dividends received from investee companies, financial income from financing granted to same and returns from the disposal of equity instruments in accordance with their standing as holding companies after contributing their property investments in 2016.

The operating result before amortisations, provisions and interest (EBITDA) presents a positive result of 23,779 thousand euros.

The negative financial result was 4,566 thousand euros.

The Company's profit for the period amounts to 19,211 thousand euros.

2.2 Other financial indicators

At 31 December 2017, the Company presents the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 110,981 thousand (EUR 83,582 thousand at 31 December 2016).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 5.16 (6.35 at 31 December 2016).
- Solvency ratio (calculated as non-current liabilities and equity divided by non-current assets) → 1.16 (1.11 at 31 December 2016).

These ratios represent particularly high values, indicating that the Company 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 Company's rate of return divided by its equity, is 2.93% (it was 0.64% as of 31 December 2016). This is calculated as the quotient of the profit for the last 12 months and the Company's net equity at 31 December 2017.

The ROA ("Return on Assets"), which measures the efficiency of the Company's total assets, regardless of the source of funding used, i.e. the capacity of a company's assets to generate profit, is 2.30% (0.50% as of 31 December 2016). This is calculated as the quotient of the profit for the last 12 months and the Company's total assets at 31 December 2017.

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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 2017", which was published on the same date as these Financial Statements and explanatory notes, state how the EPRA indicators are calculated and defined.

2.3 Matters regarding the environment and personnel

Environment

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

Personnel

At 31 December 2017 the Company has 4 employees. See Note 18 of the consolidated report.

3 Liquidity and capital resources

3.1 Liquidity and capital resources

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

- The issue of 2,083,535 shares with a nominal value of EUR 2 plus an issue premium of EUR 7.20 per share.

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

The Company does not have any contractual obligations that imply an outflow of liquid resources at 31 December 2017 beyond those mentioned in point 3.1.

At 31 December 2017, the Company does not present off-balance-sheet transactions that have had, or are expected to have, a significant effect on the financial position of the Company, the expenditure structure, the operating result, liquidity, capital expenses or on own resources.

4 Main risks and uncertainties

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

5 Significant circumstances occurring after the close

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

6 Information on the foreseeable evolution of the Company

After the investment volume carried out since March 2014, active property management capacity

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will be key in upcoming years.

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

The Company 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 Company will be in a position to continue making progress in 2018 and in subsequent years.

7 R&D+i activities

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

8 Acquisition and disposal of treasury stock

The average selling price of treasury shares was EUR 7.88 per share in 2017 (EUR 6.87 in 2016). The result at 31 December 2017 amounted to 131 thousand euros (577 thousand euros at 31 December 2016) was recorded under Other reserves on the balance sheet.

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.

At 31 December 2017 the share price was EUR 8.89.

As of 31 December 2017, the Parent Company holds a total of 19,880 shares, representing 0.02% of total issued shares.

9 Other relevant information

9.1 Stock exchange information

The initial share price at the start of the year was EUR 7.03 and the nominal value at year end was EUR 8.89. During 2017, the average price per share was EUR 7.87.

It is important to take into consideration that in May 2017, the following capital increase was effected, where same was fully subscribed by Grupo Lar Inversiones Inmobiliarias by virtue of the formalised management contract (Note 11).

- The issue of 2,083,535 shares with a nominal value of EUR 2 plus an issue premium of EUR 7.20 per share.

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

9.2 Dividend policy

On 29 May 2017, the Shareholders' General Meeting approved the distribution of a dividend of

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EUR 3,416 thousand, at EUR 0.038 per share (taking into account all the shares issued) charged to the results for the financial year 2016, and of EUR 26,584 thousand, at EUR 0.294 per share (taking into account all the shares issued), charged to the share premium. The amount distributed totalled EUR 29,979 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 29 May 2017, and adjusting the difference for the greater number of treasury shares against the share premium. The distributed dividend was paid in full in May 2017.

9.3 Average number of days payable outstanding to suppliers

The average number of days payable outstanding to suppliers is 29, complying with the maximum legal payment period applicable to the Company in the year 2017 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 2017 Annual Corporate Governance Report forms part of this Management Report.

11 Events after the reporting period

On 16 January 2018, after executing the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of its company shares in its subsidiary LE Offices Egeo, S.A.U., a company owned 100% and owner of the Egeo office building located in Madrid, to Inmobiliaria Colonial SOCIMI, S.A. for a total amount of EUR 79,280 thousand. The shares were sold after observing the three-year property holding period pursuant to the Law on SOCIMIs (Note 1).

On 31 January 2018, an agreement was signed with Inmobiliaria Juan Bravo 3, S.L. to offset the credit facility drawn down by the Company with the full amount of the ordinary loan of EUR 2.2 million and EUR 5.3 million of the participating loan extended to this associate.

On 6 February 2018, Lar España Real Estate SOCIMI, S.A. acquired 100% of the shares of Legaro Spain, S.L.U. (owner of the Rivas Futura Retail Park) for a total of EUR 34,632 thousand, subject to the usual adjustments in these types of transactions.

On 19 February 2018 the Parent entered into an agreement with its management company, Grupo Lar Inversiones Inmobiliarias, S.A. (the "management company"), in order to amend the terms of the investment management agreement ("IMA"). Pursuant to this amendment, the IMA shall remain in force for a period of four years as of 1 January 2018. The structure of fees and commissions payable to the management company (base fee and performance fee) has also been amended. From 2018 onwards, the base fee payable to the management company will be calculated on the basis of an annual amount equal to the higher of (i) EUR 2 million and (ii) the sum of (a) 1.00% of the EPRA NAV (excluding net cash) at 31 December of the prior year up to an amount not exceeding EUR 1,000 million, and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December of the prior year for the amount in excess of those EUR 1,000 million. Furthermore, from 2018 onwards the performance fee payable to the management company shall be calculated based on the EPRA NAV and the Company's stock market capitalisation, and shall be capped at a total amount equal to 3% of the Company's EPRA NAV at 31 December of the

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prior year. The presentation attached to this notice includes additional information relating to the calculation and payment of the performance fee.

On 20 February 2018, the Group company LE Retail Abadia, S.L.U. acquired the Parque Abadia trading estate in Toledo for EUR 14 million, subject to the usual adjustments for this type of transaction.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Preparation of accounts and management report
of the 2017 period and statement of compliance
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 23 February 2018, pursuant to the requirements of Article 253 of the Revised Spanish Companies Act and Article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the annual accounts for the period ended 31 December 2017. The annual accounts comprise the documents that precede this certification and are issued on the accompanying pages of ordinary paper, all of which have been intialized by the Deputy Secretary of the Board of Directors, with all the members of the Board of Directors signing the last page.

According to the provisions of Royal Decree 1362/2007, of 19 October, (Article 8.1 b) the undersigning directors of Lar España, hereby declare that:

To the best of their knowledge, the annual accounts for the annual period ended 31 December 2017, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and profits/ (losses) of the Company and the management report accompanying the annual accounts includes a reliable analysis of the development and business results and position of Lar España together with a description of the principal risks and uncertainties that it faces.

Signatories:

Mr. José Luis del Valle Doblado (Chairman)

Mr. Alec Emmott

Mr. Roger Maxwell Cooke

Mr. Pedro Luis Uriarte Santamarina

Mr. Miguel Pereda Espeso

Mr. Laurent Luccioni

Ms. Isabel Aguilera Navarro

Madrid, 23 February 2018

Appendix I

ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY- LISTED COMPANIES

DATA IDENTIFYING THE ISSUER

Financial year end:

31/12/2017

Tax ID no. (CIF):

A-86918307

Registered business name:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Registered office:

Rosario Pino 14-16, Madrid.

ANNUAL CORPORATE GOVERNANCE REPORT FORM  FOR PUBLICLY LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
02/08/2017	185.248.194	92.624.097	92.624.097

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		3.407.640	3,679%
BRANDES INVESTMENT PARTNERS, L.P.	0		4.659.918	5,031%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		13.890.835	14,997%
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	5.265.761		0	5,685%
PIMCO BRAVO II FUND, L.P.	0		18.157.101	19,603%
SANTA LUCIA S.A. CIA DE SEGUROS	1.838.588		1.045.726	3,115%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4.653.434	5,024 %

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

Name or company name of shareholder	Transaction date	Transaction background
BRANDES INVESTMENT PARTNERS, L.P.	16/01/2017	Increased its shareholding
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	09/08/2017	Increased its shareholding
PIMCO BRAVO II FUND, L.P.	24/08/2017	Decreased its shareholding
SANTA LUCIA S.A. CIA DE SEGUROS	22/11/2017	increased its shareholding
THREADNEEDLE ASSET MANAGEMENT LIMITED	19/07/2017	Decreased its shareholding

A.3 Complete the following tables detailing the directors who have voting shares in the company:

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of the direct shareholder	Number of voting rights	
José Luis Del Valle		Eugemor, SICAV, S.A.	22.425	0,024%
Alec Emmott	1.155			0,001%
Roger Cooke.	2.500			0,002%
Miguel Pereda	16.905	Grupo Lar Inversiones Inmobiliarias S.A.	5.265.761	5,703%
Pedro Luis Uriarte	54.930			0,059%

% of total voting rights held by the board of directors	5,789%
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Complete the following table detailing the directors who have stock options in the company:

Name or company name Director	Number of options held directly	Options held indirectly		Number of equivalent shares	% of total voting rights
		Direct holder	No. of voting rights		

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

Name or company name of related party	Type of relationship	Brief description

A.5 Where applicable, list commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are scanty material or derive from the company's ordinary course of business:

Name or company name of related party	Type of relationship	Brief description
LVS II LUX XII, S.A.R.L.	Contractual "Subscription Agreement"	Right of first refusal in relation to certain opportunities to jointly invest in service and residential properties.
Grupo Lar Inversiones Inmobiliarias	Investment Management Agreement	Company management agreement

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

Yes No

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
19,880	0	0.021%

(*) Held through:

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

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

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

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

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

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

A.9 bis Estimated free float:

Estimated free float	97.1%
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A.10 Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

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

Yes No

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

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

Yes No

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

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

Yes No

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

B GENERAL MEETING

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

Yes No

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

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

Yes No

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

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

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

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

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

General meeting date	Attendance data				Total
	% attending in person	% attending by proxy	% correspondence voting		
			Votes cast electronically	Other	
29/05/2017	3.699%	57.364%	0.009%	9.476%	70.548%

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

Yes No

B.6 Section repealed

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other general meeting related disclosures which must be provided to shareholders on the corporate website.

<http://larespana.com/gobierno-corporativo/>

<http://larespana.com/gobierno-corporativo/junta-general-ordinaria-2017/>

C CORPORATE GOVERNANCE STRUCTURE

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or company name of director	Representative	Director class	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis Del Valle		Independent	Independent Chairman	05/02/2014	29/05/2017	N/A
Alec Emmott		Independent	Independent director	05/02/2014	29/05/2017	N/A
Roger Cooke		Independent	Independent director	05/02/2014	29/05/2017	N/A
Miguel Pereda		Proprietary	Proprietary director	05/02/2014	29/05/2017	N/A
Pedro Luis Uriarte		Independent	Independent director	05/02/2014	29/05/2017	N/A
Isabel Aguilera		Independent	Independent Director	30/05/2017	29/05/2017	N/A
Laurent Luccioni		Proprietary	Proprietary Director	30/05/2017	29/05/2017	N/A

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

Name or company name of director	Class of director upon resignation	Date of departure

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	28.6%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Background
José Luis, del Valle	<p>Mr. del Valle has extensive experience in the banking and energy sector. From 1988 to 2002 he held various positions with Banco Santander, one of the most relevant financial entities in Spain. In 1999 he was appointed General Manager and Financial Manager of the bank (1999-2002). Subsequently he was Development and Strategy Manager of Iberdrola, one of the main Spanish energy companies (2002-2008), Managing Director of Scottish Power (2007-2008), Strategy and Research Manager of Iberdrola (2008-2010) and Advisor to the Chairman of the aerogenerator manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Director of the insurance group Ocaso; Director of Abengoa, S.A., which provides innovative technological solutions for sustainable development; Director of Verditek Plc, an investor in clean technologies; and Director of the Instituto de Consejeros-Administradores.</p> <p>Mr. José Luis is a Mining Engineer from Universidad Politécnica (Madrid, Spain), number one of his class, Master of Science and Nuclear Engineer from the Massachusetts Institute of Technology (Boston, USA). Furthermore, Mr. del Valle holds an MBA with high honours from Harvard Business School (Boston, USA).</p>
Pedro Luis Uriarte	<p>Mr. Pedro Luis Uriarte, after working in the industrial sector for nine years, from 1975 to 2001 he held various positions with BBVA and subsequently in BBVA, one of the main Spanish Banks, as Chief Executive Director since 1994, and also Vice Chairman thereof. He held the position as Vice Chairman of the Board of Telefónica, leader in the Spanish telecommunications market. In the area of public administration, he was appointed Minister of Economy and Finance of the Basque Government from 1980 to 1984. In 2007, Mr. Uriarte founded and chaired Innobasque, the Basque Innovation Agency, which he headed until 2009. Since then, he has collaborated on a number of different R+D+i initiatives. Currently, he is Chief Executive Officer of the strategy consulting firm Economía, Empresa y Estrategia, and is member of several boards and consulting bodies of other boards of directors of several different companies, both Spanish and international. He was also a Board member of</p>

	<p>UNICEF Spain.</p> <p>Mr. Pedro Luis graduated from Universidad de Deusto (Bilbao, Spain) with a degree in business and administration, and is a member of the board of Deusto Business School, and has been honoured with numerous awards such as the "Gran Cruz al Mérito Civil" (Spanish government) in 2002, the Gold Medal of Guipuzkoa in 2005 and the "Directivo del año" award (awarded by the Spanish Confederation of Managers & Executives - CEDE) in 2011.</p>
Alec Emmott	<p>Mr. Emmott has a wide career in the listed and unlisted real estate sector in Europe, and is based in Paris. He served as CEO of Société Foncière Lyonnaise (SFL) from 1997 to 2007 and subsequently as senior advisor to SFL until 2012.</p> <p>He is currently the Principal of Europroperty Consulting, and since 2011, is a Director of CeGeREAL S.A. (representing Europroperty Consulting). He is also member of the advisory committee of Weinberg Real Estate Partners (WREP I and II). He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. Mr. Emmott holds an MA from Trinity College (Cambridge UK).has built an extensive career in the real estate sector in Europe, having worked at listed and unlisted companies. He resides in Paris. He worked as CEO of Société Foncière Lyonnaise (SFL) between 1997 and 2007 and later as executive advisor to SFL until 2012. He is currently Director of Europroperty Consulting, and has been a Director of CeGeREAL S.A. (where he represents Europroperty Consulting) since 2011. He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I/II), Cityhold AP and MITSUI FUDOSAN. He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He holds an MA from Trinity College (Cambridge, UK).</p>
Roger Cooke MBE	<p>Mr. Cooke is an experienced professional with more than 30 years of experience in the real estate sector. Mr. Cooke joined Cushman & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as Chief Executive Officer of Cushman & Wakefield Spain, leading the company to attain a leading position in the sector.</p> <p>In the 2017 New Year's honours' list, Mr. Cooke was awarded an MBE for his services to British businesses in Spain and to Anglo-Spanish trade and investment</p> <p>Mr. Cooke holds an Urban Estate Surveying degree from Trent Polytechnic University (Nottingham, UK) and is currently a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Until May 2016, he was the President of the British Chamber of Commerce in Spain. Since May 2014, Mr. Cooke has been a Senior Advisor at Ernst & Young. Likewise, since September 2017, Mr. Roger Maxwell is Chairman of the Editorial Board of Iberian Property.</p>
Isabel Aguilera	<p>Mrs. Isabel Aguilera Navarro developed her professional career at various companies across several sectors. She served as President</p>

	<p>for Spain and Portugal at General Electric, General Manager for Spain and Portugal at Google, Chief Operating Officer at NH Hoteles Group, CEO for Spain, Italy and Portugal at Dell Computer Corporation and member of the board of directors at different companies such as Indra Sistemas, Banco Mare Nostrum, Aegon and Laureate Inc. Mrs. Isabel is currently a member of the Board of Directors at Grupo Egasa and Oryzon Genomics.</p> <p>Mrs. Isabel has a degree in Architecture and Urbanism from the Escuela Técnica Superior de Arquitectura of Seville, a master's degree in Commercial and Marketing Management from IE, and completed the General Management Programme at IESE and the Executive Management of Leading Companies and Institutions Programme at San Telmo Institute. Mrs. Isabel is currently Associate Professor at ESADE.</p>
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Total number of independent directors	5
% of total board members	71.4%

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			
	2017	2016	2015	2014	2017	2016	2015	2014
Executive	0	0	0	NA	0	0	0	N/A
Proprietary	0	0	0	N/A	0	0	0	N/A
Independent	1	0	0	N/A	20	0	0	N/A
Other external	0	0	0	N/A	0	0	0	N/A
Total:	1	0	0	N/A	14	0	0	N/A

C.1.5 Outline the measures taken, if any, to endeavour to include enough women on the board to achieve balanced gender representation.

Article 34.4 of the Articles of Association state that the shareholders in general meeting and the Board of Directors should attempt to foster balanced gender representation on the Board.

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

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

In 2015, Lar España drew up a director selection and appointment policy (which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016). This policy is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. The policy pursues the target of having at least 30% of all Board members be female by 2020.

The Appointments and Remuneration Committee will verify compliance with this policy annually and report on its findings in the Annual Corporate Governance Report. Moreover, it will strive to make sure the candidates put forward are sufficiently honourable, suitable, solvent, competent, experienced, qualified, trained, available and committed to their duties, that the candidate selection process results in adequate balance in the boardroom as a whole, enriches the decision-making process and helps prevent conflicts of interest such that the common interest always prevails over individual interests.

When the number of female directors is scant or nil despite these measures, provide an explanation:

Despite the fact that Lar España was incorporated recently, the Company is already working on achieving the target stipulated in its director selection policy in relation to having 30% of boardroom represented by women, albeit without neglecting other policy stipulations with regard to required solvency, competence, experience, qualifications, training, availability and job commitment on the part of its candidates.

During 2017 a female director has joined the board of directors in order to achieve the proposed target.

C.1.6.bis Explain the results of the nomination committee's annual check on compliance with the director selection policy. In particular, describe how the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020:

The director selection policy was drawn up in 2015 and approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016. It specifically states the target of having 30% of its membership occupied by women by 2020. It is not possible to verify compliance at this juncture as the policy has only been in effect for a year.

During 2017 an independent female director has joined the board of directors in order to achieve the target set by the Appointments and Remunerations Committee.

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

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

Further, article 8.4 of the Regulations stipulates that the Board must prevent discrimination among shareholders in terms of boardroom access via proprietary directorships.

C.1.8 Explain any reasons why proprietary directors have been appointed at the urging of shareholders controlling less than 3% of capital:

Name or company name of shareholder	Reasons

Indicate whether any formal requests for a board seat from shareholders whose equity interest is equal to or greater than that of others applying successfully for a proprietary directorship have been rejected. If so, explain why these requests have not been entertained.

Yes No

Name or company name of shareholder	Explanation

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

Yes No

Name of director	Reasons for resignation

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

Yes No

Name or company name of shareholder	Brief description

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

Name or company name of director	Registered name of the group company	Position	Do they have executive duties?
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL PORTAL DE LA MARINA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL MEGAPARK, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA OFFICES VI, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VILLVERDE, 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	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.	Director
Pedro Luis Uriarte	Técnicas Reunidas, S.A.	Director, President of the Audit and Control Committee
Isabel Aguilera	Oryzon Genomics	Director

C.1.13 Indicate whether the company has any rules about the number of directorships its board members can hold and if so explain them:

Yes No

Explanation of the rules
The Company's directors may sit on the boards of up to four other listed companies (in addition to that of the Company). Article 19.4 of the Board Regulations.

C.1.14 Section repealed

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

Board remuneration (thousands of euros)	389
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	0
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	0

C.1.16 Identify the members of senior management who are not executive directors and indicate total remuneration accruing to them during the reporting period:

Name or company name	Position(s)
Jon Armentia Mendaza	Corporate Director
Sergio Criado Cirujeda	CFO
Susana Guerrero Trevijano	Legal Director
Hernán San Pedro López de Uribe	Director of Investor Relations

Total senior management remuneration (in thousands of euros)	477
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C.1.17 Indicate the identity of any board members who likewise sit on the boards of directors of companies having significant shareholdings and/or their group companies:

Name or company name of director	Company name of significant shareholder	Position
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director

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

Name or company name of related director	Name or company name of related significant shareholder	Description of relationship
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director

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

Yes No

Description of the amendments

In 2017, articles 8 (“qualitative composition”) and 14 (“Audit and Control Committee” - Composition, responsibilities and functioning”) and 15 (“Appointments and Remuneration Committee - Composition, responsibilities and functioning”) of the Board regulations were amended.

The reasons for the amendment were, firstly, to incorporate the basic principles and criteria set out in CNMV Technical Guide 3/2017 and expressly include certain related recommendations from the Good Governance Code, and secondly, to integrate the boardroom diversity criteria established by Royal Decree Law 18/2017.

In addition, amendments of a technical nature were made, the most salient of which was the assignment of the corporate social responsibilities, currently assigned as per article 14 to the Audit and Control Committee, to the Appointments and Remuneration Committee.

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing directors. List the competent bodies and the processes and criteria used for each of these procedures.

In 2015, Lar España drew up a director selection policy, which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016 and is designed with the following objectives in mind:

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

1. Director aptitudes

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

On the other hand, a candidate shall be understood to lack these attributes when:

- i. they have been declared bankrupt or are party to an insolvency agreement, whether in Spain or abroad, without have been discharged or the terms of the agreement fully complied with;
- ii. they are being prosecuted or, in the case of the proceedings referred to in titles II and III of book IV of Spain's Criminal Prosecution Act, have been indicted;
- iii. they have a criminal record for any of the following crimes: fraud, tax evasion, criminal bankruptcy, disloyal custody of documents, theft of trade secrets, money laundering, embezzlement of public funds, the discovery and disclosure of trade secrets, property-related crime; or
- iv. they have been banned or suspended, under criminal or administrative law, from holding public office or from administering or managing financial institutions.

In the case of legal-person directors, the above requirements must be met by both the natural person representing the latter and the legal-person director itself.

(ii) Have adequate expertise and experience to carry out their duties

The Board of Directors must comprise professionals with adequate expertise and experience. However, it is not necessary for all directors to possess the same level of expertise and experience so long as the Board as a whole has the right combination of both.

(iii) Be in a position to govern the company well

The directors must be in a position to discharge their duties and comply with their legally-imposed and bylaw-stipulated duties with due diligence, bearing in mind the nature of the position and the duties associated with each. To this end they must:

- i. Devote sufficient time to the Company and adopt appropriate measures for ensuring its correct management and control.
- ii. Get from the company the level of information they need to correctly fulfil their obligations.
- iii. Devote sufficient time to becoming informed, to familiarising themselves with the Company's paradigm and business performance and to participating in the meetings of the Board and any of the committees on which they sit.
- iv. Inform the other members of the Board of Directors of any direct or indirect conflicts they or their related parties may have vis-à-vis the Company's interests.

2. Selection and appointment procedure

The Appointments and Remuneration Committee will first analyse the Board of Director's needs, to which end:

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors.
- ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

Having verified the documentation received from the candidates, it will issue its explanatory report, proceeding as follows:

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

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

In the event of director appointments by means of co-option, the above procedure must be followed and the appointment must be ratified at the Annual General Meeting. The corresponding motion must be accompanied by an explanatory report issued by the

Appointments and Remuneration Committee, which must be put in the public domain in conjunction with the General Meeting call notice.

3. Ongoing assessment

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

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

Description of changes:

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

C.1.20. bis Describe the evaluation process and the areas evaluated by the board, with the assistance of an external facilitator as the case may be, with respect to the diversity of its membership and competences, the performance and membership of its committees, the performance of the chairman of the board of directors and the company's chief executive and the performance and contribution of each individual director.

The Chairman of the Board of Directors was tasked with spearheading the process of evaluating the board, its members and its committees; however, in order to guarantee the objectivity and confidentiality of the individual responses provided by the various directors, an external consultant was engaged to execute the process. The specific areas assessed included:

- The quality and efficiency of the work performed by the Board of Directors of Lar España.
- Diversity in the backgrounds and skills represented on the Board of Directors of Lar España.
- The performance of the Chairman of the Board of Directors of Lar España.
- The performance and contribution of individual directors, with particular attention to the chairmen of various Board committees.
- The operations and composition of the Board committees.

The process undertaken is detailed below:

Phase 1: Submission of questionnaires

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

Phase 2: Interviews

- The external consultant interviewed each of the directors with the goal of ensuring that the performance criteria employed were homogeneous, gathering the evidence needed to back this up.
- The external consultant also interviewed the Board secretary in order to gather enough evidence to substantiate the answers provided in his questionnaire and to evaluate in greater detail any aspect deemed significant.

Phase 3: Final report

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

Phase 4: Action plan

- Once in possession of the results of the self-evaluation process, the Board members will meet to debate and analyse the results of the evaluation exercise.
- The Board of Directors will then define an action plan with measures specifically designed to address any shortcomings detected. Preparation and execution of this action plan will enable Lar España to further develop and fine-tune its corporate governance model.

C.1.20.ter Give a breakdown, as the case may be, of the business dealings that the facilitator or any company in its corporate group maintains with the company or any company in its corporate group.

In 2017, Ernst & Young, S.L. assisted Lar España with the following tasks:

- Preparation of the Annual Corporate Governance Report
- Preparation of the Annual Director Remuneration Report
- Assessment on the elaboration of Lar España's Annual report

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
 - a. When they resign from the executive position associated with their directorship.
 - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.
 - c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
 - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons

for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).

- e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause. Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

C.1.22 Section repealed

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

Yes No

Describe the differences, if any:

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

Yes No

Description of the requirements

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

Yes No

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

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	19
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	13
Number of appointments and remuneration committee meetings	8
Number of nomination committee meetings	N/A
Number of remuneration committee meetings	N/A
Number of sustainability committee meetings	N/A

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

Number of meetings held with all members in attendance	19
% 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.

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

Yes No

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

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

C.1.34 Section repealed

C.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Article 14.2 of the Board Regulations stipulates, notwithstanding any other duties that may be vested in it from time to time by the Board of Directors, that the Audit and Control Committee, among other, shall have the following basic duties:

- f. Proposing to the Board of Directors, for submission at the Annual General Meeting, the appointment, re-election or replacement of the auditor, in keeping with applicable legislation, and the terms and conditions of its engagement; obtaining from the auditor regular feedback on execution of the audit plan; and ensuring that the auditor acts independently in carrying out its duties.
- h. Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee, and on any other matters related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation.
- i. Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report and opinion must extend to the provision of the additional services referred to above, considered individually and as a whole, other than the legally-stipulated financial statement audit service, in relation to the independence regime and/or audit regulations.

Further, article 14.3.b of the Board Regulations states that the Audit and Control Committee's duties include that of safeguarding the independence of the external auditor, specifically undertaking the duties of: (i) notifying the securities market regulator of any change in auditor, accompanied by a statement of the fact of disagreement with the outgoing auditor, if any, and the nature of such disagreement, in the form of a price-sensitive filing; (ii) ensuring that the Company and the auditor uphold prevailing rules governing the provision of non-audit services and, in general, the other rules in place to safeguard auditor independence; (iii) should the auditor resign, investigating the circumstances giving rise to such decision; and (iv) in the case of groups, urging the group auditor to take on the auditing of all constituent companies.

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

Yes No

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)	182	0	194
Fees for non-audit work / total amount invoiced by the audit firm (%)	55%	4%	39%

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

Yes No

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	4	4

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

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

Yes No

Details of the procedure:

Article 26 of the Board Regulations stipulates:

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

2. The decision to hire external advisers at a cost to the Company must be notified to the Chairman and may be vetoed by the Board of Directors if it can certify that:
 - a. It is not necessary to due performance of the duties incumbent upon the external directors;
 - b. Its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues; or
 - c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

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

Yes No

Details of the procedure:

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings must be called with at least three days' notice. The call notice must always include the meeting agenda and be accompanied by the relevant information, duly summarized and documented.

4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.
2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.
3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.
4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

C.1.42 Indicate whether the company has any rules obliging directors to inform the board of any circumstance that might harm the organisation's good name or reputation and tendering their resignation as the case may be:

Yes No

Details of the rules

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.
2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.
3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings. If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

C.1.43 Indicate whether any member of the board of directors has notified the company that he or she has been indicted or tried for any of the offences listed in article 213 of the Spanish Corporate Enterprises Act:

Yes No

Name of director	Offence	Observations

Indicate whether the board has analysed the case. If so, give a substantiated explanation of the decision taken as to whether or not the director in question

should remain in office and, as warranted, outline the actions taken or planned by the board of directors as of the date of this report.

Yes No

Decision/action taken	Substantiated explanation

C.1.44 List any significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

C.1.45 Indicate (individually and on aggregate) the agreements between the company and its directors, officers or employees that provide for termination benefits or guarantee or golden parachute clauses upon their resignation or unfair dismissal or termination of the employment relationship as a result of a takeover bid or other kind of transaction.

Number of beneficiaries	
Type of beneficiary	Description of the agreement

Indicate whether these agreements must be reported to and/or approved by the governing bodies of the company or its group:

	Board of directors	General meeting
Body authorising the clauses		

	Yes	No
Are shareholders informed of these clauses in general meeting?		

C.2. Board committees

C.2.1 List all the board committees, their members and their make-up in terms of proprietary and independent directors:

EXECUTIVE OR STEERING COMMITTEE

Name	Position	Job category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee. The rules governing the make-up and operation of the Executive or Steering Committee are set forth in article 41 of the Articles of Association and article 13 of the Board Regulations.

Organisation and operation

The Executive Committee shall comprise at least three and at most seven members, and it may also appoint a Chief Executive Officer at the proposal of the Chairman of the Board of Directors; the Board of Directors may delegate in them, on a temporary or permanent basis, any and all powers that are not reserved to the Board under law. Valid delegation and the designation of the members of the Board of Directors to such positions shall require the favourable vote of two-thirds of the members of the Board of Directors and shall not take effect until the resolution has been duly registered in the Companies Register.

The Company shall endeavour, to the extent possible, to have the composition of the Executive Committee mirror that of the Board of Directors in terms of the mix of director types. The Secretary of the Board of Directors shall also serve as the Secretary of the Executive Committee.

The Chairman of the Executive Committee shall report to the Board of Directors on the matters debated and resolutions taken at its meetings; it shall record the minutes of all its meetings and submit copies thereof to all of the Board members.

Activities

Note that Lar España did not avail of this power to set up an Executive Committee in 2017.

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
Pedro Luis Uriarte	Chairman	Independent
José Luis del Valle	Member	Independent
Isabel Aguilera	Member	Independent
Juan Gómez-Acebo	Secretary	Non-board member

% of proprietary directors	0
% of independent directors	100
% of other external directors	0

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

As outlined in article 42.2 of Lar España's Articles of Association and article 14.2 of its Board Regulations, and notwithstanding any other duties vested in it by law or entrusted to it by the Board of Directors, the Audit and Control Committee shall have, at least, the following responsibilities: a) supervising calculation of the fees received by the Management Company in the course of performing its duties; b) reporting at the General Meeting on those matters raised by shareholders concerning the areas falling under its remit; c) supervising effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems; d) analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process; e) monitoring the process of drawing up and disclosing regulated financial information; f) proposing the appointment, re-election or replacement of the account auditor to the Board of Directors for submission at the general meeting, in keeping with prevailing regulations; g) supervising the work of the Company's internal audit service; h) establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the auditing process. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation; i) issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report should refer specifically to the provision of the non-audit services referred to above; j) naming and supervising the external asset appraisers commissioned to value the Company's assets; and k) reporting, before resolutions have to be taken, to the Board of Directors on all matters contemplated in prevailing law, the Articles of Association and the Board Regulations, particularly with respect to: (i) the financial information the Company must disclose periodically; (ii) the creation or acquisition of interests in special-purpose vehicles or companies domiciled in tax havens; (iii) related-party transactions; and (iv) the economic conditions and accounting impact and, when applicable, the exchange ratio proposed in respect of any fundamental changes or corporate transactions the Company is planning.

Organisation and operation

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

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

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

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

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

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

Activities

The main activities carried out by the Audit and Control Committee in 2017:

- Review of periodic financial information
- Review the financial statements
- Oversight of relations with and independence of the external auditor
- Oversight of the internal audit, internal control and risk management system
- Oversight of compliance with corporate governance regulations
- Related-party transactions
- Oversight of commissions received by the management company
- Valuation of the Company's assets
- Approval of dividend payments to subsidiaries
- Analysis of compliance with SOCIMI regime eligibility requirements

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	Pedro Luis Uriarte
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

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

Duties

Pursuant to article 43.2 of the Articles of Association and article 15.4 of the Board Regulations, and notwithstanding any other duties vested in it by law or assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have, at least, the following basic duties: a) evaluating the universe of skills, knowledge and experience needed on the Board of Directors; b) establishing a targeted level of representation for the gender in minority on the Board of Directors and establishing guidelines for how to achieve this target; c) raising to the Board of Directors: (i) proposals for the appointment of independent directors for designation; and (ii) proposals for the re-election or removal of such directors for submission to the shareholders in general meeting; d) reporting on: (i) proposals for the appointment of all other classes of directors; and (ii) proposals for their re-election or removal for submission to the shareholders in general meeting; e) reporting on proposals to appoint or remove senior officers and the basic terms and conditions of their contracts; f) analyzing and organizing the succession of the chairman of the Board of Directors and the Company's chief executive officer and making recommendations, as warranted, to the Board of Directors so that succession planning is executed in a planned and orderly manner; and g) making proposals to the Board of Directors with respect to remuneration policy applicable to the Company's directors and its senior officers or those who carry out senior management duties and report directly to the Board or its executive or delegated committees and the individual remuneration and other contractual terms of any executive directors, overseeing observance with such policies.

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

Organisation and operation

The Board Regulations stipulate the Committee's remit and its rules of organisation and operation. The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board from amongst its external members, at the proposal of the Chairman of the Board.

The Board shall appoint a Committee chair from among the independent directors comprising the Committee. The Secretary of the Board shall also serve as the Secretary of the Appointments and Remuneration Committee.

The directors sitting on the Committee, who must be mostly independent and possess the right balance of knowledge, skills and experience for the functions they are called on to discharge, shall hold their offices as long as their appointments as Company directors remain valid, unless the Board resolves otherwise. The renewal, re-election and dismissal of the members of the Committee shall be governed by the terms and conditions agreed by the Board of Directors.

The Appointments and Remuneration Committee shall meet, ordinarily, at least once a year. Similarly, the Committee shall meet when called on to do so by any of its members and whenever convened by its Chairman, who in turn is obliged to do so whenever the Board or its Chairman requests it to issue a report or adopt a resolution, and, in any event, whenever a meeting is considered advisable to correctly fulfilling its duties.

The quorum for validly calling Appointments and Remuneration Committee meetings to order shall be the majority of its members, present or duly represented, and its resolutions shall be ratified by means of majority vote. In the event of a draw, the Committee Chairman shall have the casting vote. Committee meetings shall be minuted and a copy sent to all Board members.

The Committee shall consult with the Chairman, especially on matters relating to executive directors and senior officers.

Activities

The Appointments and Remuneration Committee met eight times in 2017 and performed the following activities:

- Re-election of the The Board were raised to the shareholders in general meeting. The committee also approved the proposal for the appointment of an independent director.
- The Committee also took care that diversity criteria were upheld in the election of new members.
- Review of the conclusions of each director's evaluation and their degree of compliance with the 2016 objectives and approved payment of the variable remuneration.
Review and qualify employee objectives for 2017 (75% common and 25% personal).
Approved director salary increases for 2017.
- Approved the compensation for the new board member, as well as travel and expense policy for the Board.
- Preliminary work for updating and approving a new Remuneration Policy for the Board.
- Reviewed the design and implementation of the Company's CSR policy.
- Approved the Annual Report on the Board of Directors' Remuneration and approved the draft report on the evaluation of the operation of the Board and its committees for 2016

COMMITTEE

Name	Position	Class of director

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.

C.2.2 Fill out the following table indicating the number of female directors represented on the board committees over the last four years:

	Number of female directors			
	2017 Number %	2016 Number %	2015 Number %	2014 Number %
Executive committee	N/A	N/A	N/A	N/A
Audit committee	1 - 14.28%	0	0	N/A
Appointments and remuneration committee	0	0	0	N/A
Nomination committee	N/A	N/A	N/A	N/A
Remuneration committee	N/A	N/A	N/A	N/A
_____ committee	N/A	N/A	N/A	N/A

C.2.3 Section repealed

C.2.4 Section repealed

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees, where they are available for consultation and any amendments to the same during the financial year. State whether any annual report has been drawn up voluntarily on the activities of each committee.

In 2017, articles 14 (“Audit and Control Committee - Composition, responsibilities and functioning ”) and 15 (“Appointments and Remuneration Committee - Committee’s composition, responsibilities, and functioning”) were amended to incorporate the basic criteria set out in CNMV Technical Guide 3/2017 as were the boardroom diversity criteria established by Royal Decree Law 18/2017.

In addition, amendments of a technical nature were made, the most salient of which was the assignment of the corporate social responsibilities, currently assigned as per article 14 to the Audit and Control Committee, to the Appointments and Remuneration Committee;

Lar España prepared annual reports on the functioning, composition, and activities of Board committees.

The Board Regulations govern the workings of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). The Board Regulations are available on the corporate website and can be reached using the following link:

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

C.2.6 Section repealed

D**RELATED PARTY AND INTRA-GROUP TRANSACTIONS****D.1. Outline the procedure, if any, in place for approving related-party and intra-group transactions.**

The Board's powers include approving, subject to a prior report by the Audit and Control Committee, related-party transactions, as defined under prevailing applicable legislation (article 5.4.o of the Board Regulations).

The Audit and Control Committee's duties include reporting to the Board of Directors before the latter takes the corresponding decisions regarding related-party transactions, as defined under prevailing applicable legislation (article 14.3.d.iii of the Board Regulations).

However, Board authorisation shall not be required for related-party transactions that simultaneously meet the following three conditions: (i) they are governed by standard-form agreements applied on an across-the-board basis to a large number of customers; (ii) they go through at market rates, generally set by the person supplying the goods or services; and (iii) their amount is no more than 1% of the Company's annual revenues (article 37.3 of the Board Regulations).

The Investment Management Agreement in force between Grupo Lar Inversiones Inmobiliarias, S.A. as Management Company and Lar España Real Estate SOCIMI, S.A. as the Company Managed, entered into on 12 February 2014, specifies (in its fifth clause) the following:

The Management Company shall be entitled to provide services and perform and participate in transactions, subject to obtaining prior written consent from the Company, in relation to any of the following matters:

- (i) Any acquisition/disposal of a real estate investment or the arrangement of a binding agreement for the acquisition/disposal of a real estate investment, when the cost of the acquisition/total gross proceeds exceed(s) 30 million euros;
- (ii) Any new financing or refinancing, including related hedging agreements, arranged in connection with a real estate investment when its amount exceeds 30 million euros;
- (iii) Any expenditure on capital goods for real estate investment purposes of 10 million euros or more;
- (iv) Any proposed lease agreement or termination of such an agreement when the annual rent is equivalent to over 10% of the Company's total rental income;
- (v) Any joint investment or joint venture in properties for commercial usage; if approved, the Lar Group will have the right to manage the joint investment or joint venture in full on its own behalf and on behalf of the Company;
- (vi) Any joint investment or joint venture in properties for residential usage that include an investment by the Company in excess of 10 million euros;
- (vii) Any hedge or use of derivatives, including those related to debt instruments, interest or real estate investments, unless such investments are part of the pertinent financing, as outlined in item (ii) above;
- (viii) The Company's participation in any transaction for the acquisition of the assets of any company, firm or person that happens to be: (1) a subsidiary of the Management Company; (2) a direct or indirect shareholders of the Management Company (other than the shareholders of Grupo Lar who are not members of the Pereda family (the "Minority Shareholders")); or (3) a subsidiary controlled directly or indirectly, control within the meaning of article 42 of the Spanish Code of Commerce, by the entities mentioned in (2)

above (that are not Minority Shareholders), or in the sale of goods or provision of services deemed material to any subsidiary of the Management Company, unless those activities are covered by a framework agreement approved by the Board of Directors. The Company's participation in any transaction for the purchase of assets from a person related to a subsidiary of the Management Company or the provision of services deemed material by such a person shall similarly be deemed matters subject to approval. For the avoidance of doubt, Gentalia is not a subsidiary of the Management Company for the purposes of this Agreement.

- (ix) The disposal of any right, title or interest whatsoever in the properties of the Company for an amount that is less than they were acquired for;
- (x) Transactions and situations with related parties that could lead to conflicts of interest;
- (xi) The appointment by the Management Company of one or more estate managers or the execution of any third-party services contracts worth more than 1 million euros a year; and
- (xii) Any transaction executed by Gentalia, unless regulated by a framework agreement arranged on an arm's length basis, approved by the Board of Directors, and so long as the assets in question are in keeping with the terms of such framework agreement.

Notwithstanding the foregoing, the Management Company shall be entitled to provide services and participate in transactions related with the matters subject to approval without having to obtain prior written consent from the Company:

- (i) For legal reasons; or
- (ii) In order to respond to a *bona fide* emergency for which time is of the essence.

When Company approval is required for a transaction under the terms of this Agreement, the Management Company must present the Board of Directors a proposal regarding the transaction and provide the Company with the information the Board may reasonably request in order to evaluate and, if it so decides, approve that transaction.

D.2. List any transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Nature of the transaction	Amount (thousands of euros)
Grupo Lar Inversiones Inmobiliarias S.A.	Grupo Lar Inversiones Inmobiliarias S.A.	Contract	Management contract	19.023

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

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

D.4. Report any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated

financial statements and whose purpose or terms fall outside the company's ordinary course of business:

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

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

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

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

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

D.6. List the mechanisms established to detect, analyse and resolve any possible conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.

Article 31 of the Board Regulations

A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of the director clash, directly or indirectly. The director shall be deemed to have a personal interest in a matter when that matter affects him or a person related to him or, in the case of a proprietary director, the shareholder(s) that proposed his appointment or persons related directly or indirectly to them.

For Board regulation purposes, the following definitions apply:

a. Persons related to natural person directors:

- i. Their spouses or significant others.
- ii. The ancestors, descendants and siblings of the director and of the spouse (or significant other) of the director.
- iii. The spouses of the ancestors, descendants and siblings of the director.
- iv. The companies or entities at which the director or any of his related parties, directly or through a representative, fulfils any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- v. The companies or entities at which the director or any of his related parties, directly or through a representative, holds a directorship or management position or from which he receives any compensation for any reason.
- vi. In the case of proprietary directors, additionally, the shareholders appointing him as their representative.

b. Persons related to legal person directors:

- i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- ii. The companies in the same group, as group is defined in article 42 of of Spain's Code of Commerce, and their owners.
- iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.
- iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

Directors are obliged to report the existence of conflicts of interest to the Board of Directors and abstain from intervening as Company representative in the transaction underlying the conflict in question, except as carved out in applicable legislation.

Internal Securities Markets Code of Conduct

A conflict of interest is deemed to exist when the Bound Parties meet any of the following conditions in relation to the entities referred to in this article:

1. Serves as a director or senior executive.
2. Owns a significant interest (understood in the case of a company listed on any official Spanish or foreign stock exchange as the shareholdings referred to in article 53 of the Spanish Securities Markets Act and enacting regulations, and in the case of unlisted Spanish or foreign companies, any direct or indirect shareholding of over twenty per cent of issued share capital).
3. Has kinship within the second degree by affinity or third degree of consanguinity with the Company's directors, owners of significant shareholdings or senior executives.
4. Has significant contractual relationships, direct or indirect.

Conflicted Bound Parties must observe the following general codes of conduct:

Independence: Bound Parties must act in good faith in what they consider to be the interests of the Company and its shareholders, irrespective of their own or other interests. Accordingly they must refrain from placing their own interests over those of the Company, and from placing the interests of one shareholder over those of others.

Abstention: Bound Parties must abstain from participating in or influencing decisions that may affect conflicted persons or entities and from obtaining confidential information concerning the conflict in question.

Disclosure: Bound Parties must notify the head of compliance of potential conflicts of interest deriving from their activities outside of the Company, their family relationships, their personal finances or arising on any other grounds with:

- a. The Company or any of the companies comprising Grupo Lar España.
- b. Significant suppliers or customers of the Company or the companies comprising Grupo Lar España.
- c. Entities devoted to the same business as or that compete with the Company or any of its subsidiaries.

Any questions regarding a potential conflict of interest must be addressed to the head of compliance. The final decision is ultimately the responsibility of the Audit and Control Committee.

Code of Conduct

A conflict of interest is understood to arise whenever any of the Bound Parties who must decide, perform or omit an action, in the course of his or her job duties, faces the option of choosing between the interests of the Company and his/her own interests or those of a third party, such that choosing those of either of the latter two would benefit a third party, giving rise to a gain that would otherwise not accrue.

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

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

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

Yes No

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

E.1. Explain the scope of the company's risk management system, including the fiscal risk management system.

The enterprise risk management (ERM) system of de Lar España Real Estate SOCIMI, S.A. and subsidiaries (hereinafter, Lar España) has been implemented at the corporate level and is designed to mitigate the risks (including fiscal risks) to which the organisation is exposed on account of its business activities. This system establishes the policy for identifying, assessing, prioritising and managing risks effectively and efficiently, factoring in the Company's specific circumstances and the economic and regulatory environments in its operating markets. The system's overriding goal is to guarantee reasonable assurance that the Company will be able to achieve its strategic, operating, reporting and compliance objectives. The system is aligned with the key guidelines established in the "Enterprise Risk Management - Integrated Framework. Committee of Sponsoring Organizations of the Treadway Commission (COSO)" report (hereinafter, COSO).

As set out in its ERM system, Lar España views risk management as a continuous and dynamic process which encompasses the following steps:

- Identification and assessment of the risks that may affect the organisation, evaluating their probability of occurrence and potential impact.
- Identification of the controls in place for mitigating these risks.
- Identification of the processes in which these risks are generated and controls performed, determining the relationship between the organisation's key risks and processes.
- Evaluation of the effectiveness of the controls in place to mitigate these risks.
- Design of action plans in response to the risks identified.
- Risk monitoring and reporting.
- Ongoing evaluation of the suitability and effectiveness of the system in use and benchmarking of best practices and recommendations in risk management.

Ultimately, having identified the risks and analysed the suitability and effectiveness of the decisions taken to mitigate them, management, under the supervision of the internal audit function, establishes risk management priorities and the measures to be implemented, ensuring that the Company's processes are performed and working as intended.

E.2. Identify the bodies responsible for designing and implementing the enterprise system for managing risks, including fiscal risks.

The enterprise risk management (ERM) system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain risk management activities are performed by specialist service providers which assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar
- Preparation of the organisation's financial, accounting and tax information
- Half-yearly asset appraisals

However, Lar España follows detailed processes for supervising the third parties responsible for these outsourced services to ensure that these suppliers perform the activities contemplated in the ERM model.

The main participants in the ERM model are:

Process manager or owner

These people are directly responsible for managing risk in its everyday manifestations; their work encompasses the identification, analysis, assessment and management of the risks which are crucial to delivery of the objectives set for each area, under the scope of current business plans.

Risk officer

The risk officer's job is to analyse and consolidate the risk information prepared by the process owners, which is gradually crystallising in the form of 'risk files'. He or she is also tasked with identifying new events, gathering and assessing information regarding the key risk indicators intrinsic to the Company's processes and proposing any monitoring action plans, as required. Once the priority risk factors have been identified, the 'risk files' are allocated to the parties responsible for their management and control.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties to the Audit and Control Committee:

- *“Identifying the different types of risk (operational, technological, financial/reporting, legal, reputational) to which the Company is exposed”.*
- *“Identifying the risk levels the Company deems acceptable”.*
- *“Identifying measures for mitigating the identified risks”.*
- *“Identifying the internal reporting and control systems to be used to control and manage the said risks”.*

In light of the above, the Audit and Control Committee is tasked with monitoring application of the Risk Control and Management Policy defined by the Board of Directors. This Policy includes the various classes of risk to which the organisation is exposed (strategic, operational, compliance and financial), including fiscal risks (paying close attention to oversight of the requirements associated with the REIT regime). Lastly, the Audit and Control Committee has to report to the Board on its activities throughout the course of the year.

Board of Directors

The Board of Directors is the body tasked with approving the Group's Risk Control and Management Policy.

It assumes, among other powers, the duty of identifying the Company's main risks and supervising the internal control systems, to which end it is kept informed by its Audit and Control Committee.

E.3. State the main risks that could prevent the company from achieving its business targets.

Lar España has identified the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify these risks, management's experience in the real estate sector and the Company's specific circumstances were factored in, as were the medium-term strategic initiatives contemplated by the firm.

Lar España has an updated risk map depicting the universe of risks that could affect the organisation. The risks listed below are the risks that have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2017, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- Management of REIT regime-related requirements
- The sale-purchase of real estate assets: Planning, information and execution.
- Property valuations
- Internal talent retention
- Reputation
- Socio-economic and political changes
- Board of Directors operation
- Financing activities
- Dependence on the investment/asset manager
- Accounting and financial information reporting
- Investor and media relations
- Integrity and security of the information
- Confidentiality

The risk monitoring process consists of tracking all internal and external variables that could help anticipate or foresee the materialisation of these or other risks of relevance to the Lar España.

E.4. State whether the company has a defined risk tolerance threshold, including with respect fiscal risk

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated, including tax risks, are evaluated considering various indicators of impact and likelihood.

Lar España's ERM system defines risk tolerance as “*the acceptable level of variation in outcomes relative to the achievement of objectives*”. The proposed risk tolerance criteria are used to prioritise and itemise the level of management and monitoring assigned to each risk category. Accordingly, the more critical the objective with which an identified risk is associated, the lower the level of tolerance accepted by Lar España.

Against this backdrop, three levels of risk have been defined: high, medium and low, depending on how critical the objective with which the risk is associated is deemed. The risk tolerance determination system is reviewed at least annually by the Audit and Control Committee.

E.5. State the risks, including fiscal risks, that materialised during the reporting period.

As far as the Company is aware, no material risks of any kind, including fiscal risks, materialised in 2017.

E.6. Outline the response and monitoring plans for the company’s key risk factors, including fiscal risk factors

The specific characteristics of Lar España, coupled with those of the business sector in which it operates, make it of tantamount importance to correctly monitor and update the various risks to which the organisation is exposed, including tax risks.

The level and frequency with which it monitors the risks identified varies as a function of the perceived importance or criticality of these risk factors and the level of effectiveness of the controls currently in place. Accordingly, Lar España has defined different scenarios for managing its risks: a) exhaustive analysis of the risks deemed highly critical to achieving an

adequate level of control; b) assessment and surveillance of risks deemed of medium importance to achieving adequate control as a function of the real level of risk; and c) rationalisation and optimisation of the controls applied to risks of relatively less importance. Based on these levels, Lar España has established four kinds of strategies in relation to the level of risk assumed in each instance:

- Reduction: this implies undertaking response activities designed to reduce the probability of occurrence or impact of the risk, or both simultaneously. This may entail the introduction of new controls or the improvement of existing ones.
- Sharing: a risk's probability of occurrence or impact can be reduced by transferring or sharing a portion of that risk (e.g., via insurance policies).
- Avoidance: this implies withdrawal from the risk-generating activities. In this instance, the risk response may be to get out of a given business unit or line and/or decide not to pursue new business activities associated with such risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact; risk is assumed at its inherent level as this is deemed appropriate for the activity and established objectives.

Lar España prioritises action plans depending on how critical the risks being mitigated are, the cost/benefit analysis of the proposed course of action and available resources. To this end, the organisation's most significant risks have been identified; work has begun on documenting these risks in individual risk files in order to enable enhanced monitoring. These files specify the controls in place and the key indicators (KRIs) that enable anticipation and/or monitoring of the associated risks. The plan is to further advance this risk management and monitoring process in the years to come.

Note that the Audit and Control Committee will periodically analyse the effectiveness of the organisation's risk map at least annually and will add, modify or disregard risks as warranted as a result of changes in the Company's strategic objectives, organisational structure, legislative environment, etc.

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the risk control and management systems as they affect your company's internal control over financial reporting (ICFR) system

F.1. The entity's control environment

Indicate the existence of at least the following components, describing their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR system; (ii) its implementation; and (iii) its monitoring.

The internal control over financial reporting (hereinafter, ICFR) system has been designed and configured to provide reasonable assurance as to the reliability of the financial information disclosed to the markets.

The bodies responsible for the existence and/or oversight of Lar España's ICFR model are:

Board of Directors

The Board of Directors is ultimately responsible for the existence and maintenance of a suitable and effective ICFR system.

To this end, article 5 of the Board Regulations reserves the following power to the Board in plenary session:

- “Approving the financial information which the Company must report periodically in its capacity as a listed entity”.
- “Approving the risk control and management policy and the periodic monitoring of the internal information and control systems”.

To achieve these objectives, the Board is assisted by its Audit and Control Committee, which is tasked with supervision of the ICFR system (with the help of the internal audit function). It is additionally supported by the work performed by the process owners tasked with implementation of the ICFR system and the firm's Corporate Management, which is ultimately responsible for ensuring the system is adequate and effective.

Each time the Board of Directors authorises annual financial statements for issue, in conjunction with approval of the annual corporate governance report, it approves and validates the existence of an effective ICFR system and its description.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties and powers to the Audit and Control Committee:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

As a result, the Audit and Control Committee's work is articulated and focused around four main areas:

- The risk identification and internal control system
- The review and approval of financial information
- The external audit of the annual financial statements
- Compliance with the law and the Company's body of internal rules and regulations

The Audit and Control Committee supervises effectiveness of the ICFR system by verifying that it addresses all the issues itemised in the securities market regulator's recommendations and reporting on its findings to the Board of Directors.

Corporate Management

The Corporate Management team is responsible for the design, implementation and workings of the ICFR system, which effort includes:

- *“Defining, proposing and implementing a model for generating financial information”.*
- *“Defining, implementing and documenting the ICFR system”.*
- *“Assisting the Audit and Control Committee in preparing the financial statements and other financial information and in selecting the criteria used in the process”.*
- *“Verifying, at least annually, the comprehensiveness and suitability of ICFR documentation and performance”.*
- *“Reporting on developments in terms of ICFR documentation to the Audit and Control Committee and to the Internal Audit Service so they are familiar with and can appraise such developments”.*

Internal Audit Service

The Audit and Control Committee has tasked the Internal Audit Service with assisting it with supervision of the ICFR system, which remit specifically includes:

- *“Supervising the operation of the ICFR system and its general controls and processes”.*
- *“Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter”.*
- *“Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process”.*
- *“Assisting Corporate Management to prepare reports on the status and description of the ICFR system”.*

Process owners involved in the financial reporting process

The parties responsible for the various processes related to the generation of financial information, whether internal or external, must perform specific activities, as dictated by Corporate Management guidelines, with a view to:

- *“Defining, documenting, and updating the internal processes and procedures”.*

- *“Executing the control activities as designed and intended and documenting evidence of their performance for traceability purposes”.*
- *“Reporting to Corporate Management on any change to their modus operandi or transactions that could trigger the need to update how their processes and controls are defined and documented and on any control shortcomings they may detect”.*
- *“Defining and implementing action plans in response to incidents observed within their sphere of responsibility”.*

Lar España has outsourced the performance of certain material financial reporting activities to specialist third parties (including investment and asset management, preparation of its financial, accounting and tax information and periodic appraisal of its assets). In respect of the ICFR function, Corporate Management ensures that these service providers perform the controls that, despite being executed by the latter, have been identified as key controls for the ICFR system. As part of this model, supervision of the Internal Audit Service is tasked to the Audit and Control Committee.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of duties and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company:**

Corporate Management, following the guidelines set by the Board of Directors, ensures the existence of an adequate organisational structure, allocation of roles and accountability and the staggered deployment of sufficient procedures, which are allocated among the parties intervening in the processes.

The Corporate Director can call on the resources, whether internal or external, he or she needs to manage the different activities of the Company, for assistance and advice. Against this backdrop, Lar España has entered into a Management Agreement with Grupo Lar under which the Manager undertakes to devote the staff and resources needed to fulfil its functions, including its financial reporting related duties.

Lar España's ICFR Manual provides that whenever the services provided by a “service organisation” are part of the Company's IT system, they must be encompassed by the IFRS evaluation process either by means of specific and direct assessment of the controls applied by the service organisation or by obtaining an internationally recognised SSAE certificate (Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization) or by carrying out alternative procedures. At the moment the second option is being carried out, through a third party confirmation, who provides accounting services.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

On 24 February 2015, the Board of Directors approved the Company's Code of Conduct, the purpose of which is to establish the guidelines governing the conduct of any and all people acting in the name of Lar España and its subsidiaries. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's Management Company, and any other person which could be related to Lar España even if they are not employees.

The body responsible for ensuring due compliance with, updating of and dissemination of the Code is the Audit and Control Committee.

Principle 4, regarding the recording of transactions and the financial reporting process specifies that *“Lar España pledges to ensure that the Company's financial information, most particularly its annual financial statements, reflects its financial reality, in keeping with applicable generally accepted accounting principles and international financial reporting standards. To this end, no professional may conceal or distort the information contained in the Company's accounting registers and reports, which must be complete, accurate and precise.*

The failure to honestly report the Company's financial information, whether internally - to employees, subsidiaries, departments, internal bodies, governing bodies, etc. - or externally - to auditors, shareholders/investors, regulatory bodies, media, etc. - violates this Code. The delivery of incorrect information, its incorrect configuration or any attempt to confuse its recipients are similarly deemed to constitute financial reporting misconduct”.

- **‘Whistle-blowing’ channel, for the purpose of reporting any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation to the audit committee, stating whether reports made through this channel are kept confidential.**

Article 14.3.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

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

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

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

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: canaldenuncia@larespana.com
- A confidential explanatory letter

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received
- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee is made up of the person who heads up the Company's internal audit function, the Secretary of the Board of Directors of Lar España and the Chairman of the Audit and Control Committee of Lar España.

The Code of Conduct and the Operating Rules Governing the Whistle-blowing Channel are available on Lar España's corporate website. These documents outline the procedures to be followed in handling any incidents reported.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Corporate Management, in its capacity as the party responsible for the design, implementation and operation of the ICFR system, is obliged to make sure that all staff involved in preparing the Group's financial statements have received sufficient and up-to-date training on the International Financial Reporting Standards (IFRS) and the internal control over financial reporting principles. Corporate Management directly checks with the accounting expert engaged to prepare the Company's financial and accounting information that the teams assigned to these activities have the required ICFR-related skills and knowledge.

The Corporate Director, who is responsible for ICFR, boasts an extensive background in accounting and financial reporting, acquired during his years in auditing and financial management work. He is in frequent contact with the financial statement auditor and the firm tasked with the accounting function during the year, addressing any issues that may arise and receiving updates from them on any developments with an impact on ICFR.

Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically including, as detailed in other sections, some of the activities related to the financial statement preparation process and the implementation and rollout of the ICFR system.

Lar España selects the service organisations to which it outsources these activities rigorously so that it works with specialist firms of renowned prestige that are chosen for their quality and expertise. Corporate Management ensures that these advisors indeed have the expertise required and continuous learning policies in respect of these areas of expertise.

In addition, the Internal Audit Plan prepared by the Internal Audit Service and approved by the Audit and Control Committee of Lar España contemplates the training needed by the people involved in these matters.

F.2. Financial reporting risk assessment

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- **The process exists and is documented.**

The process of identifying financial reporting risks, including risks of error or fraud, is one of the most important aspects of Lar España's ICFR methodology. This process is documented in an internal methodology guide explaining the ICFR management and assessment process: "Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMI".

Lar España has assessed the risk associated with its financial accounts. Having determined the level of risk associated with each account, the most significant risks were related with the Company processes which generate and control its material financial information. The purpose of this mapping exercise is to identify the processes or business units within the Group of greatest importance in terms of financial information generation.

Lar España has documented the most significant processes. In 2017, it revised the documentation prepared the year before. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company to mitigate the risks associated with each process. Having documented the majority of the most significant processes in prior years, the idea is to continue to flesh out and fine-tune this information for these and other processes related with the financial reporting function.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

As stipulated in the ICFR Manual, the significant processes documentation covers existing risks and defines controls related with different financial reporting objectives: existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations. The documentation is updated whenever significant changes occur and is additionally subjected to an annual review.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Article 5 of the Board Regulations states that the Board of Directors “reserves the power to define the structure of the corporate group”.

Against this backdrop, each year, Corporate Management takes responsibility for continually analysing the companies added to the scope of consolidation and notifying any such additions to the Audit and Control Committee, enabling knowledge of the companies included at all times.

One of the Audit and Control Committee's duties is to supervise the process of drawing up and presenting the financial information the Company has to disclose. Specifically, the Audit and Control Committee reviews the Group's consolidated financial information on the occasion of each quarterly close.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The process of identifying the risk of financial reporting error takes into consideration the impact of all classes of risks, whether operational, technological, financial, legal, reputational, environmental, or tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

The Company has a Risk Control and Management Policy which:

- Describes and analyses the components and activities of the risk management process *per se*;
- Defines the organisational approach and the roles and duties needed from an enterprise risk management (ERM) standpoint.

- Defines the model for monitoring (information and reporting) ERM activities.
 - Outlines the criteria for updating the ERM system.
- **Which of the company’s governing bodies is responsible for overseeing the process.**

The Audit and Control Committee is in charge of overseeing the effectiveness of the Company's internal controls and enterprise risk management systems, including its fiscal risk management controls, which remit specifically includes oversight of the ICFR system.

As stipulated in article 42 of the Articles of Association of Lar España and article 14 of the Board Regulations, the Audit and Control Committee is tasked with the duty of *“identifying the different types of risk (operational, technological, financial/reporting, legal, reputational, etc.) to which the Company is exposed, including within financial risks contingent liabilities and other off-balance-sheet risks”*.

F.3. Control activities

Indicate the existence of at least the following components and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations and projections.

As stipulated in article 40.3 of the Board Regulations, the Board of Directors establishes *“the precise measures needed to ensure that the half-yearly and quarterly financial information, and any other information that warrants public disclosure in keeping with prudent strategy, is prepared applying the same principles, criteria and professional practices as are used to draw up the annual financial statements so that the interim information is as reliable as the annual disclosures”*.

The Board of Directors is ultimately responsible for the existence and maintenance of an appropriate and effective ICFR system and has authority over the financial reporting function. It also approves the Risk Control and Management Policy and the periodic monitoring of the internal information and control systems established by Lar España. In order to perform these duties, it is assisted by the Audit and Control Committee, which, in conjunction with the Internal Audit Service, supervises the Company's ICFR system. The Board is also supported in this task by the process owners and Corporate Management, which is responsible for ensuring the ICFR system is appropriate and effective.

Lar España publicly discloses financial information quarterly. This information is prepared by a specialist external firm and reviewed by Corporate Management. The information is subsequently sent to the Audit and Control Committee for review.

This process is documented in an internal methodology guide explaining the ICFR management and assessment process: *“Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMP”*.

The Company's ICFR principles, definitions and management criteria are documented in its ICFR Manual.

Lar España has documented the organisation's General Controls and its most significant processes (including the period-end closing - providing for a specific review of critical judgements, estimates, valuations and projections -, revenue recognition, asset appraisals and property acquisitions). Last year, it also reviewed and updated the documentation detailing some of the processes related with the generation of financial information.

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. In 2017, Corporate Management continued the process of gradually implementing the policies and procedures itemised in the ICFR Manual.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

Lar España has outsourced its accounting services to a specialist firm. As a result, the Company does not have proprietary IT systems of significance to the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise both the outsourcing agreement and the financial information reported by this third party to ensure that it does not contain errors.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Since it has outsourced some of its financial reporting activities to a third party that is not part of Grupo Lar, Lar España has identified all of the organisations that provide it with services in the various business processes, determining the impact of their activities on the financial reporting system.

Specifically, the Company has identified certain services provided by third parties which are considered part of its financial reporting system. These services include the analysis performed to document and assess the ICFR system, with the outsourcing of the accounting function and the half-yearly asset appraisals to accredited and independent entities standing out in this respect.

As for the policies and procedures in place for evaluating and overseeing the management of outsourced activities, the Company has exhaustive external advisor engagement procedures that are designed to ensure the providers' competence, independence, expertise and legal know-how with respect to the services provided.

All of the information prepared by independent experts deemed material in respect of the financial statements is reviewed and validated by Lar España's Corporate Management.

F.4. Information and communication

Indicate the existence of at least the following components and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their

interpretation, which is in regular communication with the team in charge of operations.

Corporate Management is responsible for informing and communicating, internally and externally, the main accounting policies applied and for resolving any queries about their application.

Lar España has an effective and duly-approved Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the organisation's companies.

The book-keeping process *per se* is handled at present by an outsourced, prestigious, specialist firm which is working with Lar España on the definition and application of accounting criteria, in keeping with prevailing legislation. This process is supervised continually by Corporate Management, which reports to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor is contacted as required to confirm certain stances taken in order to resolve any questions and avoid any potential conflicts arising from the interpretation of any given accounting standard.

Lastly, the Board of Directors approves the financial information which the Company must report periodically in its capacity as a listed entity.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

As already noted in section F.4.1 above, the book-keeping process and the preparation of the Company's individual and consolidated financial statements have been outsourced to a prestigious, specialist firm.

Nevertheless, Lar España and the external firm that provides the accounting services have mechanisms for the capture and preparation of financial information, configured with adequate formats and applications, which are used on an across-the-board basis at all Group units and companies. In addition, the Company has established adequate controls over the financial preparation and reporting process. Lastly, Corporate Management supervises and reviews the financial information before presenting it to the Audit and Control Committee.

F.5. System monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. Describe the ICFR monitoring activities performed by the audit committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Also describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The Audit and Control Committee is the advisory body through which the Board of Directors supervises the ICFR system. Against this backdrop, article 14 of the Board Regulations attributes multiple duties to the Audit and Control Committee, specifically including the following:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

The Audit and Control Committee is assisted by the Internal Audit Service in overseeing the ICFR system, to which end the latter function's work includes the following tasks:

- Supervising the operation of the ICFR system and its general controls and processes.
- Including supervision of the critical ICFR-related processes within the Business Plan and the Annual Internal Audit Plan.
- Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter.
- Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process.
- Assisting Corporate Management with preparation of reports on the status and description of the ICFR system.

The Internal Audit Plan is approved annually by the Audit and Control Committee at the end of each year or in the early months of the following year. This Plan defines a work and process schedule which customarily includes supervision of implementation of the ICFR function. The Internal Audit Service periodically reports to the Audit and Control Committee on progress on executing the Plan and its results.

The gradual rollout of the ICFR system continued in 2017, identifying the most critical accounts and processes and working to document them in detail. Also, the processes for asset valuation, incomes, and accounts consolidations without finding any significant evidence. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Corporate Management and the Audit and Control Committee reviewed the financial information submitted to the securities market regulator (and its timeliness) quarterly.

The ICFR Manual contemplates the annual assessment and oversight of the system's various components.

F.5.2. Indicate whether there is a discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As already noted, Lar España is implementing its ICFR system and documenting the most critical processes gradually. It is worth noting in this respect that Corporate Management meets regularly with the external auditor to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

In addition, all required steps were taken to enable the provisions of the Board Regulations with respect to its mandate to the Audit and Control Committee, specifically that of:

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process and adopting the opportune measures for addressing them, as required.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee or for any other purpose related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards.

F.6. Other relevant disclosures

Not applicable.

F.7. External auditor report

State whether:

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

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

G**DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE
RECOMMENDATIONS**

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

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

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

Compliant Explain

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

Compliant Partially compliant Explain Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) **Changes taking place since the previous annual general meeting.**
- b) **The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant Partially compliant Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant Explain

Lar España has a formal policy of communication and contact with shareholders, institutional investors and proxy advisors.

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

In keeping with prevailing legislation and regulations, as well as the Company's Articles of Association, and subject to the prerequisite that any candidate put forward must be duly qualified to serve as a member of the Board of Directors, and once his or her candidacy has been approved by the Company's Appointments and Remuneration Committee (which approval may not be withheld, conditioned or delayed without good reason), the Management Company is entitled to require the Board of Directors to present the following appointments to the Company's shareholders in general meeting:

- (i) one non-executive director of the Company appointed by the Management Company, on the condition that the Board of Directors is made up of five members or fewer; or
- (ii) up to two non-executive directors appointed by the Management Company, to the extent that the Board of Directors is made up of more than five people.

Subject to delivery of the above-listed prerequisites, the Management Company is entitled to require the Board of Directors to submit to the shareholders in general meeting a resolution to revoke or substitute any person who has been appointed a member of the Board of Directors on the understanding that, in the event of revocation, the Management Company shall indemnify and exonerate the Company (and any member of its group) from any liability in respect of any costs, losses, liability and/or charges whatsoever sustained by the entity in question as a result of the revocation.

No Company director appointed by the Management Company under the terms of this clause shall receive fees or other remuneration from the Company for his or her services as such.

The Chairman of the Board of Directors is entitled to require the presence of the Chairman of Grupo Lar at the meetings of the Board of Directors, and the Management Company must endeavour to have the Chairman of the Grupo Lar attend such meetings when so required, barring material impediment. This attendance requirement is enabled and regulated in the Company's Articles of Association and its Board Regulations.

17. Independent directors should be at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Compliant 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 X Explain

22. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant X Partially compliant Explain

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant X Partially compliant Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant 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

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.**
- b) The performance and membership of its committees.**
- c) The diversity of board membership and competences.**
- d) The performance of the chairman of the board of directors and the company's chief executive.**
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Compliant Partially compliant Explain Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant Partially compliant Explain Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant Partially compliant Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant Partially compliant Explain Not applicable

42. The audit committee should have the following functions over and above those legally assigned.

1. With respect to internal control and reporting systems:

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

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

50% of the Appointments and remuneration Committee are independent

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 X

Lar España and its Remuneration Policy does not consider variable awards

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant Partially compliant Explain Not applicable X

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Partially compliant Explain Not applicable X

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable X

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant Partially compliant Explain Not applicable X

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain Not applicable X

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant Partially compliant Explain Not applicable X

H**OTHER INFORMATION OF INTEREST**

- 1. If you consider that there is any material corporate governance related matter relating to your company or its group that has not been addressed anywhere else in this report that is necessary to provide a more comprehensive and substantiated picture of corporate governance structure or practices at your company or its group, outline them briefly here.**
- 2. You may include in this section other relevant, but not reiterative, information, clarification or qualification related to the earlier sections of this report.**

The breakdown of the indirect and direct holders of significant interests in Lar España reported in section A.2 corresponds with the breakdown gleaned from the CNMV's shareholder records as of year-end.

This annual corporate governance report was approved by the Company's Board of Directors on February 23rd 2018.

Specifically, indicate whether the company is subject to the corporate governance legislation of any country other than Spain and, if so, include any mandatory disclosures that are different from those required for this report.

- 3. State also whether the company voluntarily subscribes to other business ethics or corporate governance codes, whether international, sector-specific or other. If so, identify the codes applied and the date of adhesion. State specifically whether the company subscribes to the Good Tax Practice Code (of 20 July 2010).**

Indicate whether any directors voted against or abstained from voting on the approval of this report:

Yes No

Name or company name of any directors who did not vote in favour of authorising this report for issue.	Reason (vote cast against abstention non-attendance)	Explanation for the reason given

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Assurance' report on the 2017
"Information Relating to the system of
internal control over financial reporting
(ICFR)" of the LAR ESPAÑA REAL
ESTATE SOCIMI, S.A.

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 2017 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2017

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 11 December 2017, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for 2017, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by Lar España in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of Lar España was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2017 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

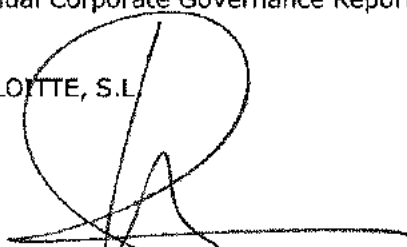
Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of 22 December, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.


Antonio Sánchez-Covisa Martín-González
Partner
February 23rd, 2018