

## Appendix I

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

#### DATA IDENTIFYING THE ISSUER

**Financial year end:**

31/12/2018

**Tax ID no. (CIF):**

A-86918307

**Registered business name:**

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

**Registered office:**

Rosario Pino 14-16, Madrid.

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

**ANNUAL CORPORATE GOVERNANCE REPORT FORM <sup>(1)</sup> FOR PUBLICLY LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
28/12/2018	186,438,088.00	93,219,044	93,219,044

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

Yes  No

Class	Number of shares	Unit par value	Unit no. of voting rights	Different rights

**A.2 List the company's significant direct and indirect shareholders at year-end, excluding directors:**

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name or company name of the direct shareholder	Number of voting rights	
BLACKROCK INC.	0		2,778,497	3.679%
BRANDES INVESTMENT PARTNERS, L.P.	0		4,555,489	5.031%
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	4,570,501		0	4.934%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		7,322,773	7.905 %
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	9,476,400		0	10%
PIMCO BRAVO II FUND, L.P.	0		18,157,459	19.603%
SANTA LUCIA S.A. CIA DE SEGUROS	1,839,025		1,046,029	3.115%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4,548,507	5.024%

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

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

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

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

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

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

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of the direct shareholder	Number of voting rights	

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

<b>Name or company name of related party</b>	<b>Type of relationship</b>	<b>Brief description</b>
Miguel Pereda y Grupo Lar Inversiones Inmobiliarias, S.A.		Miguel Pereda is part of the Pereda family, owner of Grupo Lar Inversiones Inmobiliarias, S.A.

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

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

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

Yes  No

<b>Shareholders bound by agreement</b>	<b>% of share capital affected</b>	<b>Brief description of agreement</b>

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

Yes  No

<b>Parties to the concerted actions</b>	<b>% of share capital affected</b>	<b>Brief description of the concerted action</b>

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

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

Yes  No

Name or company name
Observations

**A.8** Complete the following tables on the company's treasury stock:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
164,925	0	0.177%

(\*) Held through:

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

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

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

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

At the Annual General Meeting held in May, 2017, the Company's shareholders resolved to delegate in the Board of Directors, or any of its members, for a five-year term:

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

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

Estimated free float	70%
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- A.10** Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

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

Yes  No

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

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

Yes  No

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

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

Yes  No

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

**B** GENERAL MEETING

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

Yes  No

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

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

Yes  No

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

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

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

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

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

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

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

Yes  No

**B.6** Section repealed

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

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

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



**C** CORPORATE GOVERNANCE STRUCTURE

**C.1 Board of Directors**

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

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

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

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

<b>Total number of directors</b>	7
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**Indicate any members who stepped down during the reporting period:**

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

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

**EXECUTIVE DIRECTORS**

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

Total number of executive directors	
% of total board members	

**EXTERNAL PROPRIETARY DIRECTORS**

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

<b>Total number of proprietary directors</b>	2
<b>% of total board members</b>	28.57%

**EXTERNAL INDEPENDENT DIRECTORS**

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

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

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

<b>Total number of independent directors</b>	5
<b>% of total board members</b>	71.43%

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

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

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

### OTHER EXTERNAL DIRECTORS

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

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

Total number of other external directors	
% of total members	

List any changes in director classification during the reporting period:

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

**C.1.4 Fill in the following table detailing the number of female directors serving on the board during the last four years and their classification:**

	Number of female directors				% of each directorship category			
	2018	2017	2016	2015	2018	2017	2016	2015
<b>Executive</b>	0	0	0	0	0	0	0	0
<b>Proprietary</b>	0	0	0	0	0	0	0	0
<b>Independent</b>	2	1	0	0	40%	20%	0	0
<b>Other external</b>	0	0	0	0	0	0	0	0
<b>Total:</b>	2	1	0	0	29%	14%	0	0

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

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

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

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

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

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

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

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

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

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

The director selection policy was drawn up in 2015 and approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016. It specifically states the target of having 30% of its membership occupied by women by 2020. The selection policy was also reviewed in 2018 with the aim of emphasising the provisions that would foster the diversity in the Board, among others.

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

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

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

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

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

Name or company name of shareholder	Reasons

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

Yes  No

Name or company name of shareholder	Explanation

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

Yes  No

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

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

Yes  No

Name or company name of shareholder	Brief description



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

<b>Name or company name of director</b>	<b>Registered name of the group company</b>	<b>Position</b>	<b>Do they have executive duties?</b>
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL VIDANOVA PARC, S.L.U. (before LE RETAIL SAGUNTO, S.L.U.)	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO II, S.L.U. (before LAR ESPAÑA OFFICES VI, S.L.U.)	Joint and Several Director	No
Miguel Pereda Espeso	LE RETAIL VILLAVERDE, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALBACENTER, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES MARCELO SPINOLA 42, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL LAS HUERTAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL TXINGUDI, S.L.U.	Chairman of the Board of Directors	No

Miguel Pereda Espeso	LE RETAIL ANEC BLAU, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GRAN VÍA DE VIGO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ABADÍA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS I, S.L.U	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS II, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS III, S.L.U	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL RIVAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	INMOBILIARIA JUAN BRAVO 3 S.L.	Director of the Board of Directors	No
Roger Maxwell Cooke	INMOBILIARIA JUAN BRAVO 3 S.L.	Chairman of the Board of Directors	No

**C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, other than your own group, insofar as these have been reported to the company:**

<b>Name or company name of director</b>	<b>Registered name of the group company</b>	<b>Position</b>
Jose Luis del Valle	Abengoa, S.A. Wizink bank	Independent Director Chairman and Independent Director
Leticia Iglesias	Abanca Corporación Bancaria	Member of the Board, President of the Audit and Control Committee and Member of the Integral Risk Committee
Isabel Aguilera	Oryzon Genomics	Independent Director

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

Yes  No

<b>Explanation of the rules</b>
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:**

<b>Board remuneration (thousands of euros)</b>	504
<b>Amount accrued by serving directors in respect of pension entitlements (thousands of euros)</b>	
<b>Amount accrued by former directors in respect of pension entitlements (thousands of euros)</b>	

**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:**

<b>Name or company name</b>	<b>Position(s)</b>
Jon Armentia Mendaza	Corporate Director and CFO
Susana Guerrero Trevijano	Legal Director
Hernán San Pedro López de Uribe	Director of Investor Relations
Sergio Criado Cirujeda (*)	CFO
<b>Total senior management remuneration (in thousands of euros)</b>	437

(\*) January – October 2018

**C.1.17 Indicate the identity of any board members who likewise sit on the boards of directors of companies having significant shareholdings and/or their group companies:**

<b>Name or company name of director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias, S.A	Director
Laurent Luccioni	Pimco Europe, Ltd	Director

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

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

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

Yes  No

**Description of the amendments**

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

Lar España has a director selection policy, which was approved by the Appointments and Remuneration Committee on 20 January 2016. It was designed with the following objectives in mind:

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

The criteria set down in that policy are the following:

**1. Director aptitudes**

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

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

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

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

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

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

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

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

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

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

## **2. Fostering the diversity in the Board of Directors**

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

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

## **3. Director selection and appointment procedure**

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

### **3.1. Proposal**

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

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors. Against this backdrop, it will define the duties and aptitudes required of the candidates to fill each vacancy and assess the time and dedication needed so that they can duly perform their remit.

ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

### **3.2. Candidacy presentation**

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

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

### **3.3. Evaluation of the candidacy**

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

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

### **3.4. Appointment**

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

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

#### **4. Director evaluation and removal**

Director evaluation shall take two forms:

i. Annual assessment of director qualifications

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

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

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

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

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

**Description of changes:**

**C.1.20. bis Describe the evaluation process and the areas evaluated by the board, with the assistance of an external facilitator as the case may be, with respect to the diversity of its membership and competences, the performance and membership of its committees, the performance of the chairman of the board of directors and the company's chief executive and the performance and contribution of each individual director.**

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

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

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

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

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



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

**C.1.20.ter Give a breakdown, as the case may be, of the business dealings that the facilitator or any company in its corporate group maintains with the company or any company in its corporate group.**

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
  - a. When they resign from the executive position associated with their directorship.
  - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.
  - c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
  - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).
  - e. When they become members of more than four boards of directors of other companies (other than the Company).
  - f. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause. Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

**C.1.22 Section repealed**

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

Yes  No

**Describe the differences, if any:**

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

Yes  No

Description of the requirements

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

Yes  No

Matters for which the chairman has the casting vote
Board resolutions are carried with the favourable vote of the straight majority of attending directors, whether physically present or duly represented, except where the law, the Articles of Association or Board Regulations provide for other quorums. In the event of a draw, the Chairman has the casting vote (Article 39.2 of the Articles of Association).
The quorum for validly calling Audit and Control Committee meetings to order shall be half plus one of the directors who sit on this Committee and resolutions shall be carried by majority vote. In the event of a draw, the Chairman has the casting vote (Article 42.2 of the Articles of Association, Article 14.5 of Board Regulation and article 8.2 of Audit and Control Committee's Regulation).
Likewise, the Chairman of the Appointments and Remuneration Committee, which is independent, has a casting vote in the event of a draw (Article 15.7 of the Regulations of the Board)

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

Yes  No

Age limit for chairman

Age limit for CEO

Age limit for directors

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

Yes  No

Maximum term of office (years)	
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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:**

<b>Number of board meetings</b>	16
<b>Number of board meetings held without the chairman in attendance</b>	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.**

<b>Number of meetings</b>	
---------------------------	--

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

<b>Number of executive committee meetings</b>	N/A
<b>Number of audit &amp; control committee meetings</b>	7
<b>Number of appointments and remuneration committee meetings</b>	9
<b>Number of nomination committee meetings</b>	N/A
<b>Number of remuneration committee meetings</b>	N/A
<b>Number of sustainability committee meetings</b>	N/A

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

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

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

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

<b>Number of meetings held with all members in attendance</b>	11
<b>% attendance over total votes cast in the year</b>	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:**

<b>Name</b>	<b>Position</b>

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

In keeping with article 41.3 of the Board Regulations, the Board of Directors must endeavour to authorise the annual financial statements such that they do not give rise to reservations or qualifications in the auditor's report. In the unlikely instance that they were to arise, both the Chairman of the Audit and Control Committee and the external auditor must provide shareholders with a clear account of the content of such reservations or qualifications. Nonetheless, when the Board considers that its criteria should prevail, it shall publicly disclose the content and scope of the discrepancy.

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

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

Yes  No

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

<b>Name or company name of the secretary</b>	<b>Representative</b>
Juan Gómez-Acebo	

### **C.1.34 Section repealed**

### **C.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.**

Article 14.3 of the Board Regulations stipulates, notwithstanding any other duties that may be vested in it from time to time by the Board of Directors, that the Audit and Control Committee, among other, shall have the following basic duties:

- f. Proposing to the Board of Directors, for submission at the Annual General Meeting, the appointment, re-election or replacement of the auditor, in keeping with applicable legislation, and the terms and conditions of its engagement; obtaining from the auditor regular feedback on execution of the audit plan; and ensuring that the auditor acts independently in carrying out its duties.
- h. Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee, and on any other matters related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation.
- i. Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report and opinion must extend to the provision of the additional services referred to above, considered individually and as a whole, other than the legally-stipulated financial statement audit service, in relation to the independence regime and/or audit regulations.

Further, article 14.3.point C of the Board Regulations states that the Audit and Control Committee's duties include that of safeguarding the independence of the external auditor, specifically undertaking the duties of: (i) notifying the securities market regulator of any change in auditor, accompanied by a statement of the fact of disagreement with the outgoing auditor, if any, and the nature of such disagreement, in the form of a price-sensitive filing; (ii) ensuring that the Company and the auditor uphold prevailing rules governing the provision of non-audit services and, in general, the other rules in place to safeguard auditor independence; (iii) should the auditor resign, investigating the circumstances giving rise to such decision; and (iv) in the case of groups, urging the group auditor to take on the auditing of all constituent companies.

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

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

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

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

Yes  No

Outgoing auditor	Incoming auditor

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

Yes  No

Explanation of the disagreements

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

Yes  No

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

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

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

Yes  No

Explanation of the reasons

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

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

	<b>Company</b>	<b>Group</b>
Number of consecutive years	5	5

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

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

Yes  No

**Details of the procedure:**

Article 26 of the Board Regulations stipulates:

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

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

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

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

Yes  No

**Details of the procedure:**

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings must be called with at least three days' notice. The call notice must always include the meeting agenda and be accompanied by the relevant information, duly summarized and documented.

4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum

notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.
2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.
3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.
4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

**C.1.42 Indicate whether the company has any rules obliging directors to inform the board of any circumstance that might harm the organisation's good name or reputation and tendering their resignation as the case may be:**

Yes  No

**Details of the rules**

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.
2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.
3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings. If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

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

**C.1.43 Indicate whether any member of the board of directors has notified the company that he or she has been indicted or tried for any of the offences listed in article 213 of the Spanish Corporate Enterprises Act:**



Yes  No

Name of director	Offence	Observations

Indicate whether the board has analysed the case. If so, give a substantiated explanation of the decision taken as to whether or not the director in question should remain in office and, as warranted, outline the actions taken or planned by the board of directors as of the date of this report.

Yes  No

Decision/action taken	Substantiated explanation

**C.1.44** List any significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

**C.1.45** Indicate (individually and on aggregate) the agreements between the company and its directors, officers or employees that provide for termination benefits or guarantee or golden parachute clauses upon their resignation or unfair dismissal or termination of the employment relationship as a result of a takeover bid or other kind of transaction.

Number of beneficiaries	
Type of beneficiary	Description of the agreement

Indicate whether these agreements must be reported to and/or approved by the governing bodies of the company or its group:

	Board of directors	General meeting
Body authorising the clauses		

	Yes	No
Are shareholders informed of these clauses in general meeting?		

## C.2. Board committees

**C.2.1 List all the board committees, their members and their make-up in terms of proprietary and independent directors:**

### **EXECUTIVE OR STEERING COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Job category</b>

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

#### **Duties**

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee. The rules governing the make-up and operation of the Executive or Steering Committee are set forth in article 41 of the Articles of Association and article 13 of the Board Regulations.

#### **Organisation and operation**

The Executive Committee shall comprise at least three and at most seven members, and it may also appoint a Chief Executive Officer at the proposal of the Chairman of the Board of Directors; the Board of Directors may delegate in them, on a temporary or permanent basis, any and all powers that are not reserved to the Board under law. Valid delegation and the designation of the members of the Board of Directors to such positions shall require the favourable vote of two-thirds of the members of the Board of Directors and shall not take effect until the resolution has been duly registered in the Companies Register.

The Company shall endeavour, to the extent possible, to have the composition of the Executive Committee mirror that of the Board of Directors in terms of the mix of director types. The Secretary of the Board of Directors shall also serve as the Secretary of the Executive Committee.

The Chairman of the Executive Committee shall report to the Board of Directors on the matters debated and resolutions taken at its meetings; it shall record the minutes of all its meetings and submit copies thereof to all of the Board members.

#### **Activities**

Note that Lar España did not avail of this power to set up an Executive Committee in 2018.

**Indicate whether the composition of the executive or steering committee reflects the representation on the board of the different classes of directors:**

Yes  No

**If not, describe the composition of the executive or steering committee**

### AUDIT COMMITTEE

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

% of proprietary directors	0
% of independent directors	100
% of other external directors	0

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

#### Duties

As outlined in article 42.2 of Lar España's Articles of Association, article 14.3 of its Board Regulations and article 5.1 of the Audit and Control Committee's Regulation, and notwithstanding any other duties vested in it by law or entrusted to it by the Board of Directors, the Audit and Control Committee shall have, at least, the following responsibilities: a) supervising calculation of the fees received by the Management Company in the course of performing its duties; b) reporting at the General Meeting on those matters raised by shareholders concerning the areas falling under its remit; c) supervising effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems; d) analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process; e) monitoring the process of drawing up and disclosing regulated financial information; f) proposing the appointment, re-election or replacement of the account auditor to the Board of Directors for submission at the general meeting, in keeping with prevailing regulations; g) supervising the work of the Company's internal audit service; h) establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the auditing process. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation; i) issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report should refer specifically to the provision of the non-audit services referred to above; j) naming and supervising the external asset appraisers commissioned to value the Company's assets; and k) reporting, before resolutions have to be taken, to the Board of Directors on all matters contemplated in prevailing law, the Articles of Association and the Board Regulations, particularly with respect to: (i) the financial information the Company must disclose periodically; (ii) monitoring of the information and internal control systems; (iii) the supervision of the management and risk control; (iv) the supervision of the fulfilment of the legal requirements and internal regulations of corporate governance of the Company; (v) and the transmission of the information to the Board of Directors, prior to the adoption by the Board of relevant decisions on related transactions.

## **Organisation and operation**

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

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

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

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

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

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

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

## **Activities**

The Audit and Control Committee met 7 times during 2018.

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

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

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

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

## **APPOINTMENTS AND REMUNERATION COMMITTEE**

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

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

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

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

### **Duties**

Pursuant to article 43.2 of the Articles of Association and article 15.4 of the Board Regulations, and notwithstanding any other duties vested in it by law or assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have, at least, the following basic duties: a) evaluating the universe of skills, knowledge and experience needed on the Board of Directors; b) establishing a targeted level of representation for the gender in minority on the Board of Directors and establishing guidelines for how to achieve this target; c) raising to the Board of Directors: (i) proposals for the appointment of independent directors for designation; and (ii) proposals for the re-election or removal of such directors for submission to the shareholders in general meeting; d) reporting on: (i) proposals for the appointment of all other classes of directors; and (ii) proposals for their re-election or removal for submission to the shareholders in general meeting; e) reporting on proposals to appoint or remove senior officers and the basic terms and conditions of their contracts; f) analyzing and organizing the succession of the chairman of the Board of Directors and the Company's chief executive officer and making recommendations, as warranted, to the Board of Directors so that succession planning is executed in a planned and orderly manner; and g) making proposals to the Board of Directors with respect to remuneration policy applicable to the Company's directors and its senior officers or those who carry out senior management duties and report directly to the Board or its executive or delegated committees and the individual remuneration and other contractual terms of any executive directors, overseeing observance with such policies.

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

### **Organisation and operation**

The Board Regulations stipulate the Committee's remit and its rules of organisation and operation. The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board from amongst its external members, at the proposal of the Chairman of the Board.

The Board shall appoint a Committee chair from among the independent directors comprising the Committee. The Secretary of the Board shall also serve as the Secretary of the Appointments and Remuneration Committee.

The directors sitting on the Committee, who must be mostly independent and possess the right balance of knowledge, skills and experience for the functions they are called on to discharge, shall hold their offices as long as their appointments as Company directors remain valid, unless the Board resolves otherwise. The renewal, re-election and dismissal of the members of the Committee shall be governed by the terms and conditions agreed by the Board of Directors.

The Appointments and Remuneration Committee shall meet, ordinarily, at least once a year. Similarly, the Committee shall meet when called on to do so by any of its members and whenever convened by its Chairman, who in turn is obliged to do so whenever the Board or its Chairman requests it to issue a report or adopt a resolution, and, in any event, whenever a meeting is considered advisable to correctly fulfilling its duties.

The quorum for validly calling Appointments and Remuneration Committee meetings to order shall be the majority of its members, present or duly represented, and its resolutions shall be ratified by means of majority vote. In the event of a draw, the Committee Chairman shall have the casting vote. Committee meetings shall be minuted and a copy sent to all Board members.

The Committee shall consult with the Chairman, especially on matters relating to executive directors and senior officers.

### **Activities**

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

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

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

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



• **COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class of director</b>

% 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:**

	<b>Number of female directors</b>			
	<b>2018 Number %</b>	<b>2017 Number %</b>	<b>2016 Number %</b>	<b>2015 Number %</b>
<b>Executive committee</b>	N/A	N/A	N/A	N/A
<b>Audit committee</b>	2-67%	1-33%	0	N/A
<b>Appointments and remuneration committee</b>	0	0	0	N/A
<b>Nomination committee</b>	N/A	N/A	N/A	N/A
<b>Remuneration committee</b>	N/A	N/A	N/A	N/A
<b>___committee</b>	N/A	N/A	N/A	N/A

**C.2.3 Section repealed**

**C.2.4 Section repealed**

**C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees, where they are available for consultation and any amendments to the same during the financial year. State whether any annual report has been drawn up voluntarily on the activities of each committee.**

The Board Regulations rule on the operation of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). Furthermore, the Audit and Control Committee has its own operating regulations approved on December 27, 2017. The Board Regulations and the Audit and Control Committee's Regulation are available on the corporate website under the following link:

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

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

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

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

**C.2.6 Section repealed**

## D

**RELATED PARTY AND INTRA-GROUP TRANSACTIONS****D.1. Outline the procedure, if any, in place for approving related-party and intra-group transactions.**

The Board's powers include approving, subject to a prior report by the Audit and Control Committee, related-party transactions, as defined under prevailing applicable legislation (article 5.4.o of the Board Regulations).

The Audit and Control Committee's duties include reporting to the Board of Directors before the latter takes the corresponding decisions regarding related-party transactions, as defined under prevailing applicable legislation (article 14.3.d.iii of the Board Regulations).

However, Board authorisation shall not be required for related-party transactions that simultaneously meet the following three conditions: (i) they are governed by standard-form agreements applied on an across-the-board basis to a large number of customers; (ii) they go through at market rates, generally set by the person supplying the goods or services; and (iii) their amount is no more than 1% of the Company's annual revenues (article 37.3 of the Board Regulations).

The Investment Management Agreement in force between Grupo Lar Inversiones Inmobiliarias, S.A. as Management Company and Lar España Real Estate SOCIMI, S.A. as the Company Managed, entered into on 12 February 2014, and its renewal and modification carried out on January 19, 2018, and made effective January 1, 2018, specifies that, without prejudice to the prerogatives and powers that the Manager has to act on behalf of the Company in the framework of said contract, will require prior express approval in writing by the Board of Directors of Lar España, among others, "*transactions and situations with related parties that may give rise to a conflict of interest situation in relation to the Manager and the Management Team, including any transaction with third parties under which the Manager is entitled to receive any compensation, commission or retribution*"(clause 5 (ix))

**D.2. List any transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's significant shareholders:**

<b>Name or company name of significant shareholder</b>	<b>Name or company name of the company or its group company</b>	<b>Nature of the relationship</b>	<b>Nature of the transaction</b>	<b>Amount (thousands of euros)</b>
Grupo Lar Inversiones Inmobiliarias S.A.	Grupo Lar Inversiones Inmobiliarias S.A.	Contract	Management contract	35,204
Grupo Lar Inversiones Inmobiliarias S.A	Gentalia 2006, S.L	Contract	Management contract	2,516

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

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

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

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

<b>Name of the group company</b>	<b>Brief description of the transaction</b>	<b>Amount (thousands of euros)</b>

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

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

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

**D.6. List the mechanisms established to detect, analyse and resolve any possible conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.**

Article 31 of the Board Regulations

A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of the director clash, directly or indirectly. The director shall be deemed to have a personal interest in a matter when that matter affects him or a person related to him or, in the case of a proprietary director, the shareholder(s) that proposed his appointment or persons related directly or indirectly to them.

For Board regulation purposes, the following definitions apply:

- a. Persons related to natural person directors:
  - i. Their spouses or significant others.
  - ii. The ancestors, descendants and siblings of the director and of the spouse (or significant other) of the director.
  - iii. The spouses of the ancestors, descendants and siblings of the director.
  - iv. The companies or entities at which the director or any of his related parties, directly or through a representative, fulfils any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
  - v. The companies or entities at which the director or any of his related parties, directly or through a representative, holds a directorship or management position or from which he receives any compensation for any reason.

vi. In the case of proprietary directors, additionally, the shareholders appointing him as their representative.

b. Persons related to legal person directors:

i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.

ii. The companies in the same group, as group is defined in article 42 of of Spain's Code of Commerce, and their owners.

iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.

iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

Directors are obliged to report the existence of conflicts of interest to the Board of Directors and abstain from intervening as Company representative in the transaction underlying the conflict in question, except as carved out in applicable legislation.

#### Internal Securities Markets Code of Conduct

A conflict of interest is deemed to exist when the Bound Parties meet any of the following conditions in relation to the entities referred to in this article:

1. Serves as a director or senior executive.
2. Owns a significant interest (understood in the case of a company listed on any official Spanish or foreign stock exchange as the shareholdings referred to in article 53 of the Spanish Securities Markets Act and enacting regulations, and in the case of unlisted Spanish or foreign companies, any direct or indirect shareholding of over twenty per cent of issued share capital).
3. Has kinship within the second degree by affinity or third degree of consanguinity with the Company's directors, owners of significant shareholdings or senior executives.
4. Has significant contractual relationships, direct or indirect.

Conflicted Bound Parties must observe the following general codes of conduct:

**Independence:** Bound Parties must act in good faith in what they consider to be the interests of the Company and its shareholders, irrespective of their own or other interests. Accordingly they must refrain from placing their own interests over those of the Company, and from placing the interests of one shareholder over those of others.

**Abstention:** Bound Parties must abstain from participating in or influencing decisions that may affect conflicted persons or entities and from obtaining confidential information concerning the conflict in question.

**Disclosure:** Bound Parties must notify the head of compliance of potential conflicts of interest deriving from their activities outside of the Company, their family relationships, their personal finances or arising on any other grounds with:

- a. The Company or any of the companies comprising Grupo Lar España.
- b. Significant suppliers or customers of the Company or the companies comprising Grupo Lar España.

c. Entities devoted to the same business as or that compete with the Company or any of its subsidiaries.

Any questions regarding a potential conflict of interest must be addressed to the head of compliance. The final decision is ultimately the responsibility of the Audit and Control Committee.

Code of Conduct

A conflict of interest is understood to arise whenever any of the Bound Parties who must decide, perform or omit an action, in the course of his or her job duties, faces the option of choosing between the interests of the Company and his/her own interests or those of a third party, such that choosing those of either of the latter two would benefit a third party, giving rise to a gain that would otherwise not accrue.

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

Yes  No

**Identify the subsidiaries listed in Spain:**

Listed subsidiaries

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

Yes  No

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

**E.1. Explain the scope of the company's risk management system, including the fiscal risk management system.**

The enterprise risk management (ERM) system of de Lar España Real Estate SOCIMI, S.A. and subsidiaries (hereinafter, Lar España) has been implemented at the corporate level and is designed to mitigate the risks (including fiscal risks) to which the organisation is exposed on account of its business activities. This system establishes the policy for identifying, assessing, prioritising and managing risks effectively and efficiently, factoring in the Company's specific circumstances and the economic and regulatory environments in its operating markets. The system's overriding goal is to guarantee reasonable assurance that the Company will be able to achieve its strategic, operating, reporting and compliance objectives. The system is aligned with the key guidelines established in the "Enterprise Risk Management - Integrated Framework. Committee of Sponsoring Organizations of the Treadway Commission (COSO)" report (hereinafter, COSO).

As set out in its ERM system, Lar España views risk management as a continuous and dynamic process which encompasses the following steps:

- Identification and assessment of the risks that may affect the organisation, evaluating their probability of occurrence and potential impact.
- Identification of the controls in place for mitigating these risks.
- Identification of the processes in which these risks are generated and controls performed, determining the relationship between the organisation's key risks and processes.
- Evaluation of the effectiveness of the controls in place to mitigate these risks.
- Design of action plans in response to the risks identified.
- Risk monitoring and reporting.
- Ongoing evaluation of the suitability and effectiveness of the system in use and benchmarking of best practices and recommendations in risk management.

Ultimately, having identified the risks and analysed the suitability and effectiveness of the decisions taken to mitigate them, management, under the supervision of the internal audit function, establishes risk management priorities and the measures to be implemented, ensuring that the Company's processes are performed and working as intended.

**E.2. Identify the bodies responsible for designing and implementing the enterprise system for managing risks, including fiscal risks.**

The enterprise risk management (ERM) system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain risk management activities are performed by specialist service providers which assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar
- Preparation of the organisation's financial, accounting and tax information
- Regular asset valuations/appraisals

However, Lar España follows detailed processes for supervising the third parties responsible for these outsourced services to ensure that these suppliers perform the activities contemplated in the ERM model.

The main participants in the ERM model are:

### **Process manager or owner or of the business unit**

These people are directly responsible for managing risk in its everyday manifestations; their work encompasses the identification, analysis, assessment and management of the risks which are crucial to delivery of the objectives set for each area, under the scope of current business plans.

### **Risk officer**

The risk officer's job is to analyse and consolidate the risk information prepared by the process owners, which is gradually crystallising in the form of 'risk files'. He or she is also tasked with identifying new events, gathering and assessing information regarding the key risk indicators intrinsic to the Company's processes and proposing any monitoring action plans, as required. Once the priority risk factors have been identified, the 'risk files' are allocated to the parties responsible for their management and control.

### **Audit and Control Committee**

Article 14 of the Board Regulations specifically attributes the following duties to the Audit and Control Committee:

- Supervising the effectiveness of the internal control and risk management systems and, in particular, reviewing them to make sure the main risks are properly identified, managed and disclosed.
- Supervising the internal risk control and management function.
- *“Identifying the different types of risk (operational, technological, financial/reporting, legal, reputational) to which the Company is exposed”.*
- *“Identifying the risk levels the Company deems acceptable”.*
- *“Identifying measures for mitigating the identified risks”.*
- *“Identifying the internal reporting and control systems to be used to control and manage the said risks”.*

In light of the above, the Audit and Control Committee is tasked with monitoring application of the Risk Control and Management Policy defined by the Board of Directors. This Policy includes the various classes of risk to which the organisation is exposed (strategic, operational, compliance and financial), including fiscal risks (paying close attention to oversight of the requirements associated with the REIT regime). Lastly, the Audit and Control Committee has to report to the Board on its activities throughout the course of the year.

### **Board of Directors**

The Board of Directors is the body tasked with approving the Group's Risk Control and Management Policy.

It assumes, among other powers, the duty of identifying the Company's main risks and supervising the internal control systems, to which end it is kept informed by its Audit and Control Committee.

### **E.3. State the main risks that could prevent the company from achieving its business targets.**

Lar España has identified the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify these risks, management's experience in



the real estate sector and the Company's specific circumstances were factored in, as were the medium-term strategic initiatives contemplated by the firm.

Lar España has an updated risk map depicting the universe of risks that could affect the organisation. The risks listed below are the risks that have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2017, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

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

The risk monitoring process consists of tracking all internal and external variables that could help anticipate or foresee the materialisation of these or other risks of relevance to the Lar España.

#### **E.4. State whether the company has a defined risk tolerance threshold, including with respect fiscal risk**

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated, including tax risks, are evaluated considering various indicators of impact and likelihood.

Lar España's ERM system defines risk tolerance as “*the acceptable level of variation in outcomes relative to the achievement of objectives*”. The proposed risk tolerance criteria are used to prioritise and itemise the level of management and monitoring assigned to each risk category. Accordingly, the more critical the objective with which an identified risk is associated, the lower the level of tolerance accepted by Lar España.

Against this backdrop, three levels of risk have been defined: high, medium and low, depending on how critical the objective with which the risk is associated is deemed. The risk tolerance determination system is reviewed at least annually by the Audit and Control Committee.

#### **E.5. State the risks, including fiscal risks, that materialised during the reporting period.**

As far as the Company is aware, no material risks of any kind, including fiscal risks, materialised in 2018.

#### **E.6. Outline the response and monitoring plans for the company's key risk factors, including fiscal risk factors**

The specific characteristics of Lar España, coupled with those of the business sector in which it operates, make it of tantamount importance to correctly monitor and update the various risks to which the organisation is exposed, including tax risks.

The level and frequency with which it monitors the risks identified varies as a function of the perceived importance or criticality of these risk factors and the level of effectiveness of the controls currently in place. Accordingly, Lar España has defined different scenarios for managing its risks: a) exhaustive analysis of the risks deemed highly critical to achieving an adequate level of control; b) assessment and surveillance of risks deemed of medium importance to achieving adequate control as a function of the real level of risk; and c) rationalisation and optimisation of the controls applied to risks of relatively less importance. Based on these levels, Lar España has established four kinds of strategies in relation to the level of risk assumed in each instance:

- Reduction: this implies undertaking response activities designed to reduce the probability of occurrence or impact of the risk, or both simultaneously. This may entail the introduction of new controls or the improvement of existing ones.
- Sharing: a risk's probability of occurrence or impact can be reduced by transferring or sharing a portion of that risk (e.g., via insurance policies).
- Avoidance: this implies withdrawal from the risk-generating activities. In this instance, the risk response may be to get out of a given business unit or line and/or decide not to pursue new business activities associated with such risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact; risk is assumed at its inherent level as this is deemed appropriate for the activity and established objectives.

Lar España prioritises action plans depending on how critical the risks being mitigated are, the cost/benefit analysis of the proposed course of action and available resources. To this end, the organisation's most significant risks have been identified; work has begun on documenting these risks in individual risk files in order to enable enhanced monitoring. These files specify the controls in place and the key indicators (KRIs) that enable anticipation and/or monitoring of the associated risks. The plan is to further advance this risk management and monitoring process in the years to come.

Note that the Audit and Control Committee will periodically analyse the effectiveness of the organisation's risk map at least annually and will add, modify or disregard risks as warranted as a result of changes in the Company's strategic objectives, organisational structure, new risks, legislative environment, etc.

## INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

**Describe the mechanisms comprising the risk control and management systems as they affect your company's internal control over financial reporting (ICFR) system**

### **F.1. The entity's control environment**

**Indicate the existence of at least the following components, describing their main characteristics:**

#### **F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR system; (ii) its implementation; and (iii) its monitoring.**

The internal control over financial reporting (hereinafter, ICFR) system has been designed and configured to provide reasonable assurance as to the reliability of the financial information disclosed to the markets.

The bodies responsible for the existence and/or oversight of Lar España's ICFR model are:

#### **Board of Directors**

The Board of Directors is ultimately responsible for the existence and maintenance of a suitable and effective ICFR system.

To this end, article 5 of the Board Regulations reserves the following power to the Board in plenary session:

- “Approving the financial information which the Company must report periodically in its capacity as a listed entity”.
- “Approving the risk control and management policy and the periodic monitoring of the internal information and control systems”.

To achieve these objectives, the Board is assisted by its Audit and Control Committee, which is tasked with supervision of the ICFR system (with the help of the internal audit function). It is additionally supported by the work performed by the process owners and/or the responsible of the business units tasked with implementation of the ICFR system and the firm's Corporate Management, which is ultimately responsible for ensuring the system is adequate and effective.

Each time the Board of Directors authorises annual financial statements for issue, in conjunction with approval of the annual corporate governance report, it approves and validates the existence of an effective ICFR system and its description.

#### **Audit and Control Committee**

Article 14 of the Board Regulations specifically attributes the following duties and powers to the Audit and Control Committee:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

As a result, the Audit and Control Committee's work is articulated and focused around four main areas:

- The risk identification and internal control system
- The review and approval of financial information
- The external audit of the annual financial statements
- Compliance with the law and the Company's body of internal rules and regulations

The Audit and Control Committee supervises effectiveness of the ICFR system by verifying that it addresses all the issues itemised in the securities market regulator's recommendations and reporting on its findings to the Board of Directors.

### **Corporate Management**

The Corporate Management team is responsible for the design, implementation and workings of the ICFR system, which effort includes:

- *“Defining, proposing and implementing a model for generating financial information”.*
- *“Defining, implementing and documenting the ICFR system”.*
- *“Assisting the Audit and Control Committee in preparing the financial statements and other financial information and in selecting the criteria used in the process”.*
- *“Verifying, at least annually, the comprehensiveness and suitability of ICFR documentation and performance”.*
- *“Reporting on developments in terms of ICFR documentation to the Audit and Control Committee and to the Internal Audit Service so they are familiar with and can appraise such developments”.*

### **Internal Audit Service**

The Audit and Control Committee has tasked the Internal Audit Service with assisting it with supervision of the ICFR system, which remit specifically includes:

- *“Supervising the operation of the ICFR system and its general controls and processes”.*
- *“Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter”.*
- *“Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process”.*
- *“Assisting Corporate Management to prepare reports on the status and description of the ICFR system”.*

### **Process owners involved in the financial reporting process**

The parties responsible for the various processes related to the generation of financial information, whether internal or external, must perform specific activities, as dictated by Corporate Management guidelines, with a view to:

- *“Defining, documenting, and updating the internal processes and procedures”.*

- *“Executing the control activities as designed and intended and documenting evidence of their performance for traceability purposes”.*
- *“Reporting to Corporate Management on any change to their modus operandi or transactions that could trigger the need to update how their processes and controls are defined and documented and on any control shortcomings they may detect”.*
- *“Defining and implementing action plans in response to incidents observed within their sphere of responsibility”.*

Lar España has outsourced the performance of certain material financial reporting activities to specialist third parties (including investment and asset management, preparation of its financial, accounting and tax information and periodic appraisal of its assets). In respect of the ICFR function, Corporate Management ensures that these service providers perform the controls that, despite being executed by the latter, have been identified as key controls for the ICFR system. As part of this model, supervision of the Internal Audit Service is tasked to the Audit and Control Committee.

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of duties and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company:**

Corporate Management, following the guidelines set by the Board of Directors, ensures the existence of an adequate organisational structure, allocation of roles and accountability and the staggered deployment of sufficient procedures, which are allocated among the parties intervening in the processes.

The Corporate Director can call on the resources, whether internal or external, he or she needs to manage the different activities of the Company, for assistance and advice. Against this backdrop, Lar España has entered into a Management Agreement with Grupo Lar under which the Manager undertakes to devote the staff and resources needed to fulfil its functions, including its financial reporting related duties.

Lar España's ICFR Manual provides that whenever the services provided by a “service organisation” are part of the Company's IT system, they must be encompassed by the IFRS evaluation process either by means of specific and direct assessment of the controls applied by the service organisation or by obtaining an internationally recognised SSAE certificate (Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization) or by carrying out alternative procedures. At the moment the second option is being carried out, through a third party confirmation, who provides accounting services.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

On 24 February 2015, the Board of Directors approved the Company's Code of Conduct, the purpose of which is to establish the guidelines governing the conduct of any and all people acting in the name of Lar España and its subsidiaries. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's Management Company, and any other person which could be related to Lar España even if they are not employees.

The body responsible for ensuring due compliance with, updating of and dissemination of the Code is the Audit and Control Committee.

Principle 4, regarding the recording of transactions and the financial reporting process specifies that *“Lar España pledges to ensure that the Company's financial information, most particularly its annual financial statements, reflects its financial reality, in keeping with applicable generally accepted accounting principles and international financial reporting standards. To this end, no professional may conceal or distort the information contained in the Company's accounting registers and reports, which must be complete, accurate and precise.*

*The failure to honestly report the Company's financial information, whether internally - to employees, subsidiaries, departments, internal bodies, governing bodies, etc. - or externally - to auditors, shareholders/investors, regulatory bodies, media, etc. - violates this Code. The delivery of incorrect information, its incorrect configuration or any attempt to confuse its recipients are similarly deemed to constitute financial reporting misconduct”.*

- **‘Whistle-blowing’ channel, for the purpose of reporting any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation to the audit committee, stating whether reports made through this channel are kept confidential.**

Article 14.3.b.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

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

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

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

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: [canaldenuncia@larespana.com](mailto:canaldenuncia@larespana.com)
- A confidential explanatory letter

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received
- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee of Lar España is made up of the person who heads up the internal audit function, the Secretary of the Board of Directors and the Chairman of the Audit and Control Committee.

The Code of Conduct and the Operating Rules Governing the Whistle-blowing Channel are available on Lar España's corporate website. These documents outline the procedures to be followed in handling any incidents reported.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Corporate Management, in its capacity as the party responsible for the design, implementation and operation of the ICFR system, is obliged to make sure that all staff involved in preparing the Group's financial statements have received sufficient and up-to-date training on the International Financial Reporting Standards (IFRS) and the internal control over financial reporting principles. Corporate Management directly checks with the accounting expert engaged to prepare the Company's financial and accounting information that the teams assigned to these activities have the required ICFR-related skills and knowledge.

The Corporate Director, who is responsible for ICFR, boasts an extensive background in accounting and financial reporting, acquired during his years in auditing and financial management work. He is in frequent contact with the financial statement auditor and the firm tasked with the accounting function during the year, addressing any issues that may arise and receiving updates from them on any developments with an impact on ICFR.

Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically including, as detailed in other sections, some of the activities related to the financial statement preparation process and the implementation and rollout of the ICFR system.

Lar España selects the service organisations to which it outsources these activities rigorously so that it works with specialist firms of renowned prestige that are chosen for their quality and expertise. Corporate Management ensures that these advisors indeed have the expertise required and continuous learning policies in respect of these areas of expertise.

In addition, the Internal Audit Plan prepared by the Internal Audit Service and approved by the Audit and Control Committee of Lar España contemplates the training needed by the people involved in these matters.

## **F.2. Financial reporting risk assessment**

### **Report at least:**

#### **F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

- **The process exists and is documented.**

The process of identifying financial reporting risks, including risks of error or fraud, is one of the most important aspects of Lar España's ICFR methodology. This process is documented in an internal methodology guide explaining the ICFR management and assessment process: "Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMI".

Lar España has assessed the risk associated with its financial accounts. Having determined the level of risk associated with each account, the most significant risks were related with the Company processes which generate and control its material financial information. The purpose of this mapping exercise is to identify the processes or business units within the Group of greatest importance in terms of financial information generation.

- Lar España has documented the most significant processes. In 2018, it reviewed the documentation prepared in prior years, updating it and complementing it with new processes deemed significant in relation to the Group's consolidated financial information. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company to mitigate the risks associated with each process. Having documented the majority of the most significant processes in prior years, the information for these and other processes related with the financial reporting function has been rounded out and fine-tuned.
- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

As stipulated in the ICFR Manual, the significant processes documentation covers existing risks and defines controls related with different financial reporting objectives: existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations. The documentation is updated whenever significant changes occur and is additionally subjected to an annual review.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Article 5 of the Board Regulations states that the Board of Directors “reserves the power to define the structure of the corporate group”.

Against this backdrop, each year, Corporate Management takes responsibility for continually analysing the companies added to the scope of consolidation and notifying any such additions to the Audit and Control Committee, enabling knowledge of the companies included at all times.

One of the Audit and Control Committee's duties is to supervise the process of drawing up and presenting the financial information the Company has to disclose. Specifically, the Audit and Control Committee reviews the Group's consolidated financial information on the occasion of each quarterly close.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The process of identifying the risk of financial reporting error takes into consideration the impact of all classes of risks, whether operational, technological, financial, legal, reputational, environmental, or tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

The Company has a Risk Control and Management Policy which:

- Describes and analyses the components and activities of the risk management process *per se*:



- Defines the organisational approach and the roles and duties needed from an enterprise risk management (ERM) standpoint.
  - Defines the model for monitoring (information and reporting) ERM activities.
  - Outlines the criteria for updating the ERM system.
- **Which of the company’s governing bodies is responsible for overseeing the process.**

The Audit and Control Committee is in charge of overseeing the effectiveness of the Company's internal controls and enterprise risk management systems, including its fiscal risk management controls, which remit specifically includes oversight of the ICFR system.

As stipulated in article 42 of the Articles of Association of Lar España and article 14 of the Board Regulations, the Audit and Control Committee is tasked with the duty of *“identifying the different types of risk (operational, technological, financial/reporting, legal, reputational, etc.) to which the Company is exposed, including within financial risks contingent liabilities and other off-balance-sheet risks”*.

### **F.3. Control activities**

**Indicate the existence of at least the following components and specify their main characteristics:**

**F.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations and projections.**

As stipulated in article 40.3 of the Board Regulations, the Board of Directors establishes *“the precise measures needed to ensure that the half-yearly and quarterly financial information, and any other information that warrants public disclosure in keeping with prudent strategy, is prepared applying the same principles, criteria and professional practices as are used to draw up the annual financial statements so that the interim information is as reliable as the annual disclosures”*.

The Board of Directors is ultimately responsible for the existence and maintenance of an appropriate and effective ICFR system and has authority over the financial reporting function. It also approves the Risk Control and Management Policy and the periodic monitoring of the internal information and control systems established by Lar España. In order to perform these duties, it is assisted by the Audit and Control Committee, which, in conjunction with the Internal Audit Service, supervises the Company's ICFR system. The Board is also supported in this task by the process owners and Corporate Management, which is responsible for ensuring the ICFR system is appropriate and effective.

Lar España publicly discloses financial information quarterly. This information is prepared by a specialist external firm and reviewed by Corporate Management. The information is subsequently sent to the Audit and Control Committee for review.

This process is documented in an internal methodology guide explaining the ICFR management and assessment process: *“Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMI”*.

The Company's ICFR principles, definitions and management criteria are documented in its ICFR Manual.

In recent years, Lar España has documented the organisation's General Controls and the most significant processes, specifically those itemised below:

- Period-end closings and consolidation, including a specific review of critical judgements and estimates
- Asset valuations
- Revenue recognition (rental income)
- Acquisition of properties
- Cash management
- Financing
- Management of accounts payable (including the development of new centres)
- Management and registration of Manager fees
- Disposals

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. In 2018, Corporate Management continued the process of gradually implementing the policies and procedures itemised in the ICFR Manual.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

Lar España has outsourced its accounting services to a specialist firm. As a result, the Company does not have proprietary IT systems of significance to the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise both the outsourcing agreement and the financial information reported by this third party to ensure that it does not contain errors.

**F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

Since it has outsourced some of its financial reporting activities to a third party that is not part of Grupo Lar, Lar España has identified all of the organisations that provide it with services in the various business processes, determining the impact of their activities on the financial reporting system.

Specifically, the Company has identified certain services provided by third parties which are considered part of its financial reporting system. These services include the analysis performed to document and assess the ICFR system, with the outsourcing of the accounting function and the half-yearly asset appraisals to accredited and independent entities standing out in this respect.

As for the policies and procedures in place for evaluating and overseeing the management of outsourced activities, the Company has exhaustive external advisor engagement procedures that are designed to ensure the providers' competence, independence, expertise and legal know-how with respect to the services provided.

All of the information prepared by independent experts deemed material in respect of the financial statements is reviewed and validated by Lar España's Corporate Management.

#### **F.4. Information and communication**

**Indicate the existence of at least the following components and specify their main characteristics:**

##### **F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations.**

Corporate Management is responsible for informing and communicating, internally and externally, the main accounting policies applied and for resolving any queries about their application.

Lar España has an effective and duly-approved Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the organisation's companies.

The book-keeping process *per se* is handled at present by an outsourced, prestigious, specialist firm which is working with Lar España on the definition and application of accounting criteria, in keeping with prevailing legislation. This process is supervised continually by Corporate Management, which reports to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor or other advisors are contacted as required to confirm certain stances taken in order to resolve any questions and avoid any potential conflicts arising from the interpretation of any given accounting standard.

Lastly, the Board of Directors approves the financial information which the Company must report periodically in its capacity as a listed entity.

##### **F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

As already noted in section F.4.1 above, the book-keeping process and the preparation of the Company's individual and consolidated financial statements have been outsourced to a prestigious, specialist firm.

Nevertheless, Lar España and the external firm that provides the accounting services have mechanisms for the capture and preparation of financial information, configured with adequate formats and applications, which are used on an across-the-board basis at all Group units and companies. In addition, the Company has established adequate controls over the financial preparation and reporting process. Lastly, Corporate Management supervises and reviews the financial information before presenting it to the Audit and Control Committee.

#### **F.5. System monitoring**

**Indicate the existence of at least the following components, describing their main characteristics:**

**F.5.1. Describe the ICFR monitoring activities performed by the audit committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Also describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The Audit and Control Committee is the advisory body through which the Board of Directors supervises the ICFR system. Against this backdrop, article 14 of the Board Regulations attributes multiple duties to the Audit and Control Committee, specifically including the following:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

The Audit and Control Committee is assisted by the Internal Audit Service in overseeing the ICFR system, to which end the latter function's work includes the following tasks:

- Supervising the operation of the ICFR system and its general controls and processes.
- Including supervision of the critical ICFR-related processes within the Business Plan and the Annual Internal Audit Plan.
- Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter.
- Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process.
- Assisting Corporate Management with preparation of reports on the status and description of the ICFR system.

The Internal Audit Plan is approved annually by the Audit and Control Committee at the end of each year or in the early months of the following year. This Plan defines a works by processes schedule which customarily includes supervision of implementation of the ICFR function. The Internal Audit Service periodically reports to the Audit and Control Committee on progress on executing the Plan and its results.

The gradual rollout of the ICFR system continued in 2018, identifying the most critical accounts and processes and working to document them in detail. Lar España reviewed the asset valuation, revenue recognition, period-end closing and consolidation processes, among others, without detecting any significant incidents. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Corporate Management and the Audit and Control Committee reviewed the financial information submitted to the securities market regulator (and its timeliness) quarterly.

The ICFR Manual contemplates the annual assessment and oversight of the system's various components.

**F.5.2. Indicate whether there is a discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

As already noted, Lar España is implementing its ICFR system and documenting the most critical processes gradually. It is worth noting in this respect that Corporate Management meets regularly with the external auditor or other advisors to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

In addition, all required steps were taken to enable the provisions of the Board Regulations with respect to its mandate to the Audit and Control Committee, specifically that of:

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process and adopting the opportune measures for addressing them, as required.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee or for any other purpose related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards.

#### **F.6. Other relevant disclosures**

Not applicable.

#### **F.7. External auditor report**

**State whether:**

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

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

**G****DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE  
RECOMMENDATIONS**

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

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

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

Compliant  Explain

**2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

Compliant  Partially compliant  Explain  Not applicable

**3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

- a) **Changes taking place since the previous annual general meeting.**
- b) **The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant  Partially compliant  Explain

**4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Compliant  Partially compliant  Explain

**5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Compliant  Partially compliant  Explain

**6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

**a) Report on auditor independence.**

**b) Reviews of the operation of the audit committee and the nomination and remuneration committee.**

**c) Audit committee report on third-party transactions.**

**d) Report on corporate social responsibility policy.**

Compliant  Partially compliant  Explain

**7. The company should broadcast its general meetings live on the corporate website.**

Compliant  Explain

**8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

Compliant  Partially compliant  Explain

**9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.**

Compliant  Partially compliant  Explain

**10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant  Partially compliant  Explain  Not applicable

**11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.**

Compliant  Partially compliant  Explain  Not applicable

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.**

Compliant  Partially compliant  Explain

**13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Compliant  Explain

**14. The board of directors should approve a director selection policy that:**

- a) Is concrete and verifiable;
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
- c) Favours a diversity of knowledge, experience and gender.

**The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.**



**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

Compliant  Partially compliant  Explain

**15. Proprietary and independent directors should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Compliant  Partially compliant  Explain

**16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.**

Compliant  Explain

**17. Independent directors should be at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.**

Compliant  Explain

**18. Companies should post the following director particulars on their websites, and keep them permanently updated:**

- a) Background and professional experience.**
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) The dates of their first appointment and subsequent re-election as board members, and;**
- e) Shares held in the company and any options on the same.**

Compliant  Partially compliant  Explain

**19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

Compliant  Partially compliant  Explain  Not applicable

**20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

Compliant  Partially compliant  Explain  Not applicable

**21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in applicable legislation.**

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant  Explain

**22. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant  Partially compliant  Explain

**23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and**

**other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.**

Compliant  Partially compliant  Explain  Not applicable

**24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

Compliant  Partially compliant  Explain  Not applicable

**25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board of directors regulations should lay down the maximum number of company boards on which directors can serve.**

Compliant  Partially compliant  Explain

**26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Compliant  Partially compliant  Explain

**27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Compliant  Partially compliant  Explain

**28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved in the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Compliant  Partially compliant  Explain  Not applicable

**29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Compliant  Partially compliant  Explain

**30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant  Partially compliant  Explain

**31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

**For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.**

Compliant  Partially compliant  Explain

**32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Compliant  Partially compliant  Explain

**33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.**

Compliant  Partially compliant  Explain

**34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.**

Compliant  Partially compliant  Explain  Not applicable X

**35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.**

Compliant X Explain

**36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the board's operation.**
- b) The performance and membership of its committees.**
- c) The diversity of board membership and competences.**
- d) The performance of the chairman of the board of directors and the company's chief executive.**
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

**The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.**

**Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.**

**Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.**

**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

Compliant X Partially compliant  Explain

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

Compliant  Partially compliant  Explain  Not applicable X

**38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Compliant  Partially compliant  Explain  Not applicable X

**39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Compliant  Partially compliant  Explain

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Compliant  Partially compliant  Explain

**41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Compliant  Partially compliant  Explain  Not applicable

**42. The audit committee should have the following functions over and above those legally assigned.**

**1. With respect to internal control and reporting systems:**

**a) Monitoring the preparation and the integrity of the financial information concerning the company and, where appropriate, the group, checking for compliance with legal provisions, the adequate demarcation of the consolidation perimeter, and the correct application of accounting principles.**

**b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**

**Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**

**2. With respect to the external auditor:**

**a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.**

**b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

**c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

**d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**

**e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

Compliant  Partially compliant  Explain

**43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant  Partially compliant  Explain

**44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Compliant  Partially compliant  Explain  Not applicable

**45. Risk control and management policy should specify at least:**

**a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

**b) The determination of the risk level the company sees as acceptable.**

**c) The measures in place to mitigate the impact of identified risk events should they occur.**

**d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

Compliant  Partially compliant  Explain

**46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:**

**a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**

**b) Participate actively in the preparation of risk strategies and in key decisions about their management.**

**c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.**

Compliant  Partially compliant  Explain

**47. Appointees to the appointments and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.**

Compliant  Partially compliant  Explain

The Company fully complies with the first part of the recommendation, given that the members of the Appointments and Remuneration Committee are designated making sure that they have appropriate knowledge, skills and experience to the functions they are called upon to carry out. When it comes to if the majority of these members are independent directors, the Board Regulations establishes that the majority of the members should be independent. The Company seeks to comply with this requirement as soon as there are vacancies in the Board, and therefore has not amended the Board Regulation in this regard. In that respect, the Company has pursued a different composition of the Appointments and Remuneration Committee and of the Audit and Control Committee (composed of the other three independent directors) in order to achieve the independence of the two bodies and a higher participation of all the external directors in different Committees. Notwithstanding, the independence of the decisions made by the Commission is guaranteed as long as there are no executive directors and the President of the Appointments and Remunerations Committee, who is independent, has a casting vote in the event of a draw.

**48. Large cap companies should operate separately constituted appointments and remuneration committees.**

Compliant  Explain  Not applicable

**49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.**

Compliant  Partially compliant  Explain

**50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**



**d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

**e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

Compliant  Partially compliant  Explain

**51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Compliant  Partially compliant  Explain

**52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be minuted and a copy made available to all board members.**

Compliant  Partially compliant  Explain  Not applicable

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:**

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**

- e) **Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**
- f) **Monitor and evaluate the company's interaction with its stakeholder groups.**
- g) **Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) **Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant  Partially compliant  Explain

**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

- a) **The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) **The corporate strategy with regard to sustainability, the environment and social issues.**
- c) **Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**
- d) **The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**
- e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) **Channels for stakeholder communication, participation and dialogue.**
- g) **Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant  Partially compliant  Explain

**55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Compliant  Partially compliant  Explain

**56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant  Explain

**57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.**

Compliant  Partially compliant  Explain

**58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant  Partially compliant  Explain  Not applicable

**59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Compliant  Partially compliant  Explain  Not applicable

**60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Compliant  Partially compliant  Explain  Not applicable

**61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant  Partially compliant  Explain  Not applicable

**62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Compliant  Partially compliant  Explain  Not applicable X

**63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Compliant  Partially compliant  Explain  Not applicable X

**64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Compliant  Partially compliant  Explain  Not applicable X

**H****OTHER INFORMATION OF INTEREST**

- 1. If you consider that there is any material corporate governance related matter relating to your company or its group that has not been addressed anywhere else in this report that is necessary to provide a more comprehensive and substantiated picture of corporate governance structure or practices at your company or its group, outline them briefly here.**
- 2. You may include in this section other relevant, but not reiterative, information, clarification or qualification related to the earlier sections of this report.**

The breakdown of the indirect and direct holders of significant interests in Lar España reported in section A.2 corresponds with the breakdown gleaned from the CNMV's shareholder records as of year-end.

This annual corporate governance report was approved by the Company's Board of Directors on February 26<sup>th</sup> 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