

**EXHIBIT I**  
**ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY-LISTED**  
**COMPANIES**

**DATA IDENTIFYING THE ISSUER**

FINANCIAL YEAR END:

TAX ID NUMBER (CIF): A-86918307

Registered Business name:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Registered office:

Rosario Pino 14-16, Madrid.

**ANNUAL CORPORATE GOVERNANCE REPORT FORM FOR PUBLICLY LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
05/03/2014	80,060,000	40,030,000	40,030,000

**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	Other 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	Number of indirect voting rights (*)	% of total voting rights
AMERIPRISE FINANCIAL, INC	0	1,500,000	3.747%
BESTINVER GESTION, S.A., S.G.I.I.C.	0	1,674,681	4.184%
COHEN & STEERS, INC.	0	2,618,092	6.540%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	6,773,300	16.921%
PIMCO BRAVO II FUND, L.P.	0	5,000,000	12.491%

**(\*) Held through:**

Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
AMERIPRISE FINANCIAL- Various funds managed by different management companies under the control of the declarant.	Not broken down into the CNMV's notice	3.747%
BESTINVER GESTION, S.A., S.G.I.I.C. -	Not broken down into	4.184%

Through a Collective Investment Institution and Other	the CNMV's notice	
COHEN & STEERS CAPITAL MANAGEMENT INC	Not broken down into the CNMV's notice	4.880%
COHEN & STEERS UK LIMITED	Not broken down into the CNMV's notice	1.660%
FTIF - FRK EUR SMALL MID CP	Not broken down into the CNMV's notice	9.728%
FGT- FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	2,504,000	6.255%
JNL- FRANKLIN TEMPLETON INTERNATIONAL SMALL CAP GROWTH FUND	Not broken down into the CNMV's notice	0.937%
PIMCO BRAVO II FUND, L.P- A través de LVS II LUX XII, S.A.R.L.	Not broken down into the CNMV's notice	12.491%

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

Name or company name of shareholder	Transaction date	Nature of the transaction
AMERIPRISE FINANCIAL, INC	05/03/2014	Exceeds 3% threshold
BESTINVER GESTION, S.A., SGIIC	05/03/2014	Exceeds 3% threshold
COHEN & STEERS, INC.	05/03/2014	Exceeds 5% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	05/03/2014	Exceeds 5% threshold
FTIF- FRK EUR SMALL MID CAP	05/03/2014	Exceeds 5% threshold
PIMCO BRAVO FUND II, L.P.	05/03/2014	Exceeds 10% threshold
MARSHALL WACE HOLDINGS LTD.	05/03/2014	Exceeds 3% threshold
UBS AG	05/03/2014	Exceeds 3% threshold
UBS AG	07/04/2014	Downs 3% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	30/05/2014	Exceeds 10% threshold
DEUTSCHE BANK AG	18/06/2014	Exceeds 3% threshold

MARSHALL WACE HOLDINGS LTD.	20/06/2014	Downs 3% threshold
COHEN & STEERS, INC.	15/07/2014	Downs 5% threshold
DEUTSCHE BANK AG	04/08/2014	Downs 3% threshold
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	14/08/2014	Exceeds 3% threshold
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	17/09/2014	Exceeds 5% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	17/09/2014	Exceeds 15% threshold

**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	Number of indirect voting rights (*)	% of total voting rights
Del Valle Doblado, José Luis	0		0.000
Emmott , Alec	500		0.001
Cooke, Roger M.	0		0.000
Miguel Pereda Espeso	0		0.000
Uriarte Santamarina, Pedro Luis	24,500		0.061

(\*) Held through:

Name or company name of shareholder	Number of direct voting rights	% of total voting rights
% of total voting shares held by the board of directors		0.062

**Complete the following table detailing the directors who have stock options in the company:**

Name or company name of the director	Number of stock options held directly	Number of stock options held indirectly	Number of equivalent shares	% of total voting rights

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

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

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

Name or company name of related party	Type of relationship	Brief description
LVS II LUX XII, S.A.R.L.	Contractual "subscription Agreement"	Rights regarding the first offer in relation to certain co-investment opportunities in commercial and residential real estate

**A.6 Indicate whether the company has been notified of any agreements between shareholders within the meaning of article 112 of the Spanish Securities Market Act. Provide a brief description and list the shareholders bound by them, as applicable:**

Yes  No

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

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

Yes  No

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

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

**A.7 Indicate whether any natural or legal persons currently exercise or may exercise control over the company pursuant to article 4 of the Spanish Securities Market Act. If so, identify them.**

Yes  No

Name or company name

<b>Remarks</b>

**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
531,367	0	1.33%

**(\*) Held through:**

Name or company name of the direct shareholder	Number of shares held directly
Not applicable	Not applicable
<b>TOTAL</b>	

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

Date of notification	Total no. of directly-held shares acquired	Total no. of indirectly-held shares acquired	% of total share capital
31/10/2014	402,082		1%

Gains / (losses) from treasury stock sold during the financial year	4 thousand euros
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**A.9 Detail the terms and conditions of the authorisation conferred at the general meeting to the board of directors to purchase or sell treasury stock.**

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

Against this backdrop, on 5 February 2014 Grupo Lar Inversiones Inmobiliarias, S.L., in its capacity as sole shareholder of Lar España Real Estate, S.A. (sole-shareholder company), granted the Board of Directors the following authorisations:

- In keeping with the terms of article 297.1b) of the Spanish Corporate Enterprises Act, to increase share capital, during a period of up to five years, if considered opportune, by as much as half of current share capital, on one or more occasions; the Board of Directors is entitled to choose the optimal timing and amount of such capital raises and to waive preferential subscription rights.
- To issue bonds, debentures and other fixed-income securities, whether simple or exchangeable and/or convertible into shares, warrants, promissory notes and preference shares; the Board is also entitled to waive preferential subscription

rights and to allow the Company to guarantee fixed-income securities issued by subsidiaries.

- The derivative acquisition of own shares, either directly or through Group companies, and to sell them after the date of admission to trading on the stock market.

**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

**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.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:**

Article 17 of the Shareholder Meeting Regulations stipulates in sections 2, 4 and 5 the regime applicable to ratifying corporate resolutions:

2. For the valid ratification at ordinary or extraordinary General Meetings of shareholders of the issuance of debentures, the waiving or curtailment of pre-emptive subscription rights in issues of new shares or the transformation, merger or spin-off of the Company, the assignment of all its assets and liabilities or the transfer of its registered office abroad, and, in general, any amendment to the Company's Articles of Association, the attendance of shareholders, in person or by proxy, holding at least 50% of subscribed voting share capital will be necessary on first call. At second call, the quorum falls to 25%. However, when attending shareholders represent less than 50% of subscribed voting share capital, the resolutions referred to in this paragraph may only be validly ratified pursuant to the favourable vote of two-thirds of the capital present or represented at the General Meeting.

4. In the event that applicable law or the Articles of Association require a specific quorum for the valid ratification of a resolution regarding one or more General Meeting agenda items and such quorum is not met on first call, the General Meeting shall be held on second call; if the required quorum is also not met on second call, the General Meeting held on second call shall be limited to deliberating the agenda items that do not require such a quorum for valid resolution ratification.

5. The provisions of this article shall be deemed to be without prejudice to the qualified majorities for meeting or resolution quorums that may be established under prevailing law or in the Articles of Association.

- 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:

Attendance data					
General meeting date	% attending in person	% attending by proxy	% correspondence voting		Total
			Votes cast electronically	Other	

- 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** Indicate whether resolutions entailing a fundamental corporate change ("subsidiarisation", sale-purchase of core business assets, transactions tantamount to the company's liquidation, etc.) have to be submitted for shareholder approval even when not expressly required under prevailing company law.

Yes  No

One of the powers reserved to the shareholders in general meeting, as provided in article 5.j of the Shareholder Meeting Regulations, is approval of transactions entailing a fundamental structural change in the Company, specifically the following changes: (i) transformation of listed companies in holding companies by means of "subsidiarisation" or the transfer of core business activities formerly carried out by the Company to subsidiaries, even if the former retains full control over the latter; and (ii) the acquisition or disposal of core business assets when so doing effectively changes the Company's corporate purpose.

- 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.

[> Corporate Governance > Shareholders Meeting](http://larespana.com)

**C**

## CORPORATE GOVERNANCE STRUCTURE

### **C.1 Board of Directors**

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or company name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis del Valle Doblado		Independent Chairman	05/02/2014		Not applicable
Alec Emmott		Independent director	05/02/2014		Not applicable
Roger M. Cooke		Independent director	05/02/2014		Not applicable
Miguel Pereda Espeso		Proprietary director	05/02/2014		Not applicable
Pedro Luis Uriarte Santamarina		Independent director	05/02/2014		Not applicable

Total number of directors	5
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**Indicate any members who stepped down during the reporting period:**

Name or company name of director	Status of director at the time of departure	Date of departure

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

### **EXECUTIVE DIRECTORS**

Name or company name of director	Committee endorsing appointment	Position at the company

Total number of executive directors	
% of total board members	

### **EXTERNAL PROPRIETARY DIRECTORS**

Name or company name of director	Committee endorsing appointment	Name or company name of the significant shareholder represented or proposing the appointment
Miguel Pereda Espeso	Not applicable	Grupo Lar Inversiones Inmobiliarias, S.A.

<b>Total number of proprietary directors</b>	1
<b>% of total board members</b>	20

### **EXTERNAL INDEPENDENT DIRECTORS**

#### **Name or company name of director**

Mr. JOSE LUIS DEL VALLE

#### **Background**

Mr. del Valle has a very wide career in the banking and energy sector. From 1988 until 2002, Mr. del Valle held different positions in Banco Santander, one of the largest banks in Spain. In 1999 he was appointed Executive Vice President and Chief Financial Officer of the bank (1999-2002). He subsequently served as Chief Strategy and Research Officer of Iberdrola, one of the leading energy companies in Spain (2002-2008), Chief Executive Officer of Scottish Power (2007-2008), Chief Strategy and Research Officer of Iberdrola (2008-2010) and Advisor to the Chairman of wind turbine manufacturer Gamesa (2011-2012). Mr. del Valle is currently Chairman of the Board of GES – Global Energy Services, a leading independent service provider of construction, operations and maintenance services to the global renewable energy industry and a member of the Accenture Global Energy Board. Mr. del Valle holds a Mining Engineering degree from Universidad Politécnica (Madrid, Spain), with no. 1 ranking of his class, and a Master of Science and Nuclear Engineering from the Massachusetts Institute of Technology (Boston, USA). He also holds an MBA with High Distinction from Harvard Business School (Boston, USA).

#### **Name or company name of director**

Mr. PEDRO LUIS URIARTE

#### **Background**

Mr. Uriarte has a long professional career. From 1975 to 2001 he held different positions in BBVA, one of the largest banks in Spain such as ViceChairman both in BBV and BBVA. He was appointed CEO of BBV in 1994. He served as Deputy Chairman of the board of Telefonica, the Spanish leading telecom company in the Spanish market. Mr. Uriarte was appointed Regional Minister of Economy and Finance of the Basque Government in 1980. In 2007 he founded and headed Innobasque, the Basque Innovation Agency. He is currently Executive Chairman of “Economía, Empresa, Estrategia”, a strategic consultancy firm, and sits on several different companies’ boards of directors or advisory boards. He is also Deputy Chairman of Bilbao Civil Council and was a member of the board of UNICEF Spain. Mr. Uriarte holds a Business and Law degree from Deusto University (Bilbao, Spain) and is a member of the Board and Executive Comitee of Deusto Business School and has been honoured with many relevant professional accolades such as the “Gran Cruz al Mérito Civil” (Spanish Government) in 2002 or “Manager of the Year” (Spanish Confederation of Managers & Executives – CEDE) in 2011.

**Name or company name of director**

Mr. ALEC EMMOT

**Background**

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. 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), Cityhold AP and MITSUI FUDOSAN. 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).

**Name or company name of director**

Mr. ROGER M. COOKE

**Background**

Mr. Cooke is an experienced professional with more than 30 years of experience in the real estate sector. Mr. Cooke joined Cushman & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as General Director of Cushman & Wakefield Spain, leading the company to attain a leading position in the sector. Mr. Cooke holds an Urban Estate Surveying degree from Trent Polytechnic University (Nottingham, UK) and is currently President of the British Chamber of Commerce in Spain and a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Since May 2014, Mr. Cooke is a Senior Advisor at Ernst & Young.

<b>Total number of independent directors</b>	4
<b>% of total board members</b>	80

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

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

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

**OTHER EXTERNAL DIRECTORS**

Name or company name of director	Committee endorsing or proposing appointment

Total number of other external directors	
% of total members	

List the reasons why they cannot be considered proprietary or independent and the links that person maintains with the company, its senior officers or its shareholders:

**Name or company name of director**

**Related company, officer or shareholder**

**Reasons**

List any changes in director classification during the reporting period:

**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			
	2013	2012	2011	2010	2013	2012	2011	2010
<b>Executive</b>								
<b>Proprietary</b>								
<b>Independent</b>								
<b>Other external</b>								
<b>Total:</b>								

**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 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.

**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:**

<b>Explanation of the measures</b>
Lar España was incorporated on 17/01/2014 and did not have a specific director selection procedure in place in 2014. However, the Appointments

and Remuneration Committee plans to establish a director selection policy in 2015 with a view to ensuring that the director selection process is free of bias and emphasises the background match (knowledge, skills and past experience) and other aspects, such as diversity.

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

**Explanation of the measures**

Article 34 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.

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

Article 8.3 of the Board of Directors Regulations, establishes that the Board will seek that, within the external Directors, the number of Proprietary Directors and Independent Directors will reflect the proportion of capital represented by the first ones and the rest of capital.

**C.1.8 Explain any reasons why proprietary directors have been appointed at the urging of shareholders controlling less than 5% of capital:**

Name or company name of shareholder	Reasons
Miguel Pereda Espeso	Subject to applicable law and regulations and the Company's by-laws, and subject to any proposed nominee being appropriately qualified to act as member of the Board of Directors and his or her identity having been approved by the Remuneration and Nomination Committee of the Company (such approval not to be unreasonably withheld, conditioned or delayed), the Investment Manager is entitled to require the Board of Directors to propose to the general shareholders' meeting of the Company (the "General Shareholders' Meeting") the appointment of: <ul style="list-style-type: none"> <li>(i) one non-executive director of the Company nominated by the Investment Manager, provided that the Board of Directors is comprised of five or fewer persons; or</li> <li>(ii) up to two non-executive directors nominated by the Investment Manager, provided that the Board of Directors is comprised of more than five persons.</li> </ul> Subject to compliance with the foregoing requirements, the Investment Manager is entitled to require the Board of Directors to propose to the General Shareholders' Meeting to remove or

	<p>replace any such person whom it has nominated as a member of the Board of Directors provided that in the case of any such removal, the Investment Manager shall indemnify and hold harmless the Company (and any member of its group) against any and all costs, losses, liabilities and/or expenses suffered by the relevant company in connection with such removal.</p> <p>No director of the Company nominated by the Investment Manager pursuant to this Clause shall be paid any fee or remuneration by the Company for his services as such.</p> <p>The Chairman of the Board of Directors shall be entitled to request the attendance of the Chairman of Grupo Lar to the meetings of the Board of Directors and the Investment Manager shall procure that the Chairman of Grupo Lar shall attend such meetings when so required, unless there is a material cause impeding it. The Company's by-laws and the Board of Directors' regulations shall permit and regulate such attendance commitment.</p>
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**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 or company name of shareholder	Reasons for resignation

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

Yes  No

Name or company name of shareholder	Brief description

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

Name or company name of director	Registered name of the group company	Position
Mr. Miguel Pereda Espeso	Lar España Inversión Logística SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Offices SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Shopping Centres SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Parque de Medianas SA	Administrator
Mr. Miguel Pereda Espeso	Riverton Gestión SL	Administrator
Mr. Miguel Pereda Espeso	Global Noctua SL	Administrator
Mr. Roger Cooke	Lavernia Investments SL	Director

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

Name or company name of director	Registered name of the group company	Position
Mr. Pedro Luis Uriarte	Técnicas Reunidas, S.A.	Director

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

Yes  No

Explanation of the rules

**Indicate the company's general policies and strategies that are reserved for approval by the board in plenary session:**

	Yes	No
<b>Investment and financing policy</b>	X	
<b>Design of the structure of the corporate group</b>	X	
<b>Corporate governance policy</b>	X	
<b>Corporate social responsibility policy</b>	X	
<b>Strategic or business plan, management targets and annual budgets</b>	X	

<b>Remuneration and evaluation of senior officers</b>	X	
<b>Risk control and management, and the periodic monitoring of internal information and control systems</b>	X	
<b>Dividend policy, as well as the policies and limits applying to treasury stock</b>	X	

**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>	210
<b>Amount of total remuneration corresponding to accrued pension entitlements (thousands of euros)</b>	0
<b>Total board remuneration (thousands of euros)</b>	210

**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>
Mr. Jon Armentia	Corporate Director
Mr. Sergio Criado	CFO
Mrs. Susana Guerrero	Legal Director

<b>Total senior management remuneration (in thousands of euros)</b>	93
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**C.1.17 Indicate the identity of any board members who likewise sit on the boards of directors of companies having significant shareholdings and/or their group companies:**

<b>Name or company name of director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>

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

**Name or company name of related director:**

**Name or company name of related significant shareholder:**

**Description of relationship:**

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

Yes  No

**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.**

The Board of Directors, which is vested with the broadest powers to manage, direct, administer and represent the Company, generally delegates the Company's everyday management in the Board's steering committees and the management team so that it can concentrate on its general supervisory duty as well as attending to matters of particular significance to the Company.

**Appointment of directors (article 19 of the Board Regulations)**

1. Directors shall be appointed by the shareholders in general meeting or by the Board of Directors, in keeping with the provisions of applicable legislation, the Articles of Association and these Regulations.
2. When appointing a new director, he or she must take the Company's specific induction program for new directors in order to become rapidly acquainted with workings of the Company and its corporate governance rules.

**Appointment of external directors (article 20 of the Board Regulations)**

The Board of Directors shall endeavour to select candidates of renowned solvency, competence and experience, paying particular attention to the selection of candidates for independent director positions.

**Re-election of directors (article 21 of the Board Regulations)**

Prior to submitting director re-election motions at the General Meeting, the Board of Directors shall evaluate, in the absence of the directors up for re-election, the quality of the work performed by the candidates during their last term of office and their dedication to the post.

**Term of office (article 22 of the Board Regulations)**

1. Directors shall be appointed for a term of three years, at the end of which they may be re-elected once or more for the same maximum term.
2. Director appointments shall terminate when, their term of office being up, a General Meeting has taken place or the legal deadline for holding the meeting to ratify the prior-year annual financial statements has lapsed.
3. Directors appointed by means of co-option shall hold their positions until the next General Meeting scheduled after their appointment and must step down from the Board if their appointment is not ratified by the shareholders at that General Meeting.
4. Independent directors may not stay on as such for a continuous period of more than 12 years.

**C.1.20 Indicate whether the board of directors evaluated its performance during the year:**

Yes  No  X

If so, explain to what extent this self-assessment exercise has prompted significant changes in the board's internal organisational structure and the procedures followed:

Description of changes

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.

2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:

a. When they resign from the executive position associated with their directorship.

b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.

c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.

d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).

e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.

3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.

4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause.

Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

**C.1.22 Indicate whether the duties of chief executive officer fall upon the chairman of the board. If so, indicate the measures taken to limit the risks posed by excessive concentration of powers in a single person:**

Yes  No

Risk-limitation measures

**Indicate and explain, as warranted, whether the company has rules empowering an independent director to request the calling of board meetings or include new business on the agenda, to coordinate and give voice to the concerns of external directors, and to lead the board's evaluation.**

Yes  No

Explanation of the rules
<p>The Board Regulations (article 13.4) indicate that in the event that the Chairman of the Board of Directors exercises executive duties, the Board must empower an independent director to:</p> <ul style="list-style-type: none"><li>a. Ask the Chairman of the Board of Directors to call a Board meeting when he or she deems appropriate.</li><li>b. Request the addition of items of business to Board meeting agendas.</li><li>c. Gather and relay feedback from the external directors.</li><li>d. Spearhead evaluation of the Chairman of the Board of Directors.</li></ul>

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

Yes  No

**Describe the differences, if any.**

Description of the differences
Article 13.1 of the Board Regulations empowers, without prejudice to any powers that may be vested in other persons, the Board of Directors to set up a permanent Executive Committee, made up of a minimum of three and maximum of seven members, and to appoint a Chief Executive Officer, at the proposal of the Chairman of the Board, and to 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.

**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

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

Yes  No

**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

**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. Also specify whether it is mandatory**

**to delegate votes in another director of the same category. If so, describe the rules briefly.**

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 (article 17.2 of the Board Regulations).

**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>	15
<b>Number of board meetings held without the chairman in attendance</b>	0

**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 committee meetings</b>	5
<b>Number of nomination and remuneration committee meetings</b>	5
<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:**

<b>Fully-attended meetings</b>	13
<b>% attendance over total votes cast in the year</b>	86.7

**C.1.31 Indicate whether the individual 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 individual and consolidated annual financial statements prior to their authorisation for issue:**

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

Article 41.3 of the Board Regulations: The Board of Directors shall endeavour to authorise the annual financial statements for issue 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 shall provide shareholders with a clear account of the content of such reservations or qualifications. Nonetheless, when the Board considers that its criteria should prevail, it shall publicly disclose the content and scope of the discrepancy.

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

Yes  No

**C.1.34 Explain the procedure governing the appointment or removal of the secretary of the board, indicating whether his or her appointment has been reported on by the nomination committee and approved at a full board meeting.**

**Procedures for appointment and removal**

Article 11.1 of the Board Rules provides that the Board of Directors elect, at the proposal of its Chairman, a Secretary, who may either be one of its members or a duly qualified non-member. If the Secretary of the Board of Directors is not a director, he or she shall have a say but not vote.

Regardless, in order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal must be approved by the Board of Directors in plenary session, subject to a report from the Appointments and Remuneration Committee.

	<b>Yes</b>	<b>No</b>
Does the nomination committee propose the appointment?	X	
Does the nomination committee propose dismissals?	X	
Is the appointment approved at a full board meeting?	X	
Is the dismissal approved at a full board meeting?	X	

**Does the board secretary have the specific duty of overseeing corporate governance recommendations?**

Yes  No

**Remarks**

Article 11.3 of the Board Regulations stipulates that the Secretary pay especial attention to ensuring that the conduct of the members of the Board of Directors: (i) adheres to the spirit

and letter of the law and implementing regulations, including those issued by regulatory authorities; (ii) complies with the Articles of Association, the Shareholders Meeting Regulations, the Board Regulations and the Internal Code of Conduct in the Securities Markets; and (iii) are informed by the Company's corporate governance recommendations.

**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.**

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; and (iii) should the auditor resign, investigating the circumstances giving rise to such decision (article 14.5.b.iii of the Board Regulations).

**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

**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>	412	58	470
<b>Fees for non-audit work / total amount invoiced by the audit firm (%)</b>	81	100	83

**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

<b>Explanation of the reasons</b>

**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	1	
Number of years audited by the current audit firm / number of years the company's financial statements have been audited (%)	100%	

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

Yes  No

<b>Details of the procedure</b>
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

<b>Details of the procedure</b>
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 will 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 summarised 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 will 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 X No

<b>Details of the rules</b>
Article 36 of the Board Regulations stipulates:
1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.
2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.
3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings.
If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

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

Yes  No

Name of director	Offence	Remarks

**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.**

**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
<b>Body authorising the clauses</b>		

	Yes	No
<b>Are shareholders informed of these clauses in general meeting?</b>		

## C.2 Board committees

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

### Executive or Steering Committee

Name	Position	Class of director

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

### Audit and Control Committee

Name	Position	Class of director
José Luis del Valle Doblado	Chairman	Independent
Pedro Luis Uriarte Santamarina	Member	Independent
Miguel Pereda Espeso	Member	Proprietary
Juan Gómez-Acebo Sáenz de Heredia	Secretary	

% of executive directors	0
% of proprietary directors	33.3
% of independent directors	66.6
% of other external directors	0

### Appointments and Remuneration Committee

Name	Position	Class of director
Roger Maxwell Cooke	Chairman	Independent
Alec Emmott	Member	Independent
Miguel Pereda Espeso	Member	Proprietary
Juan Gómez-Acebo Sáenz de Heredia	Secretary	

% of executive directors	0
% of proprietary directors	33.3
% of independent directors	66.6
% of other external directors	0

**Sustainability Committee**

Name	Position	Class of director

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

**C.2.2 Fill out the following table indicating the number of female directors represented on the board committees over the last four years:**

	Number of female directors			
	2013 Number %	2012 Number %	2011 Number %	2010 Number %
<b>Executive committee</b>				
<b>Audit committee</b>				
<b>Nomination and remuneration committee</b>				
<b>Nomination committee</b>				
<b>Remuneration committee</b>				
<b>Sustainability committee</b>				

**C.2.3 State whether the audit committee's duties include:**

	Yes	No
Monitoring the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; receiving regular feedback on its activities; and verifying that senior management is acting on the findings and recommendations of its reports.	X	
Establishing and supervising 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 firm.	X	
Making recommendations to the board for the selection, appointment,	X	

reappointment and removal of the external auditor, and the terms and conditions of the engagement.		
Receiving regular information from the external auditor on the progress and findings of the audit plan, and checking that senior management is acting on its recommendations.	X	
Safeguarding the independence of the external auditor. In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies.	X	

**C.2.4 Describe the organisational and operational rules governing and the responsibilities attributed to each of the board committees.**

**Appointments and Remuneration Committee**

The rules governing the make-up and operation of the Appointments and Remuneration Committee are set forth in article 43 of the Articles of Association and article 13 of the Board Regulations, as follows:

**A) Organisation and operation**

The Board of Directors shall set up a permanent Appointments and Remuneration Committee to act as an internal advisory and reporting body, without executive duties but with the power to inform, advise and propose within its purview, as stipulated in this article.

**B) Composition**

The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external members, at the proposal of the Chairman of the Board. The majority of the members of the Appointments and Remuneration Committee shall be independent directors. The Board of Directors shall also appoint a committee chair from among the independent directors comprising the committee. The Secretary of the Board of Directors shall also serve as the Secretary of the Appointments and Remuneration Committee.

At least one of the members of the Appointments and Remuneration Committee shall have knowledge of and experience in remuneration policy issues.

The Board members sitting on the Appointments and Remuneration Committee shall hold their offices as long as their appointments as Company directors remain valid, unless the Board of Directors resolves otherwise. The renewal, re-election and dismissal of the members of the committee shall be governed under the terms and conditions agreed by the Board of Directors.

**C) Duties**

The Appointments and Remuneration Committee's purview shall include participating in the process of hiring the Company's senior management (as proposed by the Chief Executive Officer, should there be one) and supporting the Board of Directors in determining and supervising their remuneration policy.

Notwithstanding any other mandate that may be assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have the following basic duties:

- Devising and reviewing the criteria to be used to configure the senior management team of the Company and its subsidiaries and for selecting candidates.
- Reporting to the Board of Directors on the appointment or dismissal of the Company's senior executives and any potential benefits or severance pay which may be set in the event of termination, all of which at the proposal of the Chief Executive Officer, should there be one.
- Reporting to the Board of Directors on matters of gender equality and director qualifications.
- Raising to the Board of Directors, substantiated by the corresponding report, the proposals made to it by the Chief Executive Officer, should there be one, on the remuneration policy applicable to the senior executives and the basic terms and conditions of their contracts.
- Reviewing remuneration schemes periodically, assessing their suitability and effectiveness.
- Overseeing compliance with the remuneration policy set by the Company and the principle of remuneration transparency in general.

### **Executive or Steering 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.

Note that Lar España did not avail of this power to set up an Executive Committee in 2014.

#### **A) Organisation and operation**

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee.

#### **B) Composition**

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.

#### **C) Duties**

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.

## **Audit Committee**

The rules governing the make-up and operation of the Audit and Control Committee are set forth in article 42 of the Articles of Association and article 13 of the Board Regulations, as follows:

### **A) Organisation and operation**

The Audit and Control Committee shall meet, ordinarily, on a quarterly basis, to review the interim financial information to be submitted to the securities market authorities and the information that the Board of Directors has to approve and include in its annual public disclosures. Similarly, the Committee shall meet when called on to do so by any or 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 Audit and Control 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 case of a tie, the Chairman of the Audit and Control Committee shall have the deciding vote. It shall draw up an annual report on its activities, highlighting the main incidents arising, if any, in relation to the duties assigned to it. In addition, whenever deemed opportune by the Audit and Appointments Committee, this report shall include proposals on how to improve the Company's governance rules. The Audit and Control Committee report shall be appended to the Company's annual corporate governance report and made available to shareholders and potential investors on the corporate website.

The Audit and Control Committee is entitled to call on any member of the Company's management team or staff to assist it. Those so summonsed shall be obliged to attend the meetings of the Audit and Control Committee, help it and provide it with access to any information it requires. The Committee may also require the external auditor to attend its meetings.

In order to do its job better, the Audit and Control Committee may also seek external expert counsel when it considers so doing necessary to the correct fulfilment of its duties.

The Company shall have an internal audit function, under the supervision of the Audit and Control Committee, to ensure that the internal reporting and control systems work properly. The head of the internal audit department must present the department's annual work programme to the Audit and Control Committee. He or she must also report any incidents that arise in the course of the internal audit work to the committee and submit an annual report on its activities at the end of each year.

### **B) Composition**

The Board of Directors shall set up a permanent Audit and Control Committee which shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external and non-executive members. At least one member of the Audit and Control Committee must be independent and appointed with regard to their knowledge and background in accounting, auditing or both.

The members of the Audit and Control Committee shall hold such office for a maximum term of three years, and they can be re-elected one or more times for equal intervals.

The office of Chairman shall also be held for a maximum term of three years, from the end of which term he or she cannot be re-elected as Chairman until one year has elapsed, notwithstanding their eligibility to continue or be re-elected as a member of the Committee.

**C) Duties**

- Supervising the calculation of the fees received by the Management Company in the course of its duties.
- Reporting to the General Meeting on matters raised by shareholders on issues within its remit.
- 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.
- 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.
- Supervising the work of the Company's internal audit service.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise auditor independence, for the purpose of investigation by the Audit and Control Committee, and on any other matters related to the account auditing process, as well as communicating any other matters provided for in prevailing audit legislation and other audit standards.
- 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.
- Naming and supervising the external asset appraisers commissioned to value the Company's assets.

**Sustainability Committee**

- A) Composition**
- B) Duties and powers**
- C) Operation**

**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 of Directors Regulation establishes the functioning process of the Audit Committee and Remuneration Committee in its Articles 14 and 15 respectively. The Regulation is available in the corporate website:

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

**C.2.6 Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:**

Yes  No

<b>If not, describe the composition of the executive committee</b>

D

## RELATED PARTY AND INTRA-GROUP TRANSACTIONS

### D.1. Identify the body tasked with approving related-party and intra-group transactions and any procedures in place to this end.

Body tasked with approving related-party transactions
Board of Directors
Procedure for approving related-party transactions

The Board of Director'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 5.4.1 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 14.5.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).

Within the Investment Manager Agreement, BETWEEN Grupo Lar Inversiones Inmobiliarias, S.A. as Investment Manager AND Lar España Real Estate SOCIMI, S.A. as the Managed Company, signed the 12th of February 2014, specifies in its 5th clause the following:

The Investment Manager shall be entitled to perform the Services and to conduct and enter into transactions provided that it shall seek prior written consent from the Company if such Services or transactions involve any of the following (each of them, a "Reserved Matter"):

- (i) any acquisition/disposal of a property investment or the entry into any binding agreement to acquire/dispose of a property investment where the aggregate acquisition cost/gross proceeds attributed to the Company in respect of such property investment is/are in excess of €30 million;
- (ii) any new financing or refinancing, including associated hedging arrangements, entered into in respect of a property investment where the amount of the facility to be entered into in respect of such arrangements is in excess of €30 million, or any material amendments thereof;
- (iii) any capital expenditure on a property investment in excess of, in aggregate, €10 million;
- (iv) any proposed lease agreement or termination where the annual rent is greater than 10% of the aggregate rental income of the Company;

- (v) any co-investment or joint venture in Commercial Property; if approved, Grupo Lar shall be entitled to manage the whole co-investment or joint-venture in its own name and on behalf of the Company. The Investment Manager undertakes to submit in good faith to the Company any co-investment or joint venture offers in Commercial Property received from third parties for the whole stake that such third party has actually offered to the Investment Manager as agreed in Clause 6.1 below;
- (vi) any co-investment or joint venture in Residential Property with an investment by the Company of above €10 million. The Investment Manager undertakes to submit in good faith to the Company any co-investment or joint venture offers in Residential Property received from third parties for at least a 20% stake in the total investment pursuant to the terms agreed in Clause 6.2 below;
- (vii) any hedging or use of derivatives, including related to debt facilities, interest, or property investments (which may only be used to the extent (if any) permitted by any regulatory requirements applicable to the Company and/or the Investment Manager), unless comprised within the relevant financing as indicated in (ii) above;
- (viii) the entry by the Company into any transaction for the purchase of assets from, or the provision of services of a material nature by, any company, undertaking or person which is from time to time (1) a subsidiary or a subsidiary undertaking (whether direct or indirect) of the Investment Manager; (2) a direct or indirect (through controlled entities under article 42 of the Spanish Commercial Code) shareholder of the Investment Manager (other than those shareholders in Grupo Lar which are not part of the Pereda family (the “Minority Shareholders”)); or (3) another subsidiary or subsidiary undertaking controlled directly or indirectly pursuant to Article 42 of the Spanish Commercial Code by the entities referred to in (2) above (other than the Minority Shareholders) (each of the entities described under (1), (2) and (3) above, an “Investment Manager Affiliate”), or for the sale of assets or provision of services of a material nature to any Investment Manager Affiliate except if covered under a framework agreement approved by the Board of Directors. The entry by the Company into any transaction for the purchase of assets from, or the provision of services of a material nature by, an individual associated with an Investment Manager Affiliate should also be considered a Reserved Matter. For the avoidance of doubt, Gentalia (as defined below) will not be an Investment Manager Affiliate for purposes of this Agreement.
- (ix) any disposal of any right, title or interest in any of the Company’s properties at less than its acquisition cost;
- (x) related-party transactions and situations which may give rise to a conflict of interest situation in connection with the Investment Manager and the Management Team including any transaction with third parties pursuant to which the Investment Manager is entitled to receive any compensation, fee or commission;
- (xi) the appointment by the Investment Manager of one or more managing agents (as foreseen in clause 8 below) or the execution of any third-party service agreement for an annual amount exceeding €1 million; and
- (xii) any transaction executed with Gentalia, unless it is regulated under an arm’s length basis framework agreement between the Company and Gentalia approved by the Board of Directors, and provided that the relevant assets fall within the parameters of such framework agreement.

Notwithstanding the foregoing, the Investment Manager shall be entitled to perform Services and conduct and enter into transactions involving Reserved Matters without seeking prior written consent from the Company, provided that such Services or transactions are required to be performed by the Investment Manager:

- (i) as a matter of law (including but not limited to any laws relating to health and safety, taxation, accounting and employment matters and compliance with the requirements of any statute or any government department, local authority or other public or competent jurisdiction or any duly appointed expert pursuant to any bona fide dispute resolution proceedings or any duly appointed arbitrator pursuant to any bona fide arbitration proceedings (or a like process)); or
- (ii) in order to respond to a bona fide emergency where time is of the essence (in which case the Investment Manager shall be entitled to perform that Reserved Matter without the prior written approval of the Company but, in all such cases, shall give notice in writing to the Company as soon as reasonably possible (and in any event within five Business Days, as defined below, to the extent within the Investment Manager's power) upon the Investment Manager becoming aware of such requirement or emergency).

Where the Company's approval is required for a transaction under the terms of this Agreement, the Investment Manager shall, either by means of an update to the Business Plan or a separate proposal, submit a proposal to the Board of Directors as to the transaction in question and provide the Company with such information as the Board of Directors may reasonably require to consider and, if it decides to do so, approve the transaction.

**Explain whether the power to approve related-party transactions has been delegated and, if so, the body or persons in which it has been delegated.**

**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:**

**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:**

**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:**

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

- Grupo Lar inversiones Inmobiliarias, S.A. – 2,083 thousands of euros
- Gentalia 2006, S.L. – 288 thousands of 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.**

The Board Regulations and the Internal Code of Conduct regulate the mechanisms in place to detect and manage potential conflicts of interest.

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.

Definitions:

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 defined in article 42 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.

3. 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.

Internal Code of Conduct of Lar España

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 up to the second degree by marriage or third degree by birth 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.

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

**Yes**  **No**

**Identify the subsidiaries listed in Spain:**

<b>Listed subsidiaries</b>

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

Lar España's enterprise risk management (ERM) system has been implemented at the corporate level and designed to mitigate the risks to which the Company 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, operations, 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 the ERM system, the Company views risk management as a continuous and dynamic process which encompasses the following steps:

- Identification and assessment of the risks that may affect the Company, evaluating their probability of occurrence and potential impact.
- Identification of the controls in place at the Company for mitigating these risks.
- Identification of the processes in which these risks and controls arise, determining the relationship between the Company'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 risk management system.**

While the ERM system affects and involves all Company staff, the model's most important participants are as follows:

**Process manager or owner**

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

**Risk officer**

The risk officer's job is to analyse and consolidate the risk information prepared by the process owners, which is crystallised and compiled 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.

**Audit and Control Committee**

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

- “*Identifying the different types of risk (operational, technological, financial/reporting, legal, reputational) to which the Company is exposed*”.
- “*Identifying the risk levels the Company deems acceptable*”.
- “*Identifying measures for mitigating the identified risks*”.
- “*Identifying the internal reporting and control systems to be used to control and manage the said risks*”.

In light of the above, the Audit and Control Committee is tasked with monitoring application of the Risk Control and Management Policy defined by the Board of Directors. Ultimately, it 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.**

In 2014 the Company undertook the exercise of identifying the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify those 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 drew up a risk map depicting the universe of risks that could affect the Company. The risks listed below are the risks that have been prioritised by Lar España in the wake of the risk mapping exercise; in 2014 it began to manage and monitor these risks, a process that will be ongoing in the years to come:

- Tax management and sector-specific regulation (SOCIMIs)
- Investment planning
- Accounting and financial reporting
- Investment project monitoring
- Confidentiality
- Real estate asset sale-purchases
- Dependence on the Asset/Investment Manager
- Valuation, price-setting criteria and due diligence
- Interest rate risk
- Supplier selection (procurement tendering)
- Monitoring of other outsourced activities
- Financing
- Investor and media relations
- Natural disasters, terrorism and vandalism

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 Company and its group.

#### **E.4. State whether the company has a defined risk tolerance threshold**

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated 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 materialising during the reporting period**

To the best of the Company's knowledge, no significant risks materialised in 2014, its first year in operations.

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

The recent creation of Lar España, coupled with the characteristics of the real estate sector in which the Company operates, make it of tantamount importance to correctly monitor and update the various risks to which the organisation is exposed.

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 to be pursued 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, i.e., 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 that could give rise to unwanted risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact. This exercise assumes inherent risk levels.

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. In the coming years the Company plans to further advance this risk management and monitoring process.

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

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

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

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

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

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

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

#### Board of Directors

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

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

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

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

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

#### Audit and Control Committee

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

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

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

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

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

### **Corporate Management**

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

- “*Defining, proposing and implementing a model for generating financial information*”.
- “*Defining, implementing and documenting the ICFR system*”.
- “*Assisting the Audit and Control Committee in preparing the financial statements and other financial information and in selecting the criteria used in the process*”.

### **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 duties of the parties responsible for the various processes related to the generation of financial information include the performance of specific activities, as dictated by Corporate Management guidelines, with a view to:

- “*Defining, documenting, and updating the internal processes and procedures applicable within their sphere of responsibility*”.
- “*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*”.

**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.

- **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.

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. - beaches 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 14.5.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 the parties bound by the Code of Conduct and may be used by the Company's internal or external stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee which is tasked with the duties deriving from implementation of this channel.

- **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. Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically certain activities related to the financial statement preparation process and the implementation and launch of the Company's ICFR system.

Lar España selects the advisors 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. Risk assessment in financial reporting**

**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".

In 2014, Lar España assessed the risk associated with its financial accounts using quantitative and qualitative criteria. Once it had 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.

The Company is in the process of documenting these significant processes. 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 some of the most significant processes in 2014, the idea is to continue to flesh out and fine-tune this information in 2015 for these and other processes related with the financial reporting function.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

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

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

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

Against this backdrop, in 2014, Corporate Management took responsibility for analysing continually 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 scope of consolidation 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.

- 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, 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 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 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.

Note in this respect that Lar España's ICFR system is essentially based on the COSO model which is designed to help companies to provide reasonable assurance as to the reliability of their financial disclosures.

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

In 2014 the Group documented some of the most significant processes (including the closing of accounts, specifically providing for a specific review of critical judgements, estimates, valuations and projections). This documentation includes a description of the risk, the risk and control matrices and summarised flowcharts for each process liable to have a material impact on the financial reporting process. As stipulated in the ICFR Manual, Corporate Management is responsible for identifying and documenting these critical processes.

In the course of 2015 the Company plans to continue to document other processes related with the financial reporting function in detail.

**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 in relation to the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise 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, 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.

**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 the main accounting policies applied internally and externally.

In addition, Lar España is in the process of drawing up an Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the Group 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 being supervised continually by the Company's Corporate Management, which is reporting to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor is being 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 has 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 has in turn entrusted ICFR oversight to the Internal Audit Service, 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.

Since 2014 was Lar España's first year in business, the ICFR system was rolled out gradually over the course of the year, by identifying the most critical accounts and processes and beginning the task of documenting them in detail. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Management reviewed the information submitted to the securities market regulator (and its timeliness) in painstaking detail.

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, the Company embarked on implementation of its ICFR system and on the documentation of some of its most critical processes in 2014. It is worth noting in this respect that Corporate Management met regularly with the external auditor to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

In addition, the 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.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise auditor independence, for the purpose of investigation by the Audit and Control Committee, and on any other matters related to the account auditing process, as well as communicating any other matters provided for in prevailing audit legislation and other audit standards.

**F.6. Other relevant disclosures**

In addition to the ICFR oversight process (entrusted by the Audit and Control Committee to 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 their intended objectives.

#### **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 description of the ICFR system provided to the market has not been reviewed by the external auditor as such assurance was not deemed warranted given the current level of implementation of the system and because the general review of internal controls performed by the external auditor in keeping with prevailing auditing standards and as part of the financial statement audit was considered sufficient to this end.

G

## DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree to which the company is in compliance with the recommendations of the Unified Good Governance Code. 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.**

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Compliant  Partially 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.**

See sections: D.4 and D.7

Compliant  Partially compliant  Explain  Not applicable

**3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the general shareholders' meeting for approval or ratification. In particular:**

- a) **The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**
- b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**
- c) **Operations that effectively add up to the company's liquidation.**

See section: B.6

Compliant  Partially compliant  Explain

**4. Detailed proposals of the resolutions to be adopted at the general shareholders' meeting, including the information stated in recommendation 28, should be made available at the same time as the publication of the meeting notice.**

Compliant  Explain

**5. Separate votes should be taken at the general shareholders' meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:**

- a) The appointment or ratification of directors, with separate voting on each candidate;
- b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.

Compliant X Partially compliant  Explain

**6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

Compliant X Explain

**7. The board of directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interests and, as such, strive to maximise its value over time.**

**It should likewise ensure that in dealing with all its stakeholders, the company abides by the laws and regulations; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.**

Compliant X Partially compliant  Explain

**8. The board should see the core component of its mission to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:**

- a) The company's general policies and strategies, and in particular:
  - i. The strategic or business plan, management targets and annual budgets;
  - ii. Investment and financing policy;
  - iii. Design of the structure of the corporate group;
  - iv. Corporate governance policy;
  - v. Corporate social responsibility policy;
  - vi. Remuneration and evaluation of senior officers;
  - vii. Risk control and management, and the periodic monitoring of internal information and control systems;
  - viii. Dividend policy, as well as the policies and limits applying to treasury stock

See sections: C.1.14, C.1.16 and E.2

- b) The following decisions:

- i. On the proposal of the company's chief executive, the appointment and removal of senior officers, and their remuneration clauses.

- ii. Director remuneration and, in the case of executive directors, the additional compensation for their management duties and other contractual obligations
  - iii. The financial information that all listed companies must periodically disclose.
  - iv. Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval falls within the remit of the general shareholders' meeting.
  - v. The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They go through at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the audit committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the executive committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant  Partially compliant  Explain

The Board of Directors of Lar España has all the powers listed above, as enshrined in article 4, sections 4, 5, 13 and 37, of the Board Regulations, except for the following:

- Evaluation of senior officers
- Director remuneration and, in the case of executive directors, any additional compensation for their management duties and other contractual obligations

**9. In the interests of maximum effectiveness and participation, the board of directors should ideally comprise no fewer than five and no more than fifteen members.**

See section: C.1.2.

Compliant  Explain

**10. External directors, proprietary and independent, 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.**

See sections: A.3 and C.1.3

Compliant X Partially compliant  Explain

**11. 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.**

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

- 1º. In large-cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.**
- 2º. In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: A.2, A.3 and C.1.3

Compliant X Explain

**12. The number of independent directors should represent at least one third of all board members.**

See section: C.1.3.

Compliant X Explain

**13. The nature of each director should be explained to the general meeting of shareholders which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the nomination committee. The said report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% 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.**

See sections: C.1.3 and C.1.8

Compliant  Partially compliant X Explain

At present, the Board Regulations do not contemplate inclusion in the report of an explanation of the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; or a requirement to 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.

**14. When female directors are few or nil, the nomination committee should take steps whenever new vacancies come up to ensure that:**

- a) The process of filling board vacancies has no implicit bias against women candidates;**

- b) The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant  Partially compliant  Explain  X Not applicable

Lar España was incorporated on 17/01/2014 and did not have a specific director selection procedure in place in 2014. However, the Appointments and Remuneration Committee plans to establish a director selection policy in 2015 with a view to ensuring that the director selection process is free of bias and emphasises the background match (knowledge, skills and past experience) and other aspects, such as diversity.

- 15. The chairman, as the person responsible for the proper operation of the board of directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.**

See sections: C.1.19 and C.1.41

Compliant  X Partially compliant  Explain

- 16. When a company's chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the chairman.**

See section: C.1.22

Compliant  X Partially compliant  Explain  Not applicable

- 17. The secretary should take care to ensure that the board's actions:**

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) Comply with the company bylaws and the regulations of the general shareholders' meeting, the board of directors and other company rules and regulations;**
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

In order to safeguard the independence, impartiality and professionalism of the secretary, his or her appointment and removal should be proposed by the nomination committee and approved by a full board meeting, the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: C.1.34

Compliant  X Partially compliant  Explain

- 18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.**

See section: C.1.29

Compliant  Partially compliant  Explain

**19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: C.1.28, C.1.29 and C.1.30

Compliant  Partially compliant  Explain

**20. 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 at the meeting, the person expressing them can request that they be recorded in the minute book.**

Compliant  Partially compliant  Explain  Not applicable

**21. The board in full should evaluate the following points on a yearly basis:**

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the nomination committee, how well the chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See sections: C.1.19 and C.1.20

Compliant  Partially compliant  Explain

**22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.**

See section: C.1.41

Compliant  Explain

**23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.**

See section: C.1.40

Compliant  Explain

**24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.**

Compliant  Partially compliant  Explain

**25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

- a) Directors should apprise the nomination committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: C.1.12, C.1.13 and C.1.17

Compliant  Partially compliant  Explain

At present Lar España's internal body of rules and regulations does not contemplate specific rules regarding the number of directorships its directors may hold. As indicated in article 28.2 of the Board Regulations, however, directors are required to devote sufficient time and effort to perform their duties effectively, to which end they are required to report to the Appointments and Remuneration Committee on their other professional obligations so it can check they will not detract from the required level of dedication.

**26. The proposal for the appointment or renewal of directors which the board submits to the general shareholders' meeting, as well as provisional appointments by the method of co-option, should be approved by the board:**

- a) On the proposal of the nomination committee, in the case of independent directors.
- b) Subject to a report from the nomination committee in all other cases.

See section: C.1.3.

Compliant  Partially compliant  Explain

Lar España's body of rules and regulations does not currently contemplate the appointment or re-election of its directors at the proposal of the Appointments and Remuneration Committee in the case of independent directors or subject to a report from this same committee in the case of all other directors.

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

- a) Professional experience and background;
- b) Directorships held in other companies, listed or otherwise;
- c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;
- d) The date of their first and subsequent appointments as a company director, and;
- e) Shares held in the company and any options on the same.

Compliant  Partially compliant  Explain

Article 38 of the Board Regulations stipulates that the material information required under securities market legislation be uploaded onto the corporate website; however, the wording does not specifically include the particulars stated in this recommendation. The Company will take this into consideration when updating its Regulations in 2015.

**28. 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.**

See sections: A.2, A.3 and C.1.2

Compliant  Partially compliant  Explain

**29. 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 just cause is found by the board, based on a proposal from the nomination committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or no longer qualifies as independent in keeping with the provisions of Ministerial Order ECC/461/2013.**

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant  Partially compliant  Explain

**30. 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 crimes stated in article 213 of the Corporate Enterprises Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43

Compliant  Partially compliant  Explain

**31. All 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 unaffected by the conflict of interest should challenge any decision that could go against 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 should also apply to the secretary of the board, director or otherwise.

Compliant  Partially compliant  Explain  Not applicable

**32. 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.**

**Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.**

See section: C.1.9

Compliant  Partially compliant  Explain  Not applicable

**33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.**

**The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.**

Compliant  Explain

**34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Compliant  Explain

**35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Compliant  Explain  Not applicable

**36. In the case of variable awards, remuneration policies should include 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, atypical or exceptional transactions or circumstances of this kind.**

Compliant  Explain  Not applicable

**37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.**

See sections: C.2.1 and C.2.6

Compliant  Partially compliant  Explain  Not applicable

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

Compliant  Explain  Not applicable

**39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.**

**The rules governing the make-up and operation of the audit committee and the committee or committees of nomination and remuneration should be set forth in the board regulations, and include the following:**

- a. The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;
- b. These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the committees' invitation.
- c. Committees should be chaired by an independent director.
- d. They may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e. Meeting proceedings should be minuted and a copy sent to all board members.

See sections: C.2.1 and C.2.4

Compliant  Partially compliant  Explain

**40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the audit committee, the nomination committee or, as the case may be, separate compliance or corporate governance committees.**

Compliant  Partially compliant  Explain

**41. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.**

Compliant  Partially compliant  Explain

**42. Listed companies should have an internal audit function, under the supervision of the audit committee, to ensure the proper operation of internal reporting and control systems.**

See section: C.2.3

Compliant  Explain

**43. The head of internal audit should present an annual work programme to the audit committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.**

Compliant  Partially compliant  Explain

**44. Control and risk management policy should specify at least:**

- a. The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, 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 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.

See section: E

Compliant  Partially compliant  Explain

**45. The audit committee's role should be:**

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

- a. Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b. Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.
- c. Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- d. 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 firm.

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

- a) Receive regular information from the external auditor on the progress and findings of the audit program, and verify that senior management is acting on its recommendations.
- b) Monitor the independence of the external auditor, to which end:
  - i. The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - iii. The committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant  Partially compliant  Explain

**46. 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  Explain

**47. The audit committee should prepare information on the following points from recommendation 8 for input to board decision-making:**

- a. The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b. The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c. Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: C.2.1 and C.2.4

Compliant  Partially compliant  Explain

**48. The board of directors should seek to present the annual accounts to the general shareholders' meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.38

Compliant  Partially compliant  Explain

**49. The majority of nomination committee members – or nomination and remuneration committee members as the case may be – should be independent directors.**

See section: C.2.1

Compliant  Explain  Not applicable

**50. The nomination committee should have the following functions in addition to those stated in earlier recommendations:**

- a. Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b. Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
- c. Report on the senior officer appointments and removals which the chief executive proposes to the board.
- d. Report to the board on the gender diversity issues discussed in recommendation 14 of this Code.

See section: C.2.4

Compliant  Partially compliant  Explain  Not applicable

Article 15 of the Board Regulations entrusts the Appointments and Remuneration Committee with the following duties, among others:

- Evaluating the balance of skills, knowledge and experience on the Board, defining the roles and capabilities required of the candidates to fill each vacancy, and deciding the time and dedication necessary for them to properly perform their duties.
- Reporting on the senior officer appointments and removals which the chief executive proposes to the Board.
- Reporting to the Board on the gender diversity issues discussed in recommendation 13 of this Code.

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

**Any board member may suggest directorship candidates to the nomination committee for its consideration.**

Compliant  Partially compliant  Explain  Not applicable

Article 15.10 of the Board Regulations states that the Appointments and Remuneration Committee should consult the Chairman and chief executive of the Company, particularly in relation to matters concerning executive directors and senior officers; the only eventuality not specifically contemplated is the possibility that any Board member may suggest directorship candidates to the nomination committee for its consideration.

**52. The remuneration committee should have the following functions in addition to those stated in earlier recommendations:**

- a) **Make proposals to the board of directors regarding:**
  - i. **The remuneration policy for directors and senior officers.**
  - ii. **The individual remuneration and other contractual conditions of executive directors.**
  - iii. **The standard conditions for senior officer employment contracts.**
- b) **Oversee compliance with the remuneration policy set by the company.**

See sections: C.2.4

Compliant  Partially compliant  Explain  Not applicable

Lar España plans to submit a director remuneration policy for shareholder approval at its 2015 Annual General Meeting at the proposal of its Appointments and Remuneration Committee; this policy will enshrine the need to remunerate directors enough to compensate them for the dedication, abilities and responsibilities that the post entails, but should not so much as to compromise their independence as part its general principles. Lar España plans to modify its in-house body of rules and regulations to duly incorporate the contents of this recommendation.

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

Compliant  Explain  Not applicable

**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.

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 membership.

This annual corporate governance report was approved by the Company's Board of Directors on 24 February 2015.

Indicate whether any directors voted against or abstained from voting on the approval of this report:

**Yes  No**