

## Appendix I

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

#### DATA IDENTIFYING THE ISSUER

**Financial year end:**

31/12/2016

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

A-86918307

**Registered business name:**

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

**Registered office:**

Rosario Pino 14-16, Madrid.

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

**A OWNERSHIP STRUCTURE**

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/08/2016	181,081,124	90,540,562	90,540,562

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

Yes No  X

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

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

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name or company name of the direct shareholder	Number of voting rights	
BESTINVER GESTION, S.A., S.G.I.I.C.	0		3.788.217	4,184%
BLACKROCK INC.	0		2.778.690	3,679%
BRANDES INVESTMENT PARTNERS, L.P.	0		2.742.474	3,029%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		13.578.368	14,997%
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	3,179,785		0	3,512%
PIMCO BRAVO II FUND, L.P.	0		18.130.748	20,025%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4.701.771	5,193 %

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

Name or company name of shareholder	Transaction date	Transaction background
PIMCO BRAVO II FUND, L.P.	18/11/2016	Increased its shareholding

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

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of the direct shareholder	Number of voting rights	
José Luis Del Valle	0	Eugemor SICAV S.A.	22.425	0,025%
Alec Emmott	1.155		0	0,001%
Roger Cooke	2.500		0	0,003%
Miguel Pereda	15.000	Grupo Lar Inversiones Inmobiliarias S.A.	3.182.316	3,529%
Pedro Luis Uriarte	54.930			0,061%

% of total voting rights held by the board of directors	3,619%
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Complete the following table detailing the directors who have stock options in the company:

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

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

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

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

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

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

Yes No  X

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

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

Yes No  X

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

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

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

Yes No  X

<b>Name or company name</b>
<b>Observations</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
117,998	0	0.13%

(\*) Held through:

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

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

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

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

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

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

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

Estimated free float	96.5%
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**A.10 Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.**

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

**Yes X No**

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

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

Yes No  X

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  X

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 **X**

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

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

Yes No **X**

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

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

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

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

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

General meeting date	Attendance data				Total
	% attending in person	% attending by proxy	% correspondence voting		
			Votes cast electronically	Other	
21/04/2016	0.282%	53.733%	0.000%	10.506%	64.521%

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

Yes No **X**

**B.6** Section repealed

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

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

<http://larespana.com/gobierno-corporativo/junta-general-ordinaria-2016/>



**C** CORPORATE GOVERNANCE STRUCTURE

**C.1 Board of Directors**

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

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

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

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

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

<b>Name or company name of director</b>	<b>Class of director upon resignation</b>	<b>Date of departure</b>

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

**EXECUTIVE DIRECTORS**

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

Total number of executive directors	
% of total board members	

### **EXTERNAL PROPRIETARY DIRECTORS**

<b>Name or company name of director</b>	<b>Name or company name of the significant shareholder represented or proposing the appointment</b>
Miguel Pereda Espeso	Grupo Lar Inversiones Inmobiliarias, S.A.

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

### **EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of director</b>	<b>Background</b>
José Luis, del Valle	<p>José Luis del Valle boasts an extensive career in the banking and energy sectors. Between 1988 and 2002, he held several positions at Banco Santander, one of Spain's most prominent financial institutions. In 1999, he was named the bank's General Manager and CFO (1999-2002). He later worked as Director of Strategy and Business Development at Iberdrola, one of Spain's leading power companies (2008-2010), CEO of Scottish Power (2007-2008), Director of Strategy and Research at Iberdrola (2008-2010) and advisor to the Chairman of Gamesa, the wind turbine manufacturer (2011-2012). He is currently the non-executive Chairman of the Board of GES - Global Energy Services, a provider of construction, operation and maintenance services to the renewable energy industry. He also sits on the board of the insurance group, Ocaso, and of IC-A, Spain's Association of Directors. Lastly, he is a director of Abengoa S.A., a supplier of innovative technology solutions for sustainable development. José Luis is an engineering graduate from Madrid's Polytechnic University (Spain). He specialised in Mining Engineering and graduated number one in his class. He also holds a Masters in Nuclear Science and Engineering from the Massachusetts Institute of Technology (Cambridge, US). Lastly, he holds an MBA with High Distinction (Baker Scholar) from Harvard Business School (Boston, US).</p>
Pedro Luis Uriarte	<p>Pedro Luis Uriarte boasts a long and plentiful career. Between 1975 and 2001, he held several different positions at BBVA, one of Spain's leading banks, serving as Vice-Chairman of BBV and BBVA. He was named CEO of BBV in 1994. He has also served as Vice-Chairman of the Board of Telefónica, Spain's leading telecommunications provider. In 1980, he was named Councillor of the Economy and Finance in the Basque regional government. In 2007, he founded and ran Innobasque, the Basque innovation agency. He is currently the Executive Chairman of the strategic consultancy, Economía, Empresa, Estrategia, and is a member of several board and board advisory committees. He is Vice-Chairman of the Bilbao Civil Board and has been a member of UNICEF Spain's management board. He holds a dual degree in business studies and law from Deusto University (Bilbao, Spain), and is a member of the board and executive committee of Deusto Business School. He has received several professional prizes,</p>

	notably including the <i>Gran Cruz al Mérito Civil</i> [Civil Merit Cross] (awarded by the Spanish government) in 2002 and Executive of the Year (awarded by CEDE, Spain's Confederation of Executives) in 2011 and the Sabino Arana Prize in 2016.
Alec Emmott	Alec Emmott has built an extensive career in the real estate sector in Europe, having worked at listed and unlisted companies. He resides in Paris. He worked as CEO of Société Foncière Lyonnaise (SFL) between 1997 and 2007 and later as executive advisor to SFL until 2012. He is currently Director of Europroperty Consulting, and has been a Director of CeGeREAL S.A. (where he represents Europroperty Consulting) since 2011. He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I/II), Cityhold AP and MITSUI FUDOSAN. He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He holds an MA from Trinity College (Cambridge, UK).
Roger Cooke MBE	Roger M. Cooke MBE boasts more than 30 years' experience in the real estate sector. In 1980, he joined the London office of Cushman & Wakefield, where he participated in the drafting of its appraisal standards (Red Book). From 1995 until the end of 2013, he worked as Chief Executive Officer of Cushman & Wakefield Spain, during which time he positioned the company at the sector's forefront. He holds a degree in Urban Estate Surveying from the Trent Polytechnic University (Nottingham, UK). He has been the President of the British Chamber of Commerce in Spain until May 2016 and is a member of the Royal Institution of Chartered Surveyors (RICS). In the 2017 New Year's honours' list Roger was awarded an MBE for services to British businesses in Spain and Anglo/Spanish trade and investment'. Since 2014 he 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.

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

### OTHER EXTERNAL DIRECTORS

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

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

Total number of other external directors	
% of total members	

List any changes in director classification during the reporting period:

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

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

	Number of female directors				% of each directorship category			
	2016	2015	2014	2013	2016	2015	2014	2013
<b>Executive</b>	0	0	0	NA	0	0	0	N/A
<b>Proprietary</b>	0	0	0	N/A	0	0	0	N/A
<b>Independent</b>	0	0	0	N/A	0	0	0	N/A
<b>Other external</b>	0	0	0	N/A	0	0	0	N/A
<b>Total:</b>	0	0	0	N/A	0	0	0	N/A

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

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

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

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

In 2015, Lar España drew up a director selection and appointment policy (which was approved by the Appointments and Remuneration Committee and the

Board of Directors on January 20, 2016). This policy is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. The policy pursues the target of having at least 30% of all Board members be female by 2020.

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

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

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

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

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

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

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

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

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

Name or company name of shareholder	Reasons

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

Yes No X

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 X

Name of director	Reasons for resignation

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

Yes No X

Name or company name of shareholder	Brief description

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

Name or company name of director	Registered name of the group company	Position	Do they have executive duties?
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL PORTAL DE LA MARINA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No

Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL MEGAPARK, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA OFFICES VI, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE OFFICES ARTURO SORIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL VILLAVERDE, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALBACENTER, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES MARCELO SPINOLA 42, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL LAS HUERTAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL TXINGUDI, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ANEC BLAU, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GRAN VÍA DE VIGO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	INMOBILIARIA JUAN BRAVO 3 S.L.	Director of the Board of Directors	No
Roger Cooke	INMOBILIARIA JUAN BRAVO 3 S.L.	Chairman of the Board of Directors	No

**C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities**

markets, other than your own group, insofar as these have been reported to the company:

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

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

Yes  No

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

**C.1.14** Section repealed

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

Board remuneration (thousands of euros)	346
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	0
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	0

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

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

Total senior management remuneration (in thousands of euros)	383
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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>
D e Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director
s		
e		
r		
i		

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

<b>Name or company name of related director</b>	<b>Name or company name of related significant shareholder</b>	<b>Description of relationship</b>

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

Yes  No

**Description of the amendments**

The amendments made to the Board Regulations of Lar España (updated on April 21, 2016) should be viewed against the backdrop of the Company's process of continually reviewing and updating its in-house corporate governance rules and regulations. The new Board Regulations

The amendments introduced were intended, firstly, to adapt the Board Regulations for the contents of the changes made to Spain's Corporate Enterprises Act by means of Law 22/2015 (of July 20, 2016), on account auditing, and, secondly, to introduce other improvements in the corporate governance arena (as enshrined in the Good Governance Code of Listed Companies of February 18, 2015) and of a technical nature, which needed to be reflected in the Board Regulations.

The amendments made to each and every article of the Board Regulations are explained in detail in the report issued by the Board of Directors substantiating the changes, in keeping with the provisions of articles 518 d) and 528 of the Corporate Enterprises Act and was made available to shareholders at the 2016 General Assembly.

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

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

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

**1. Director aptitudes**

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

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

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

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

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

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

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

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

- i. Devote sufficient time to the Company and adopt appropriate measures for ensuring its correct management and control.
- ii. Get from the company the level of information they need to correctly fulfil their obligations.
- iii. Devote sufficient time to becoming informed, to familiarising themselves with the Company's paradigm and business performance and to participating in the meetings of the Board and any of the committees on which they sit.

- iv. Inform the other members of the Board of Directors of any direct or indirect conflicts they or their related parties may have vis-à-vis the Company's interests.

## **2. Selection and appointment procedure**

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

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

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

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

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

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

## **3. Ongoing assessment**

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

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

**Description of changes:**

In 2015, with the assistance of Ernst and Young S.L., Lar España carried out an annual evaluation of the Board, its members and its committees. This evaluation was approved by the Appointments and Remuneration Committee on January 20, 2016. As a result of this process, the workings of the Board and Company have been enhanced.

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

The Chairman of the Board of Directors was tasked with spearheading the process of evaluating the board, its members and its committees; however, in order to guarantee the objectivity and confidentiality of the individual responses provided by the various directors, an external consultant was engaged to execute the process. The specific areas assessed included:

- The quality and efficiency of the work performed by the Board of Directors of Lar España.
- Diversity in the backgrounds and skills represented on the Board of Directors of Lar España.
- The performance of the Chairman of the Board of Directors of Lar España.
- The performance and contribution of individual directors, with particular attention to the chairmen of various Board committees.
- The operations and composition of the Board committees.

The process undertaken is detailed below:

**Phase 1: Submission of questionnaires**

- The external consultant sent the corresponding Board-approved evaluation questionnaires to the directors and secretary of the Board.
- The directors and the secretary then had 15 calendar days to fill it out (starting from the day on which it is sent).
- The external consultant resolved any questions raised by the directors and/or secretary in the course of filling out their questionnaires.

**Phase 2: Interviews**

- The external consultant interviewed each of the directors with the goal of ensuring that the performance criteria employed were homogeneous, gathering the evidence needed to back this up.
- The external consultant also interviewed the Board secretary in order to gather enough evidence to substantiate the answers provided in his questionnaire and to evaluate in greater detail any aspect deemed significant.

### **Phase 3: Final report**

- The consultant will prepare a final report that will contain the consolidated data by section and a summary of the most important conclusions drawn from the evaluation exercise. The report was revised and debated by the Board of Directors.

### **Phase 4: Action plan**

- Once in possession of the results of the self-evaluation process, the Board members will meet to debate and analyse the results of the evaluation exercise.
- The Board of Directors will then define an action plan with measures specifically designed to address any shortcomings detected. Preparation and execution of this action plan will enable Lar España to further develop and fine-tune its corporate governance model.

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

In 2016, Ernst & Young, S.L. assisted Lar España with the following tasks:

- Definition of the procedure for evaluating the Board of Directors, its members and its committees
- Definition of the senior officer performance evaluation system
- Preparation of the Annual Corporate Governance Report
- Preparation of the Annual Director Remuneration Report
- Preparation of the contents of a corporate governance training course for directors
- Preparation of an accounting policy manual
- Preparation of an anti-money laundering manual
- Definition of a crime prevention model
- Review of the financial ratios published in the financial statements in keeping with the recommendations issued by the European Public Real Estate Association (EPRA)

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
  - a. When they resign from the executive position associated with their directorship.
  - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.

- c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
  - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).
  - e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
  4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause. Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

**C.1.22 Section repealed**

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

Yes No

Describe the differences, if any:

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

Yes No

Description of the requirements

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

Yes  No

Matters for which the chairman has the casting vote
Board resolutions are carried with the favourable vote of the straight majority of attending directors, whether physically present or duly represented, except where the law, the Articles of Association or Board Regulations provide for other quorums. In the event of a draw, the Chairman has the casting vote (Article 39.2 of the Articles of Association).

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

Yes No **X**

**Age limit for chairman**

**Age limit for CEO**

**Age limit for directors**

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

Yes No **X**

<b>Maximum term of office (years)</b>	
---------------------------------------	--

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

In accordance with article 17.2 of the Board Regulations, directors are required to do everything in their power to attend Board meetings. When they absolutely cannot avoid doing so in person, they may grant proxy to another Board member, in writing and on the occasion of each meeting, indicating the opportune voting instructions and notifying the Chairman of the Board of the proxy (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

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

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

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

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

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

Number of meetings held with all members in attendance	15
% attendance over total votes cast in the year	100%

**C.1.31** Indicate whether the separate and consolidated annual financial statements are certified prior to their presentation to the board of directors for approval:

Yes No  X

Identify, if appropriate, the person(s) certifying the separate and consolidated financial statements before submission to the board for approval:

Name	Position

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

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

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

Yes No  X

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



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

**C.1.34 Section repealed**

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

Article 14.2 of the Board Regulations stipulates, notwithstanding any other duties that may be vested in it from time to time by the Board of Directors, that the Audit and Control Committee shall have the following basic duties:

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

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

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

Yes No

Outgoing auditor	Incoming auditor

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

Yes No

Explanation of the disagreements

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

Yes  No

	Company	Group	Total
Fees for non-audit work (thousands of euros)	12	0	12
Fees for non-audit work / total amount invoiced by the audit firm (%)	3.61%	0%	2.39%

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

Yes No

Explanation of the reasons

**C.1.39 State the number of consecutive years the current audit firm has been auditing the annual financial statements of the company and/or its group. Likewise, indicate how many years the current audit firm has been auditing the annual financial statements as a percentage of the total number of years for which the financial statements have been audited:**

	Company	Group
Number of consecutive years	3	

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

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

**Yes X No**

**Details of the procedure:**

Article 26 of the Board Regulations stipulates:

1. In order to help them fulfil their duties, any of the directors may seek the assistance they need from the Company. To this end, the Company will enable the appropriate channels, which, in special circumstances, may include external advisory services whose cost would be borne by the Company. Any such engagement must necessarily relate to specific problems of a certain scale and complexity arising in the performance of their duties.
  
2. The decision to hire external advisers at a cost to the Company must be notified to the Chairman and may be vetoed by the Board of Directors if it can certify that:
  - a. It is not necessary to due performance of the duties incumbent upon the external directors;
  - b. Its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues; or
  - c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

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

**Yes X No**

**Details of the procedure:**

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings must be called with at least three days' notice. The call notice must always include the meeting agenda and be accompanied by the relevant information, duly summarized and documented.
  
4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

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

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

Yes  No

**Details of the rules**

Article 36 of the Board Regulations stipulates:

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

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

Yes      No

Name of director	Offence	Observations

**Indicate whether the board has analysed the case. If so, give a substantiated explanation of the decision taken as to whether or not the director in question**

should remain in office and, as warranted, outline the actions taken or planned by the board of directors as of the date of this report.

Yes No

Decision/action taken	Substantiated explanation

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

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

Number of beneficiaries	
Type of beneficiary	Description of the agreement

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

	Board of directors	General meeting
Body authorising the clauses		

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

## C.2. Board committees

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

### **EXECUTIVE OR STEERING COMMITTEE**

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

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

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

#### **Duties**

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

#### **Organisation and operation**

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

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

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

#### **Activities**

Note that Lar España did not avail of this power to set up an Executive Committee in 2016.

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

Yes    No

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

### **AUDIT COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Job category</b>
José Luis del Valle	Chairman	Independent
Pedro Luis Uriarte	Member	Independent
Miguel Pereda	Member	Proprietary
Juan Gómez-Acebo	Secretary	Non-board member

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

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

#### **Duties**

As outlined in article 42.2 of Lar España's Articles of Association and article 14.2 of its Board Regulations, and notwithstanding any other duties vested in it by law or entrusted to it by the Board of Directors, the Audit and Control Committee shall have, at least, the following responsibilities: a) supervising calculation of the fees received by the Management Company in the course of performing its duties; b) reporting at the General Meeting on those matters raised by shareholders concerning the areas falling under its remit; c) supervising effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems; d) analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process; e) monitoring the process of drawing up and disclosing regulated financial information; f) proposing the appointment, re-election or replacement of the account auditor to the Board of Directors for submission at the general meeting, in keeping with prevailing regulations; g) supervising the work of the Company's internal audit service; h) establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the auditing process. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation; i) issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report should refer specifically to the provision of the non-audit services referred to above; j) naming and supervising the external asset appraisers commissioned to value the Company's assets; and k) reporting, before resolutions have to be taken, to the Board of Directors on all matters contemplated in prevailing law, the Articles of Association and the Board Regulations, particularly with respect to: (i) the financial information the Company must disclose periodically; (ii) the creation or acquisition of interests in special-purpose vehicles or companies domiciled in tax havens; (iii) related-party transactions; and (iv) the economic conditions and accounting impact and, when applicable, the exchange ratio proposed in respect of any fundamental changes or corporate transactions the Company is planning.

### **Organisation and operation**

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

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

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

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

### **Activities**

The main activities carried out by the Audit and Control Committee in 2016:

- Review of the periodic financial disclosures
- Review of the annual financial statements
- External audit
- Internal audit
- Compliance with corporate governance regulations
- Supervision of the fees received by the Management Company
- Valuation of the Company's assets

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

<b>Name of the director with specialist expertise</b>	José Luis del Valle
<b>No. of years the committee chair has held the post</b>	3



## NOMINATION AND REMUNERATION COMMITTEE

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

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

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

### **Duties**

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

### **Organisation and operation**

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

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

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

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

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

The Committee shall consult with the Chairman, especially on matters relating to executive directors and senior officers. In addition, in order to do its job better, the Appointments and Remuneration Committee may also seek external expert counsel when it considers so doing necessary to the correct fulfilment of its duties.

### **Activities**

The Appointments and Remuneration Committee met six times in 2016 and performed the following activities:

- In relation to the Company's corporate governance policies, the Appointments and Remuneration Committee completed the review and approval of a director selection policy, the procedure and questionnaires for evaluating the Board of Directors, its members and its committees and the procedure for evaluating officers.
- As for evaluation of the Company's officers, the Appointments and Remuneration Committee reviewed the conclusions drawn from the evaluation exercise and the level of delivery of the targets for 2015; it also approved the payment of 100% of the bonuses established for each of the officers.  
In addition, the Committee reviewed and approved the proposed targets for the Company's employees for 2016, agreeing a structure based on 75% of shared objectives applicable to all professionals and 25% of individually-personalised objectives.

In 2016, the Committee began to evaluate the target structure for 2017 and agreed some of the criteria to be used in setting these targets the following year.

- On the corporate social responsibility (CSR) front, the Appointments and Remuneration Committee regularly reviewed matters concerning the design and implementation of the Company's SCR policy for the years to come. To this end, the Committee was assisted by EY, the entity appointed to carry out this advisory mandate following a competitive tender. EY flagged important aspects to be taken under advice such as building accessibility for persons with reduced mobility, environmental protection in the course of development of the Company's business activities and the need to engage tenants in the task of delivering these objectives.  
The Committee agreed to undertake a competitive tender for the formulation of a Master CSR plan for the next three years.

In addition, the Appointments and Remuneration Committee approved the creation of a Sustainability Committee which will report to it and in theory must meet on a quarterly basis.

- The Appointments and Remuneration Committee reviewed and approved the Director Remuneration Report for 2015, as required under article 541 of Spain's Corporate Enterprises Act, and the report on the activities of the Committee in 2015, as stipulated in article 529 *nonies* of that same Act.

## COMMITTEE

Name	Position	Class of director

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

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

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

	Number of female directors			
	2016 Number %	2015 Number %	2014 Number %	2013 Number %
<b>Executive committee</b>	N/A	N/A	N/A	N/A
<b>Audit committee</b>	0	0	0	N/A
<b>Appointments and remuneration committee</b>	0	0	0	N/A
<b>Nomination committee</b>	N/A	N/A	N/A	N/A
<b>Remuneration committee</b>	N/A	N/A	N/A	N/A
<b>_____ committee</b>	N/A	N/A	N/A	N/A

**C.2.3 Section repealed**

**C.2.4 Section repealed**

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

The Board Regulations govern the workings of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). The Board Regulations are available on the corporate website and can be reached using the following link:

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

**C.2.6 Section repealed**

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

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

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

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

The Investment Management Agreement in force between Grupo Lar Inversiones Inmobiliarias, S.A. as Management Company and Lar España Real Estate SOCIMI, S.A. as the Company Managed, entered into on 12 February 2014, specifies (in its fifth clause) the following:

The Management Company shall be entitled to provide services and perform and participate in transactions, subject to obtaining prior written consent from the Company, in relation to any of the following matters:

- (i) Any acquisition/disposal of a real estate investment or the arrangement of a binding agreement for the acquisition/disposal of a real estate investment, when the cost of the acquisition/total gross proceeds exceed(s) 30 million euros;
- (ii) Any new financing or refinancing, including related hedging agreements, arranged in connection with a real estate investment when its amount exceeds 30 million euros;
- (iii) Any expenditure on capital goods for real estate investment purposes of 10 million euros or more;
- (iv) Any proposed lease agreement or termination of such an agreement when the annual rent is equivalent to over 10% of the Company's total rental income;
- (v) Any joint investment or joint venture in properties for commercial usage; if approved, the Lar Group will have the right to manage the joint investment or joint venture in full on its own behalf and on behalf of the Company;
- (vi) Any joint investment or joint venture in properties for residential usage that include an investment by the Company in excess of 10 million euros;
- (vii) Any hedge or use of derivatives, including those related to debt instruments, interest or real estate investments, unless such investments are part of the pertinent financing, as outlined in item (ii) above;
- (viii) The Company's participation in any transaction for the acquisition of the assets of any company, firm or person that happens to be: (1) a subsidiary of the Management Company; (2) a direct or indirect shareholders of the Management Company (other than the shareholders of Grupo Lar who are not members of the Pereda family (the "Minority Shareholders")); or (3) a subsidiary controlled directly or indirectly, control within the meaning of article 42 of the Spanish Code of Commerce, by the entities mentioned in (2)

above (that are not Minority Shareholders), or in the sale of goods or provision of services deemed material to any subsidiary of the Management Company, unless those activities are covered by a framework agreement approved by the Board of Directors. The Company's participation in any transaction for the purchase of assets from a person related to a subsidiary of the Management Company or the provision of services deemed material by such a person shall similarly be deemed matters subject to approval. For the avoidance of doubt, Gentalia is not a subsidiary of the Management Company for the purposes of this Agreement.

- (ix) The disposal of any right, title or interest whatsoever in the properties of the Company for an amount that is less than they were acquired for;
- (x) Transactions and situations with related parties that could lead to conflicts of interest;
- (xi) The appointment by the Management Company of one or more estate managers or the execution of any third-party services contracts worth more than 1 million euros a year; and
- (xii) Any transaction executed by Gentalia, unless regulated by a framework agreement arranged on an arm's length basis, approved by the Board of Directors, and so long as the assets in question are in keeping with the terms of such framework agreement.

Notwithstanding the foregoing, the Management Company shall be entitled to provide services and participate in transactions related with the matters subject to approval without having to obtain prior written consent from the Company:

- (i) For legal reasons; or
- (ii) In order to respond to a *bona fide* emergency for which time is of the essence.

When Company approval is required for a transaction under the terms of this Agreement, the Management Company must present the Board of Directors a proposal regarding the transaction and provide the Company with the information the Board may reasonably request in order to evaluate and, if it so decides, approve that transaction.

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

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Nature of the transaction	Amount (thousands of euros)
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	LAR ESPAÑA REAL ESTATE SOCIMI, S.A.	contractual	Management agreement	31,961

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

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

**D.4. Report any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated**

**financial statements and whose purpose or terms fall outside the company's ordinary course of business:**

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

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

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

Grupo Lar Inversiones Inmobiliarias, S.A. – 31,961 thousand euros

Gentalia 2006, S.L. - 1,672 thousand euros

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

Article 31 of the Board Regulations

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

For Board regulation purposes, the following definitions apply:

a. Persons related to natural person directors:

- i. Their spouses or significant others.
- ii. The ancestors, descendants and siblings of the director and of the spouse (or significant other) of the director.
- iii. The spouses of the ancestors, descendants and siblings of the director.
- iv. The companies or entities at which the director or any of his related parties, directly or through a representative, fulfils any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- v. The companies or entities at which the director or any of his related parties, directly or through a representative, holds a directorship or management position or from which he receives any compensation for any reason.
- vi. In the case of proprietary directors, additionally, the shareholders appointing him as their representative.

b. Persons related to legal person directors:

- i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- ii. The companies in the same group, as group is defined in article 42 of of Spain's Code of Commerce, and their owners.
- iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.
- iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

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

#### Internal Securities Markets Code of Conduct

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

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

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

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

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

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

- a. The Company or any of the companies comprising Grupo Lar España.
- b. Significant suppliers or customers of the Company or the companies comprising Grupo Lar España.
- c. Entities devoted to the same business as or that compete with the Company or any of its subsidiaries.



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

Code of Conduct

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

In order to prevent these situations, the Bound Parties must act honestly and confidentially, without letting themselves be manipulated or influenced by third parties. They must abstain from voting or issuing an opinion on matters on which they are conflicted that could harm the Company's interests and must always act independently, exercising freedom of judgement and loyalty to the Company.

Employees, officers and directors who suspect the existence of a conflict of interest should contact the Audit and Control Committee.

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

Yes    No **X**

**Identify the subsidiaries listed in Spain:**

Listed subsidiaries

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

Yes    No

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

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

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

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

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

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

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

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

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

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

The main participants in the ERM model are:

### **Process manager or owner**

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

### **Risk officer**

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

### **Audit and Control Committee**

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

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

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

### **Board of Directors**

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

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

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

Lar España has identified the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify these risks, management's experience in the real estate sector and the Company's specific circumstances were factored in, as were the medium-term strategic initiatives contemplated by the firm.

Lar España has an updated risk map depicting the universe of risks that could affect the organisation. The risks listed below are the risks that have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2016, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- The sale-purchase of real estate assets: Planning, information and execution.

- Property valuations
- Obtaining reliable data during acquisitions
- Management of REIT regime-related requirements
- Reputation
- Internal talent retention
- Investment planning
- Dependence on the investment/asset manager
- Accounting and financial information reporting
- Financing activities
- Investor and media relations
- Competitors
- Socio-economic and political changes
- Confidentiality

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

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

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

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

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

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

As far as the Company is aware, no material risks of any kind, including fiscal risks, materialised in 2016.

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

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

The level and frequency with which it monitors the risks identified varies as a function of the perceived importance or criticality of these risk factors and the level of effectiveness of the controls currently in place. Accordingly, Lar España has defined different scenarios for managing its risks: a) exhaustive analysis of the risks deemed highly critical to achieving an

adequate level of control; b) assessment and surveillance of risks deemed of medium importance to achieving adequate control as a function of the real level of risk; and c) rationalisation and optimisation of the controls applied to risks of relatively less importance. Based on these levels, Lar España has established four kinds of strategies in relation to the level of risk assumed in each instance:

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

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

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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

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

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

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

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

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

#### **Board of Directors**

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

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

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

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

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

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

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

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

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

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

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

### **Corporate Management**

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

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

### **Internal Audit Service**

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

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

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

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

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

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

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

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

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

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

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

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

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

On 24 February 2015, the Board of Directors approved the Company's Code of Conduct, the purpose of which is to establish the guidelines governing the conduct of any and all people acting in the name of Lar España and its subsidiaries. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's Management Company.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Report at least:**

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

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

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

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

Lar España has documented the most significant processes. In 2016, it revised the documentation prepared the year before. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company to mitigate the risks associated with each process. Having documented the majority of the most significant processes in prior years, the idea is to continue to flesh out and fine-tune this information for these and other processes related with the financial reporting function.

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

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

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

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

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

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

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

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

The Company has a Risk Control and Management Policy which:

- Describes and analyses the components and activities of the risk management process *per se*;
- Defines the organisational approach and the roles and duties needed from an enterprise risk management (ERM) standpoint.

- Defines the model for monitoring (information and reporting) ERM activities.
  - Outlines the criteria for updating the ERM system.
- **Which of the company’s governing bodies is responsible for overseeing the process.**

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

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

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

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

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

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

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

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

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

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

Lar España has documented the organisation's General Controls and its most significant processes (including the period-end closing - providing for a specific review of critical judgements, estimates, valuations and projections -, revenue recognition, asset appraisals and property acquisitions). Last year, it also reviewed and updated the documentation detailing some of the processes related with the generation of financial information.

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. In 2016, Corporate Management continued the process of gradually implementing the policies and procedures itemised in the ICFR Manual.

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

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

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

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

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

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

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

As stipulated in article 26 of the Board Regulations, 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.

**F.4. Information and communication**

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

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

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

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

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

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

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

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

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

**F.5. System monitoring**

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

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

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

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

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

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

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

The gradual rollout of the ICFR system continued in 2016, identifying the most critical accounts and processes and working to document them in detail. Also, the processes for asset valuation, incomes, and accounts consolidations without finding any significant evidence. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

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

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

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

As already noted, Lar España is implementing its ICFR system and documenting the most critical processes gradually. It is worth noting in this respect that Corporate Management

meets regularly with the external auditor to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

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

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

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

Not applicable.

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

**State whether:**

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

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



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

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

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

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

Compliant X Explain

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

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

Compliant Partially compliant Explain Not applicable X

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

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

Compliant X Partially compliant Explain

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

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

Compliant X Partially compliant Explain

Lar España has a formal policy of communication and contact with shareholders, institutional investors and proxy advisors which it expects to be approved by its Board of Directors on 24 February 2017.

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

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

Compliant X Partially compliant Explain

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

**a) Report on auditor independence.**

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

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

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

Compliant X Partially compliant Explain

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

Compliant X Explain

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

Compliant X Partially compliant Explain

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

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

Compliant X Partially compliant Explain

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

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

Compliant X Partially compliant Explain Not applicable

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

Compliant X Partially compliant Explain Not applicable

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

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

Compliant X Partially compliant Explain

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

Compliant X Explain

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

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

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

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

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

Compliant  Partially compliant  Explain

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

Compliant  Partially compliant  Explain

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

**This criterion can be relaxed:**

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

Compliant  Explain

In keeping with prevailing legislation and regulations, as well as the Company's Articles of Association, and subject to the prerequisite that any candidate put forward must be duly qualified to serve as a member of the Board of Directors, and once his or her candidacy has been approved by the Company's Appointments and Remuneration Committee (which approval may not be withheld, conditioned or delayed without good reason), the Management Company is entitled to require the Board of Directors to present the following appointments to the Company's shareholders in general meeting:

- (i) one non-executive director of the Company appointed by the Management Company, on the condition that the Board of Directors is made up of five members or fewer; or
- (ii) up to two non-executive directors appointed by the Management Company, to the extent that the Board of Directors is made up of more than five people.

Subject to delivery of the above-listed prerequisites, the Management Company is entitled to require the Board of Directors to submit to the shareholders in general meeting a resolution to revoke or substitute any person who has been appointed a member of the Board of Directors on the understanding that, in the event of revocation, the Management Company shall indemnify and exonerate the Company (and any member of its group) from any liability in respect of any costs, losses, liability and/or charges whatsoever sustained by the entity in question as a result of the revocation.

No Company director appointed by the Management Company under the terms of this clause shall receive fees or other remuneration from the Company for his or her services as such.

The Chairman of the Board of Directors is entitled to require the presence of the Chairman of Grupo Lar at the meetings of the Board of Directors, and the Management Company must endeavour to have the Chairman of the Grupo Lar attend such meetings when so required, barring material impediment. This attendance requirement is enabled and regulated in the Company's Articles of Association and its Board Regulations.

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

Compliant X Explain

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

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain Not applicable

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

Compliant X Partially compliant Explain Not applicable

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

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

Compliant X Explain

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

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

Compliant X Partially compliant Explain

**23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

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

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

Compliant X Partially compliant Explain Not applicable

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

Compliant X Partially compliant Explain Not applicable

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

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain Not applicable

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

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

Compliant  Partially compliant  Explain

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

Compliant  Partially compliant  Explain

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

Compliant  Partially compliant  Explain

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

Compliant  Partially compliant  Explain  Not applicable

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

Compliant  Explain

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

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



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

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

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

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

Compliant X Partially compliant Explain

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain Not applicable

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

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

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

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

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

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

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

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

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

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

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

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant Partially compliant Explain Not applicable X

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

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant X Partially compliant Explain

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

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant Explain Not applicable **X**

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

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

Compliant **X** Partially compliant Explain

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

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

Compliant **X** Partially compliant Explain

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

Compliant **X** Partially compliant Explain

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

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**

**d) They may engage external advice, when they feel it necessary for the discharge of their functions.**

**e) Meeting proceedings should be minuted and a copy made available to all board members.**

Compliant Partially compliant Explain Not applicable X

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

**a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**

**b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**

**c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**

**d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**

**e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**

**f) Monitor and evaluate the company's interaction with its stakeholder groups.**

**g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**

**h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant X Partially compliant Explain

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

**a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**

**b) The corporate strategy with regard to sustainability, the environment and social issues.**

**c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**

**d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**

**e) The mechanisms for supervising non-financial risk, ethics and business conduct.**

**f) Channels for stakeholder communication, participation and dialogue.**

**g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant X Partially compliant Explain

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

Compliant X Partially compliant Explain

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

Compliant X Explain

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

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

Compliant X Partially compliant Explain

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

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

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

Compliant Partially compliant Explain Not applicable X

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

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

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

**Specifically, indicate whether the company is subject to the corporate governance legislation of any country other than Spain and, if so, include any mandatory disclosures that are different from those required for this report.**

- 3. State also whether the company voluntarily subscribes to other business ethics or corporate governance codes, whether international, sector-specific or other. If so, identify the codes applied and the date of adhesion. State specifically whether the company subscribes to the Good Tax Practice Code (of 20 July 2010).**

This annual corporate governance report was approved by the Company's Board of Directors on 24 February 2017.

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

Yes    No **X**

Name or company name of any directors who did not vote in favour of authorising this report for issue.	Reason (vote cast against   abstention   non-attendance)	Explanation for the reason given



*Translation of a report originally issued in Spanish based on our work performed in accordance with the assurance regulations in force in Spain and prepared in accordance with the regulatory reporting framework applicable to the Group in Spain. In the event of a discrepancy, the Spanish-language version prevails*

**ASSURANCE' REPORT ON THE 2016 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2016**

To the Directors of  
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.:

As requested by the Board of Directors of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ("the Entity") and in accordance with our engagement letter of 3 January 2017, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for 2016, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by Lar España in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of Lar España was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2016 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

The procedures applied were as follows:

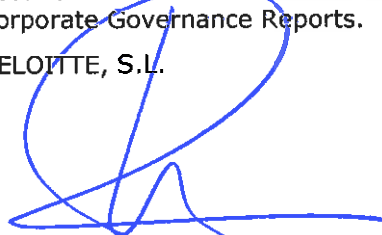
1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of December 22<sup>nd</sup>, 2015.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of 22 December, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Antonio Sánchez-Covisa Martín-González  
Partner  
February 24<sup>th</sup>, 2017