

## **REPORT PREPARED BY THE AUDIT AND CONTROL COMMITTEE OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ON ITS FUNCTIONING IN 2018**

### **I. INTRODUCTION**

In accordance with the provisions of article 14.7 of the Board of Directors Regulations of Lar España Real Estate SOCIMI, S.A. (“**Lar España**” or the “**Company**”) regarding regulation of the Audit and Control Committee, and in order for the Board of Directors to undertake the annual evaluation of this Committee as provided in article 529 *nonies* of the consolidated text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010 (the “**Spanish Companies Act**”), the aforesaid Committee will prepare an annual report of its functioning, highlighting the principal issues arising, if any, in respect of its inherent functions. In compliance with the aforesaid rules, the Audit and Control Committee prepares this report- which includes the information provided in Spanish National Securities Market Commission (CNMV) Technical Guide 3/2017, on Audit Committees of entities of public interest (the “**CNMV Technical Guide 3/2017**”).

This report will be attached to the Company’s annual Corporate Governance report and, for the purposes of complying with Recommendation 6 of the Code of Good Governance for Listed Companies, will be available to shareholders, investors and other stakeholders by way of the Company’s website ([www.larespana.com](http://www.larespana.com)) from the call of the ordinary General Meeting of shareholders. Also included in this report is the Committee's report on the auditor's independence and information on related-party transactions during the year.

### **II. REGULATION**

The Audit and Control Committee of Lar España is regulated in articles 42 of the Articles of Association, 14 of the Regulations of the Board of Directors, and in the specific Regulations of the Audit and Control Committee which include the basic aspects regarding the composition, functions and functioning of the Commission included in the Technical Guide 3/2017 of the CNMV.

### **III. COMPOSICIÓN**

Articles 42 of the Articles of Association and 14 of the Board of Directors Regulations, at the date of this report, provide that the Audit and Control Committee will be comprised of a minimum of three and a maximum of five directors, appointed by the Board of Directors from among the external or non-executive directors. The majority of the members of the Audit and Control Committee will be independent and will be appointed –specially the Chairman- taking into account their knowledge and experience in accounting, auditing and risk management. Likewise, the Committee members shall

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have, as a whole, the technical knowledge necessary with regard to the Company's business sector, in accordance with article 529 *quaterdecies*.1 of Spanish Companies Act. The Board of Directors shall also appoint the Chairman of the Committee from among the independent directors that form part of the Committee. In accordance with article 14.2 of the Board of Directors Regulations, the Chairman of the Audit and Control Committee will remain in office for a maximum term of three years, at the end of which the Chairman may not be re-elected as such until one year has passed after leaving office, without prejudice to the Chairman's continuing or being re-elected as a member of the Committee.

During 2018 there have been changes in the composition of the Audit and Control Committee. In this sense, until 16 October 2018 was composed of the following members:

- **Mr. Pedro Luis Uriarte Santamarina** (Chairman) was an independent non-executive director of Lar España. He was appointed as a director of Lar España by Grupo Lar Inversiones Inmobiliarias, S.A., the then sole shareholder of the Company, on 5 February 2014, and re-elected as external independent director, at the prior proposal of the Appointments and Remuneration Committee and following a favourable report from the Board of Directors, by the Ordinary General Shareholders' Meeting held on 29 May 2017. The Board of Directors of the Company appointed him as a member of the Audit and Control Committee on 6 February 2014, being subsequently appointed Chairperson of the Committee by the Board on 29 May 2017. After working in the industrial sector for nine years, from 1975 to 2001 he held various positions (among other Chief Executive Officer and Vice-President) in BBV and BBVA, one of the main Spanish Banks. He held the position as Vice Chairman of the Board of Telefónica, leader in the Spanish telecommunications market. In the area of public administration, he was appointed Minister of Economy and Finance of the Basque Government from 1980 to 1984. In 2007, Mr. Uriarte founded and chaired Innobasque, the Basque Innovation Agency, which he headed until 2009. Since then, he has collaborated on a number of different R+D+i initiatives and strategy consulting. He was also a Board member of UNICEF Spain.

Mr. Pedro Luis graduated from Universidad de Deusto (Bilbao, Spain) with a degree in business and administration, and is a member of the board of Deusto Business School, and has been honoured with numerous awards such as the "Gran Cruz al Mérito Civil" (Spanish government) in 2002, the Gold Medal of Guipuzkoa in 2005 and the "Directivo del año" award (awarded by the Spanish Confederation of Managers & Executives - CEDE) in 2011.

- **Mr. José Luis del Valle Doblado** (Member) is an independent non-executive director of Lar España. He was appointed as a director of Lar España by Grupo Lar Inversiones Inmobiliarias, S.A., the then sole shareholder of the Company, on 5 February 2014, and re-elected as external independent director, at the prior proposal of the Appointments and Remuneration Committee and following a favourable report from the Board of Directors, by the Ordinary General Shareholders' Meeting held on 29 May 2017. On 6 February 2014 the Board of Directors of the Company appointed him as its Chairman and as a member and Chairman of the Audit and Control Committee, a position which he held until 29 May

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2017, the date on which he presented his resignation to the Board as Chairman of the Committee, being since then a member of such Committee.

Mr. José Luis del Valle has extensive experience in the banking and energy sectors. From 1988 to 2002 he held various positions with Banco Santander, one of the most relevant financial entities in Spain. In 1999 he was appointed Executive Vice President and Finance Director of the bank (1999-2002). Subsequently he was Chief Development and Strategy Officer of Iberdrola, one of the main Spanish energy companies (2002-2008), Chief Executive Officer of Scottish Power (2007-2008), Chief Strategy and Research Officer of Iberdrola (2008-2010) and Advisor to the Chairman of the wind-turbine manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Chairman of Board of the Directors of the WiZink Bank; Director of Abengoa, which provides innovative technological solutions for sustainable development; Director of the insurance group Ocaso and Director of the Spanish Institute of Directors. He is also Chairman of the Scientific Committee of Mining and Minerals Hall (MMH).

Mr. del Valle is a Mining Engineer from Universidad Politécnica (Madrid, Spain), number one of his class, Master of Science and Nuclear Engineer from the Massachusetts Institute of Technology (Cambridge, USA). Furthermore, Mr. del Valle holds an MBA with high distinction from Harvard Business School (Boston, USA).

- **Mrs. Isabel Aguilera Navarro** (Member) is an independent external director of Lar España. She was appointed as a director of Lar España by the Board of Directors through the co-option system, at its meeting held on 29 May 2017, date on which the Board of Directors also appointed her as member of the Audit and Control Committee, being her appointment ratified by the general meeting of shareholders held on 19 April 2018. Mrs. Isabel Aguilera Navarro developed her professional career at various companies across several sectors. She served as President for Spain and Portugal at General Electric, General Manager for Spain and Portugal at Google, General Operations Director at NH Hoteles Group, CEO for Spain, Italy and Portugal at Dell Computer Corporation and director of Indra Sistemas, BMN Bank, Aegon España and Laureate, Inc.. Mrs. Isabel is currently a member of the Board of Directors at Grupo Cemex, Banca Farmafactoring, Oryzon Genomics and Grupo Egasa.

Mrs. Isabel has a degree in Architecture and Urbanism from the ETSA of Seville, a master's degree in Commercial and Marketing Management from IE, and completed the General Management Programme at IESE and the Executive Management of Leading Companies and Institutions Programme at San Telmo Institute. Mrs. Isabel is currently Associate Professor at ESADE.

At the Board meeting held on 16 de octubre 2018, Mr. Pedro Luis Uriarte Santamarina submitted his resignation as a member of the Board of Directors of Lar España, and therefore as a member of the Committee. In such meeting, the Board of Directors co-opted Mrs. Leticia Iglesias Herraiz as an

independent director of the Company, and also agreed to appoint her as a member and Chairman of the Committee on his behalf:

- **Mrs. Leticia Iglesias Herraiz** (Chairman) has a wide experience in both the regulation and supervision of securities markets, in financial services and in audit. She started her professional career in 1987, in the audit division of Arthur Andersen. Then from 1989 to 2007 she further developed her career in the Securities Exchange Commission of Spain (the “CNMV”). From 2007 to 2013 she was Chief Executive Officer of the Spanish Institute of Chartered Accountants (ICJCE). Additionally from 2013 to 2017 she was an independent member of the Board of Directors at BMN, member of the Executive Committee, Chair of the Global Risk Committee and member of the Audit Committee. From 2017 to 2018, she was an independent member of Board of Directors at Abanca Services and Chair of the Audit and Risk Committee. Since May 2018, she has been an independent member of the Board of Directors of Abanca Bank, Chair of the Audit and Compliance Committee, member of the Global Risk Committee and member of the Comprehensive Risk Committee.

Ms. Leticia has a degree in Economics and Business Studies from Universidad Pontificia Comillas (ICADE) and is member of the Official Registry of Auditors of Spain (ROAC).

In accordance with the foregoing, as of 31 December 2018, the Audit and Control Committee was composed of the following members:

- **Mrs. Leticia Iglesias Herraiz** (Chairman).
- **Mr. José Luis del Valle Doblado** (Member).
- **Mrs. Isabel Aguilera Navarro** (Member).

Detailed information on the members of the Committee and their professional careers is available to the shareholders, investors other stakeholders of Lar España on the website of the Company

In accordance with the provisions of article 14.1 of the Board of Directors Regulations, the Secretary non member of the Audit and Control Committee is Mr. Juan Gómez-Acebo Sáenz de Heredia, the Secretary of the Board of Directors. The Deputy Secretary of the Committee is the Deputy Secretary of the Board of Directors, Mrs. Susana Guerrero Trevijano.

As a result, the composition of the Committee during 2018 has been consistent with the provisions of the Board of Directors Regulations and article 529 quaterdecies.1 of the Spanish Companies Act, in accordance with its current version, being all the members of the Committee independent directors during 2018.

#### **IV. MEETINGS**

In accordance with the provisions of article 14.4 of the Regulations of the Board of Directors, the Audit and Control Committee ordinarily meets on a quarterly basis, in order to review the periodic

financial information to be submitted to the supervisory authorities as well as the information that the Board of Directors must approve and include within its annual public documentation.

It also may meet at the request of any of its members and when called by its Chairman. The Chairman must call the meeting whenever the Board or its Chairman request the issuance of a report or preparation and adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority.

The Audit and Control Committee met seven times during 2018.

As a result, the Audit and Control Committee met with the frequency required for proper performance of its duties.

All the members of the Committee have personally attended all the meetings held in 2018 with the sole exception of Mr. Pedro Luis Uriarte, who on a single occasion was represented by the Chairman of the Board, pursuant to a special delegation granted for these purpose, having granted precise voting instructions prior to the meeting.

The seven meetings of the Audit and Control Committee were held at the Company's registered office.

In addition to its members, the meetings of the Audit and Control Committee have been attended by various non-members, at the invitation of the Chairman of the Committee to deal with certain items on the Agenda, such as the Director Mr. Miguel Pereda (Managing Director also of Manager), the Corporate Director, the External Auditor (Deloitte), the Internal Auditor and the Financial Director. In particular, the Internal Auditor has attended 5 meetings of the Committee and the External Auditor has attended 3 meetings. Likewise, when it has been considered appropriate, external advisors or suppliers have participated in specific matters of the Audit and Control Committee.

## **V. FUNCTIONS OF THE AUDIT AND CONTROL COMMITTEE AND ACTIVITIES DURING 2018**

Article 14 of the Board of Regulations sets out the functions of the Audit and Control Committee in matters relating essentially to the supervision of financial information, the supervision of internal information and control systems, the supervision of risk management and control, independence and relations with the external auditor, related-party transactions and the Company's corporate governance obligations.

The following is a list of the powers that the Regulations attribute to the Committee, indicating its most important actions in 2018 in relation to them:

### **1) With regard to the supervision of financial information:**

In relation to this matter, the Audit and Control Committee has the following powers:

- Oversee the process of preparing and submitting the required financial information and submit recommendations or proposals to the managing body aimed at safeguarding its integrity.

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- Give the Board of Directors prior notice of any financial information that the Company, as a listed company, is obliged to publish periodically. The Audit and Control Committee must ensure that the half-yearly financial reports and the interim management reports are drawn up in accordance with the same accounting policies as the annual financial statements and, to this end, it may ask the external auditor to conduct a limited review of the half-yearly financial reports.
- Oversee that the Board of Directors endeavours to present the financial statements to the General Shareholders' Meeting without reservations or qualifications in the auditors' report. Should such reservations or qualifications exist, both the Chairman of the Audit and Control Committee and the auditors should clearly explain to the shareholders of the content and scope of such reservations or qualifications.

- **Review of periodic financial reporting**

As in the last financial period, during the year 2018, the Committee supervised the process of preparation and the integrity of the quarterly and semi-annual financial information, -including, where appropriate, the adjustments that have deemed appropriate in the documentation- both individual and consolidated, that the Board of Directors must provide to the market and send to the CNMV by virtue of its periodic reporting obligations as a listed company.

Accordingly, the Committee reviewed compliance with the regulatory requirements, appropriate definition of the scope of consolidation and proper application of accounting principles in the periodic financial reporting, all within the terms legally established for that purpose, approving the financial information prior to its submission to the Board of Directors for approval before making it public.

- **Review of annual accounts**

The Audit and Control Committee, with the purpose of preventing the individual and consolidated annual accounts prepared by the Board of Directors from being presented with reservations and qualifications in the audit report, performed the following activities prior to the preparation of the accounts:

- Review the accounts of the Company and the Group.
- Monitor and verify compliance with legal requirements and the proper application of generally accepted accounting principles.
- Review the periodic financial information that the Board of Directors must provide to the markets and their supervising bodies.

After timely discussion and clarification of various aspects of the documents presented, the Audit and Control Committee reported favorably to the Board of Directors prior to the preparation of the annual accounts, as well as the Company's consolidated financial statements for the year 31 December 2017, and the management report, which incorporates the Annual Corporate

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Governance Report. Likewise, the Audit and Control Committee has agreed to submit to the Board the proposed profit application for the fiscal year ended on 31 December 2017.

Accordingly, it is noted that the audit reports of the individual and consolidated annual accounts of Lar España corresponding to the financial year ended 31 December 2017 had no reservations or qualifications. Likewise, no reservations or qualifications are expected regarding the audit reports regarding the individual and consolidated accounts of Lar España corresponding to the financial year ended 31 December 2018.

On the other hand, both the Company's Internal Auditor and the External Auditors have expressly stated that they have been able to carry out their work with complete freedom and collaboration from Lar España without any limitation.

## **2) With regard to the supervision of internal control and reporting systems:**

In relation to this matter, the Audit and Control Committee has the following powers:

- Oversee the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking the fulfilment of legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- Oversee on a regular basis the effectiveness of the internal control of the Company and its Group as well as the activities of the Company's internal audit function, discussing together with the auditors and any significant weaknesses in the internal control system detected in the audit, all without diminishing its independence. To that effect, and where applicable, the Committee will submit recommendations or proposals to the Board of Directors and the corresponding period for the follow-up thereof.
- Oversee the unit that assumes the internal audit function, which will oversee the proper functioning of the reporting and internal control systems and will report functionally to the Chairman of the Audit and Control Committee and, in particular: (a) monitor the independence and effectiveness of the internal audit function; (b) propose the selection, appointment, re-election and removal of the head of the internal audit department; (c) propose the department's budget; (d) approve its priorities and work plans, ensuring that its activity focuses primarily on the main risks to which the Company is exposed; (e) receive regular reports on its activities; (f) and verify that senior management take into account the findings and recommendations of its reports. The head of the internal audit department should present an annual work plan to the Committee, report on any incidents arising during its implementation and submit an activities report at the end of each year.
- Establish and monitor a mechanism whereby employees and any third party can report in a confidential or, if appropriate, anonymous manner any potentially significant irregularities within the Company, particularly of a financial and accounting nature.

- **Supervision of the Internal Auditd**

The Audit and Control Committee of Lar España has performed during 2018 the functions related to internal auditing of the Company that have been attributed to it in the Board Regulations, basically the following: (i) seeing to the independence and effectiveness of the internal audit function; (ii) propose the budget of the unit;(iii) receive periodical information regarding its activities; and (iv) verify that senior management takes into consideration the conclusions and recommendations of its reports.

It has also approved the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of the Company. In particular, it approved the work carried out on the 2017 audit plan and the 2018 audit plan. With regard to the latter, it suggested to the Internal Auditor that it incorporate (i) the monitoring of the Company's data protection aspects before the entry into force of the new Data Protection Regulations and their possible consequences, as if it were one of the main areas of risk in order to have it permanently monitored, as well as (ii) strengthening the monitoring and supervision of the financial situation of the Company's main lessees.

In this regard, the internal audit of the Company has periodically informed the Audit and Control Committee about its activities. In particular, the Committee was informed, among other issues, about the evolution, execution and implementation of corrective measures, if any, arisen from the development of the internal audit plan, about the functioning of the whistleblower channel, about crime prevention and money laundering follow-up, (with a clean opinion from the external expert Rubí Blanc Abogados carrying out the annual assessment) and data protection data.

In addition, the Legal Director has informed the Committee of the main legal developments in the area of market abuse as well as the state of implementation of the corporate tool to facilitate and ensure compliance with the obligations arising from market abuse regulations, while the Internal Auditor informs the Internal Auditor of the latest developments in the area of data protection.

On the other hand, the Committee was informed, upon its request, of the conclusions of the review carried out with respect to the degree of implementation and compliance with the recommendations of CNMV Technical Guide 3/2017, the degree of compliance being in general terms very high, with particular attention to the implementation of the risk management process and IFRS, in the elaboration of a written procedure for the selection of the external auditor and in the elaboration of a procedure for the evaluation of the internal and external auditors, having proceeded to review the financial information published on the website to verify that it was updated.

### **3) With regard to the supervision of the relations and Independence of the external auditor:**

In relation to this matter, the Audit and Control Committee has the following powers:

- Submit to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process, in accordance with that set forth in applicable legislation, as well as the contracting terms.



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- Receive regular information from the external auditor in relation to the auditing plan and the results of its implementation, and verify that senior management has borne in mind its recommendations.
- Establish the proper relationships with auditors to receive information on any matters that may threaten their independence, for examination by the Audit and Control Committee, and any other matters related to the audit process and, where applicable, the authorisation of the services other than those prohibited, under the terms envisaged in applicable legislation, as well as other notices envisaged in audit legislation and other audit regulations.

In any event, the external auditor must send written confirmation on its independence with respect to the Company or entities directly or indirectly connected thereto on an annual basis, as well as detailed and individual information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor, pursuant to the applicable accounting legislation.

- Issue an annual report, prior to the issue of the auditors' report, containing an opinion on whether the independence of the auditors or audit companies has been compromised, which will be available to shareholders and investors through the Company's website well in advance of the Ordinary General Shareholders' Meeting. Such report will, in all cases, contain the reasoned evaluation the provision of each and every one of the additional services mentioned in the letter above, considered individually and as a whole, other than legal audit services, and in relation to the rules on independence or in accordance with the regulations governing audit activities.
  - Preserve the independence of the external auditor in the performance of its duties and, for such purpose: (i) ensure that the Company notifies the CNMV of any change of auditor as a Significant Event, accompanied by a statement of any possible disagreements arising with the outgoing auditor and, if any, of their content; (ii) ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services and, in general, other requirements designated to safeguard auditors' independence; and (iii), in the event of auditor's resignation, examine the reasons thereto.
  - In the case of groups, the Committee should encourage the Group auditor to take on the auditing of all companies of the Group.
  - Ensure that the remuneration of the external auditor does not compromise its quality or independence.
  - Ensure that the external auditor has an annual meeting with the Board of Directors in plenary session to inform it of the work carried out and developments in the Company's risk and accounting positions.
- **Supervision of relations and independence of the External audit**

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The Audit and Control Committee supervised the relationships with the external auditors and its fees for the financial year 2018, as well as the compliance with the current auditing services contract, receiving information, among other matters, of the audit plan for 2018, ensuring that the opinion on the annual accounts and principal content of the audit report were drafted clearly and precisely. In this regard, the Chairman of the Committee has met on various occasions with the external auditors to review the focus of their work. In this regard, the Chairman of the Committee has met on various occasions with the external auditors to review the focus of their work.

Also, the Committee verified that the work engaged from the statutory auditor is in compliance with the independence requirements established in the Audit Act, concluding, based on the confirmation of independence received from the auditors through their independence letter, that there are no objective reasons to question the independence of the auditor in 2018. In addition, confirmation of the independence of the External Auditor was requested to and obtained from the Internal Auditor.

Moreover, the Audit and Control Committee has analyzed and authorized the different services to be provided by the external auditor other than the audit of accounts as well as the fees proposed for them, taking, where appropriate, all necessary measures to avoid any risk to the auditor's independence, in accordance with the new European regulations on specific requirements for the audit of entities of public interest.

The Audit Act and section 4, function f), of article 529 quaterdecies of the Spanish Companies Act require that the Audit Committee annually, prior to the audit report, issue a report stating an opinion regarding the independence of the auditors. Based on this requirement and the confirmation of independence received from the auditors through the letter date 22 February 2019 attached to this report as Annex I, the Audit and Control Committee concluded that there are no objective reasons for questioning the independence of the statutory auditor for 2018.

<b>Concepts</b>	<b>Total</b> <i>(thousands of euros)</i>
Audit Services	325,5
Other Verification Services	81,4
<b>Total Audit and related Services</b>	<b>406,9</b>
Tax Services	-
Other Services*	254,2
<b>Total Professional Services</b>	<b>661,1</b>

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

The Audit and Control Committee checked the fees paid by the various Group companies to the external auditor in 2018. Details are given below:

In accordance with the foregoing, this Committee reasonably concludes that:

- (i) While performing its duties during the fiscal year 2018, the auditor has complied with the applicable rules regarding independence established in the auditing regulations.
- (ii) No circumstances have been identified in order to question the compliance with the rules governing the auditing activities performed by the external auditor with regards to its independence and the Company.
- (iii) The fees paid by the Company to the auditor do not represent a significant percentage of the revenue of the auditor for the purposes of complying with the rules established in the Audit Act.
- (iv) The fees paid to the auditor have been reasonably justified, estimating that they will not exceed reasonable market prices applicable to these types of services.
- (v) Currently, the obligation regarding the rotation of the signing auditor partner is not applicable.

There are not aspects that could reasonably be considered as a breach of the auditing rules regarding independence of the auditor or with the delivery of additional services different from the audit services.

#### **4) With regard to oversight of risk management and control:**

In relation to this matter, the Audit and Control Committee has the following powers:

- Oversee the effectiveness of the risk management systems and, in particular, review these systems in order for the main risks to be properly identified, managed and disclosed.
- Oversee the internal risk management and control function.
- In relation to the risk policy and risk management, identify at least (i) the different types of risk (operating, technological, financial, legal, reputational) to which the Company is exposed, including financial or economic risks of contingent liabilities and other off-balance sheet risks; (ii) the risk levels the Company deems acceptable; (iii) the measures in place to mitigate the impact of the identified risks, should they occur; and (iv) the internal reporting and control systems to be applied to control and manage the aforementioned risks, including contingent liabilities and off-balance risks.

In this regard, the Audit and Control Committee has carried out various activities such as the review and approval of the Money Laundering Prevention Manual, which had already been applied by the Company on an ongoing basis, agreeing to submit it to the Board for final approval, as well as the approval of the new risk map, after explaining the Internal Auditor the changes in the Company's priority risks and confirming that the Company's risk control levels are very healthy.

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In addition, the Internal Auditor has explained to the Committee, upon its request, the procedure for the detection and management of risks related to the concentration and solvency or liquidity of the main asset lessees.

Furthermore, the Committee has discussed the need to carry out an external evaluation or certification of the crime prevention plan, not considering necessary to carry out such a review without prejudice to continuing to monitor it in detail.

With regard to the internal control of financial reporting, during the year the Commission promoted the improvement of existing documentation and the extension of documentation to other processes that are considered significant.

**5) With regard to the Company's corporate governance obligations:**

In relation to this matter, the Audit and Control Committee has the following powers:

- Monitor compliance with legal requirements and the Company's internal governance regulations, including internal codes of conduct.
- Regularly review the Company's internal governance regulations and propose to the Board of Directors, for approval or submission at the General Shareholders' Meeting, as the case may be, any amendments and updates that contribute to its development and ongoing improvement.
- Promote the Company's corporate governance strategy, as well as regularly evaluate the effectiveness of the Company's corporate governance system, in order to confirm that it is fulfilling its mission to promote the corporate interest and consider, as appropriate, the legitimate interests of remaining stakeholders.
- Oversee the communication strategy and shareholders and investors' relations, including small- and medium-sized shareholders.
- Assess all aspects related to non-financial risks of the Company (including operating, technological, legal, social, environmental, political and reputational risks).
- Coordinate non-financial information and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- Be apprised of, promote, guide and oversee the Company's performance regarding corporate reputation and report thereon to the Board of Directors or, where applicable, to the Executive Committee.
- Report on the matters of Title IX of the Board of Directors Regulations ("Director's Duties) under the terms envisaged therein.

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- Report on, prior to its approval, the Company's annual governance report, obtaining for such purposes the reports from the Appointments and Remuneration Committee in relation to these sections of such report that are within their competence.
- **Supervision of the compliance with corporate governance regulations:**

The Committee reviewed and accepted the Annual Corporate Governance Report for the financial year 2018 that, in accordance with article 538 of the Spanish Companies Act, must be included in a separate section of the Management Report that goes together with the Annual Accounts.

The Audit and Control Committee has approved the functioning report of the Committee for fiscal year 2017, agreeing to send it to the Board for its approval and subsequent publication at the Ordinary General Shareholders' Meeting.

Likewise, the Committee approved the content regarding the Committee itself included in the "Evaluation Report on the Functioning of the Board and its Committees for fiscal year 2017", agreeing to submit the Report to the Board for review and global approval, approving also to follow the action plan proposed for 2018, paying special attention to the establishment of a succession plan for the Chairman, as contemplated by the best practices of good corporate governance, which determines the procedure for calling meetings in his absence. This succession plan was finally approved by the Board of Directors on 16 October 2018. With regard to the methodology used in the evaluation, the President of the Board led the evaluation process of the Board, its members and its Committees, with the collaboration of the Secretary of the Board and the Deputy Secretary in part of the process in order to ensure the objectivity and confidentiality of the process. First, each member of the Board, as well as the Secretary, completed questionnaires - prepared with the collaboration of EY as an external consultant - with questions related to the different areas mentioned above; then the Secretary of the Board and the Deputy Secretary systematized the information extracted from the questionnaires together with that derived from the minutes of the Board and its Committees corresponding to fiscal year 2017, the experience acquired by their attendance at the meetings of these bodies and the review of the conclusions of the 2016 evaluation and its action plan. From this analysis process, the Secretary of the Board and the Deputy Secretary drew their main conclusions, which were included in the "Report on the Evaluation of the Functioning of the Board and its Committees in 2017", which includes recommendations and the planned action plan in view of the results.

In particular, with respect to the Audit and Control Committee, both the composition (diversity, knowledge and experience of its members and, in particular, of its Chairman, their dedication and critical attitude) and the functioning of the Committee (frequency, duration and effectiveness of its meetings, attendance at the meetings of its members, agenda of the meetings, exercise of its powers, and advice, including external advice if necessary) were highly valued.

Among the functions that the Articles of Association, the Board of Directors Regulations, the Internal Code of Conduct in the Securities Markets, and its own Regulations attribute to the Audit

and Control Committee is that of making the necessary proposals for improvement related to the Company's governance rules, when the Committee considers that to be appropriate.

In this regard during the year 2018, proposals regarding the modification of the internal rules of the Company have been made. In particular, the Committee submitted to Board of Directors a proposal to amend the Policy for Communication Policy and Contacts with Shareholders, Institutional Investors and Proxy Advisors and the Corporate Governance Policy.

Likewise, the Committee has supervised the non-financial information of the Company and the communication and relationship strategy with shareholders and investors, continuously monitoring the Investor Relations action plan.

#### **6) With regard to the obligations of Listed companies:**

In relation to this matter, the Audit and Control Committee is responsible for reporting to the Board of Directors, prior to the Board adopting the corresponding decisions on the matter:

- The incorporation or acquisition of ownership interests in special purpose vehicles or entities resident in jurisdictions considered to be tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
  - Related transactions, as they are defined by the legislation applicable at any given time. With regard to related transactions, the annual report issued, where applicable, by the Audit and Control Committee on related transactions will be available to shareholders and investors through the Company's website well in advance of the Ordinary General Shareholders' Meeting.
  - The economic terms, the accounting impact and, where applicable, the impact on the exchange ratio, of the structural changes and corporate transactions that the Company plans to carry out.
  - Any amendment to the internal code of conduct.
- **Related-Party transactions**

The Audit and Control Committee has analysed the operations with related parties that have been communicated and acknowledged by the Committee, in the following terms:

Lar España signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. for the provision of services by the latter, including, among others, the acquisition and management of real estate assets on behalf of the Company and its financial management, which was novated in February 2018. This agreement provides with a fixed remuneration amount and an additional amount based on the EPRA NAV of the Company and the share price. The total figure accrued in 2018 for both items amounted to 35.204 thousand euros.

The fixed remuneration amounts to 8,740 thousand euros and the variable part to 26,464 thousand euros (including the divestment fee-17,898 thousand euros – and the *performance fee* -8,566 thousand euros-).

Additionally, Lar España has formalized an agreement with the related company Gentalia 2006, S.L. (owned by Grupo Lar Inversiones Inmobiliarias, S.A. as of December 31, 2018 and currently 100% owned) for the provision of services related to the property management of real estate assets. As of 31 December 2018, the expense incurred for this concept amounts to 2.516 thousand euros.

- **Share repurchase program**

The Committee was informed of the main terms of the development of the share buyback programme implemented by the Company, the current situation and the proposal for the future, positively informing the proposal for its presentation to the Board, and also analyzed the listing situation of the Company's shares, agreeing to monitor it on a continuous basis. It also agreed at the end of the year to propose to the Board the extension of the repurchase plan until 28 February 2019.

#### **7) Other functions of the Committee:**

The Audit and Control Committee additionally has the following powers:

- Oversee the calculation of fees paid by the Management Company for the performance of its functions.
- Appoint and supervise the services of external valuers in relation to the periodical appraisal of the Company's assets.

- **Supervision of the Management Company's fees**

The Audit and Control Committee has supervised and after appropriate explanations and discussion as appropriate, approved the calculation of, and different payment alternatives for, the fees accrued by Grupo Lar Inversiones Inmobiliarias, S.A., in its capacity as the management company for Lar España, in the performance of its functions during the financial year 2017, as well as the amounts accrued by the Management Company in 2018.

Likewise, approved the divestment fee of the Company after verifying that it had accrued during the first quarter of 2018 thanks to the intense activity of divestment carried out by the management company, encouraging the management company to continue working actively in line with the company's business plans.

- **Valuation of the assets of the Company**

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

In accordance with the provisions of the Articles of Association and the Regulations of the Board of Directors, the Committee reviewed and approved the valuations of the Company's assets at 31 December 2018 prepared by the experts appointed by the Company for that purpose (JLL and C&W). Furthermore, approved an exceptional valuation of the portfolio in the first quarter of 2018 in order, among other reasons, to better reflect the reality of management, and has been regularly informed of the different valuations of the assets during the year, proposing to the Board that the valuations of the assets under development should be carried out on a quarterly basis until they are opened.

In relation to the valuers of the Company's assets, the Committee debated the possibility of opening a new tender, considering it finally more convenient to proceed according to the proposal of the Corporate Director, i.e. continue with the current valuers (CW and JLL) during 2018, launching a new tender next year.

Likewise, the Committee has been periodically informed of different issues related to certain assets of the Company.

- **Other**

The Committee supervised the provision of services (administrative, accounting, tax and treasury) by different experts assessing the quality of these.

It also assessed the Company's business plan for 2018-2021 in line with the new Investment Manager Agreement (IMA) and the strategy approved by the Company and agreed that an alternative version to the base case of the business plan should be prepared in parallel in order to be able to take it into account according to the circumstances of the market in global terms and the Company in particular.

Finally, the Committee approved the payment of interim dividends for fiscal year 2018 from the subsidiaries to the Company.

Likewise, the Committee has analyzed compliance with the requirements to be able to apply the SOCIMI, in particular, in relation to the adoption of a new tax law in the Basque Country and the day to day business of the Company. In this regard, the Committee has contrasted that all the requirements of the SOCIMI regime have been met in 2018, except for the one related to rents obtained "rent test", which derives from its main corporate purpose (leasing activity) by a percentage lower than 80 %. In these circumstances, the Committee has made special monitoring of the calculation of the rent test for the year 2019 on the basis of the last approved business plan, concluding that for that year the rent test will be complied and, therefore, the breach of 2018 would be corrected within the period established by the applicable regulations, in addition to fulfilling the rest of the requirements.



## **VI. EVALUATION AND CONCLUSIONS**

Based on the foregoing, the Audit and Control Committee has evaluated its composition and functioning during the year 2018, considering that:

- The composition of the Committee has been adjusted to the legal and corporate provisions laid down for this purpose, being comprised of members that have the technical knowledge necessary with regard to the competences of the Committee and the Company's business sector to which Lar España belongs, being all the members of the Committee independent directors.
- The Committee has held meetings with the frequency provided in article 14 of the Board Regulations and whenever it has been necessary in response to the issues to be addressed in such Committee.
- The seven meetings of the Committee have been attended by all its members, present or duly represented.
- The members of the Committee have had at their disposal, prior to the Committee's meetings, the necessary information with regard to the different Items of the Agenda in order to be able to deliberate and make informed decisions. In addition, when necessary, the Committee has been advised by external experts.
- Lastly, the Committee has deliberated and adopted resolutions on matters within its competence, among which the following can be highlighted, among others: the review of the periodic financial information, the supervision of relations and the independence of the External Audit, the supervision of the Internal Audit, the supervision of the compliance with corporate governance regulations or the supervision of fees received by the Management Company.

In accordance with the foregoing, it can be concluded that the Audit and Control Committee has complied with the rules provided in the Law and in its corporate regulations regarding the composition, frequency of meetings, attendance and informed participation of its members, having dealt with the matters of competence of the Audit and Control Committee during fiscal year 2018.

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This report has been approved by the Audit and Control Committee at its meeting held on 22 February 2019, and by the Board of Directors at its meeting held on 26 February 2019.



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

## **ANNEX I**

**Letter from the external auditor regarding his independence**

22 de febrero de 2019

Lar España Real Estate SOCIMI, S.A.  
Cl. Rosario Pino, 14 - 16 - 8ª planta  
28020 Madrid

A la Comisión de Auditoría y Control de Auditoría de Lar España Real Estate SOCIMI, S.A.

Muy señores nuestros:

En relación con la auditoría de las cuentas anuales consolidadas del Grupo Lar España Real Estate SOCIMI, S.A. y Sociedades Dependientes, para el ejercicio finalizado el 31 de diciembre de 2018, les confirmamos que, según nuestro mejor leal saber y entender:

1. El equipo a cargo del encargo de auditoría y Deloitte, S.L., con las extensiones que les son aplicables, han cumplido con los requerimientos de independencia aplicables de acuerdo con lo establecido en la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas (LAC) y el Reglamento (UE) nº 537/2014, de 16 de abril.
2. Los honorarios cargados a Lar España Real Estate SOCIMI, S.A (y a aquellas entidades que están vinculadas directa o indirectamente mediante la existencia de una relación de control), desglosados por concepto, tanto por servicios de auditoría como por servicios distintos de la auditoría, durante el ejercicio finalizado el 31 de diciembre de 2018 por Deloitte y su red, para facilitarles la evaluación de los mismos en el marco de nuestra independencia son los siguientes (en miles de euros):

Conceptos	Total
Servicios de Auditoría*	325,5
Otros servicios de Verificación	81,4
<b>Total servicios de Auditoría y Relacionados</b>	<b>406,9</b>
Servicios Fiscales	-
Otros Servicios	254,2
<b>Total Servicios Profesionales</b>	<b>661,1</b>

(\*) Incluye la revisión limitada de los estados financieros consolidados del Grupo a 30.06.2018 que ascendieron a 48,5 miles de euros

El detalle individualizado del epígrafe "Otros servicios de verificación" y de "Otros Servicios" se recoge en el Anexo I.

3. Tenemos diseñados e implantados procedimientos internos dirigidos a identificar y evaluar amenazas que puedan surgir de circunstancias relacionadas con entidades auditadas, incluidas las que puedan suponer causas de incompatibilidad y, en su caso, a la aplicación de las medidas de salvaguarda necesarias, y en relación con la auditoría indicada, y para el periodo cubierto por los estados financieros y hasta la emisión de esta carta no se han identificado circunstancias que pudieran suponer causa de incompatibilidad, asimismo, se han aplicado las medidas de salvaguarda necesarias para eliminar o reducir hasta un grado aceptablemente bajo en aquellas situaciones para las que se han identificado amenazas a la independencia cuyo efecto pudiera ser significativo. En el Anexo II de esta comunicación se detalla la única circunstancia, para la que se ha identificado una amenaza significativa, así como las medidas de salvaguarda aplicadas.

Esta carta es para información y uso exclusivo del Comité de Auditoría y Control de Lar España Real Estate SOCIMI, S.A. para el fin mencionado anteriormente y, por tanto, no puede ser usada por otras personas o para otros fines distintos del mencionado.

Atentamente,

DELOITTE, S.L.

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Antonio Sánchez-Covisa Martín-González  
Socio

### Anexo I – Detalle Individualizado

A continuación, se detalla en relación con el punto 2 de la confirmación de independencia la información sobre servicios adicionales de cualquier clase prestados y sus correspondientes honorarios:

#### Otros servicios de verificación

<b>Descripción</b>	<b>Miles de euros</b>
- Informes de procedimientos acordados sobre ratios ligados a contratos de financiación y de adquisición (covenants)* (7 encargos)*	35,0
- Informe del auditor referido a la información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) (1 encargo)*	12,0
- Informe de Diligencia Debida Técnica	14,4
- Informe de Diligencia Debida Inmobiliaria	20,0
<b>Total</b>	<b>81,4</b>

\* Servicios prestados por la sociedad de auditoría, Deloitte, S.L.

#### Otros servicios

<b>Descripción</b>	<b>Miles de euros</b>
- Servicios profesionales de consultoría relacionados con el programa de iniciativas de la entidad para los 6 centros comerciales seleccionados para mejorar su posición competitiva en cuanto a espacios, proveedores y patrocinadores (1 encargo)	250,0
- Servicios de forensic relacionados con conflictos o litigios (1 encargo)	4,2
<b>Total</b>	<b>254,2</b>

## **Anexo II - Detalle de Medidas de Salvaguarda aplicadas**

Respecto de la amenaza de interés propio derivada de la relación entre los honorarios percibidos por la prestación de servicios ajenos a la auditoría (sin considerar los honorarios percibidos por los servicios prestados ajenos a la auditoría exigidos por legislación a la entidad auditada) y los servicios de auditoría, desglosados en la página 1 de esta carta de confirmación de independencia, les informamos que la misma queda mitigada sustancialmente por los siguientes motivos:

1. Los servicios ajenos a la auditoría realizados por la sociedad de auditoría Deloitte, S.L. se corresponden exclusivamente a informes y otros trabajos no exigidos por la legislación pero que es práctica habitual que lo preste el auditor de cuentas. El importe total por este concepto ascendió a una cantidad muy poco relevante de 47 mil euros, correspondiendo a la emisión de informes de cumplimiento de ratios financieros o covenants (por importe total de 35 mil euros), y la emisión del informe relativo al SCIIF (12 mil euros). En relación con los honorarios de auditoría, estos servicios suponen únicamente un 14%, por lo que la amenaza interés propio por las relaciones la sociedad de auditoría Deloitte, S.L. es casi inexistente.
2. Los miembros del encargo de auditoría así como las personas con capacidad de influencia en el resultado final de la auditoría no han participado en la prestación de los servicios para la emisión de los informes de due diligence y de "Otros Servicios". Es decir, los responsables de la prestación de estos servicios no han tenido capacidad de influencia alguna en el resultado final de la auditoría.
3. La prohibición que se deriva del artículo 4.2 del Reglamento (UE) nº 537/2014 del límite del 70%, del Parlamento Europeo y del Consejo, de 16 de abril de 2014, sobre los requisitos específicos para la auditoría legal de las entidades de interés público, según consulta publicada por el Instituto de Auditores de Cuentas de España (ICAC), no será de aplicación hasta el ejercicio 2020, considerando un año natural. Asimismo, en el documento de la Comisión Europea "Q&A - Implementation of the New Statutory Audit Framework" de 3 de septiembre de 2014 establece que para el cálculo del límite del 70% solo se tendrán en cuenta los honorarios generados por la prestación de servicios de la sociedad de auditoría. Esta posición vuelve a reiterarse en el documento de la CEAOB de 21 de septiembre de 2018 "Monitoring the fee cap of non-audit services".
4. Los servicios ajenos a la auditoría han sido aprobados por la Comisión de Auditoría de acuerdo con el artículo 5.4 del Reglamento (UE) y no se han derivado otras amenazas significativas derivadas de su prestación.
5. La amenaza de interés propio significativa derivada de la relación entre los honorarios percibidos por la prestación de servicios ajenos a la auditoría y de auditoría se deriva principalmente de un servicio en concreto, y no se espera que en el ejercicio posterior esta proporción supere el umbral que haga esta amenaza significativa.

Adicionalmente a los factores mitigantes indicados anteriormente, los honorarios facturados por todos los conceptos por Deloitte España (661,1 mil euros) representan menos del 0,1% de los ingresos totales de Deloitte España, por lo que la amenaza de interés propio es muy poco significativa en relación con la causa de abstención por honorarios percibidos, en el contexto del artículo 41 de la Ley 22/2015 de Auditoría de Cuentas. Este porcentaje es asimismo ínfimo si consideramos exclusivamente la sociedad de auditoría Deloitte, S.L. y la entidad auditada, es decir excluyendo la red y las vinculadas de la entidad auditada.

No obstante, lo anterior, aun considerando estos factores mitigantes, se han establecido las siguientes medidas de salvaguarda:

- Las personas responsables de los servicios ajenos a la auditoría relativos a los informes de "due diligence" y a "otros servicios" no han participado en el encargo de auditoría ni han tenido una posición para tener capacidad de influencia en el resultado final de la auditoría
- Las personas que han tenido influencia en el resultado final de la auditoría han sido informadas de esta circunstancia y han incrementado el escepticismo profesional. A este respecto indicar:

- o Las horas de revisión del socio de control de calidad (EQCR socio) se han dedicado a revisar las áreas en las que se ha realizado mayor aplicación del juicio profesional por parte del equipo del encargo y realizar procedimientos de evaluación de la integridad de la dirección y la documentación de las conclusiones.
  - o Tanto el Socio Responsable de Riesgos como el Socio Director de la Práctica Profesional de Auditoría de Deloitte en España han sido informados.
- El Departamento de Independencia de Deloitte ha estado involucrado en la identificación y evaluación de las amenazas y el establecimiento de medidas de salvaguarda en relación a esta proporción, así como en la redacción de esta confirmación.
  - Se analizan con la Comisión de Auditoría y se desglosan en esta Confirmación de Independencia.
  - Se desglosará el importe de honorarios en la Nota de la memoria de las cuentas anuales de acuerdo con las normas de contabilidad.