

## **Lar España Real Estate SOCIMI, S.A.**

Financial Statements for the year  
then ended on 31 December 2019  
and Directors' Report, together with  
Independent Auditor's Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2.a and 20). In the event of a discrepancy, the Spanish-language version prevails.*

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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### Opinion

We have audited the financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. (the Company), which comprise the balance sheet as at 31 December 2019, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2019, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

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### Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Measurement of the non-current and current investments in Group companies

### Description

The Company has ownership interests in the share capital of Group companies and associates, which engage in the ownership and lease of their investment property, as detailed in Note 6 and in the Appendix I to the accompanying financial statements. Those ownership interests are the main items in the Company's financial statements as at 31 December 2019.

As indicated in Note 6 to the financial statements, the determination of the recoverable amount of those ownership interests requires the use of significant judgements and estimates by management, both in determining the valuation method (usually the underlying carrying amount of the investments plus the amount of the unrealised gains existing at each measurement date) and in considering the key assumptions used for determining the existing unrealised gains. In this regard, since investment property accounts for substantially all the assets of the Group companies and associates, small percentage changes in the measurements of the property assets owned by the Group companies and associates can give rise to significant changes that would affect the recoverable amount of the related financial asset.

Specifically, the valuation method generally used for determining the unrealised gains associated with the rental property assets is the discounted cash flow method, which requires estimates of:

- the future net revenue from each property based on available historical information and market surveys;
- the internal rate of return or opportunity cost used when discounting;
- the residual value of the assets at the end of the projection period; and
- the exit yield.

The measurement of those ownership interests was identified as a key matter in our audit due to, among other factors, the significant amount that those ownership interests represent in the context of the financial statements taken as a whole.

### Procedures applied in the audit

Our audit procedures included, among others, the assessment of the conclusion reached by Company management regarding the recoverability of the investments in the Group companies.

In this connection, in view of the real estate nature of the investees, which means that their recoverable amount is closely linked to the valuation of the property assets owned by them, in addition to the financial statements, we have obtained the valuation reports of the experts hired by the Company to value the entire real estate portfolio of the investees and assessed the competence, ability and objectivity of the experts and the suitability of their work for use as audit evidence. In this connection, with the cooperation of our internal valuation experts, we:

- analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts hired by Company management;
- performed a review of the practical totality of valuations, assessing in conjunction with our internal experts, the most significant risks, including the occupancy rates and expected returns on the real estate assets. While carrying out this review we have taken into consideration available industry information and transactions with property assets similar to those in the Company's Group real estate portfolio.

In addition, we evaluated whether the disclosures provided in Notes 4.a, 6 and in the Appendix I to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

## Compliance with the special REIT tax regime

### Description

The Company has availed itself of the special tax regime for Real Estate Investment Trusts (REITs). One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%.

The tax regime for REITs is subject to certain mandatory requirements, such as those relating to their company name and object, the minimum amount of their share capital, the obligation to distribute the profit obtained each year in the form of dividends, and the listing of their shares on a regulated market, as well as other requirements, such as, basically, investment requirements, such as, basically, investment requirements and those relating to the nature of the Income obtained each year, which require significant judgements and estimates to be made by management, since failure to comply with any of these requirement will result in the loss of entitlement to the special tax regimen unless the cause of non-compliance is rectified within the immediately following year.

Therefore, compliance with the REIT tax regime requirements is a key matter in our audit, to the extent that the related tax exemption has a significant impact on both the financial statements and shareholder returns, since the business model of the Parent and its Group is based on continuing to qualify for taxation under the REIT tax regime.

### Procedures applied in the audit

Our audit procedures included, among other, obtaining and reviewing the documentation prepared by Group management relating to compliance with the obligations associated with this special tax regime and we involved our internal experts from the tax area, who assisted us in analyzing both the reasonableness of the information obtained and the completeness thereof in relation to all the matters provided for in the legislation in force at the analysis date.

Lastly, we verified that Notes 1, 13 and 14 to the financial statements contain the disclosures relating to compliance with the conditions required by the REIT tax regime and other matters associated with the Company's taxation.

## Other Information: Directors' Report

The other information comprises only the directors' report for 2019, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report is defined in the audit regulations in force, which establish two distinct levels thereof:

- a) A specific level that applies to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report and, if this is not the case, reporting this fact.
- b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this part of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2019 and its content and presentation are in conformity with the applicable regulations.

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### **Responsibilities of the Directors and of the Audit Committee for the Financial Statements**

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

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### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix to this auditor's report. This description forms part of our auditor's report.

## **Report on Other Legal and Regulatory Requirements**

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### **Additional Report to the Audit Committee**

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 13 February 2020.

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### **Engagement Period**

The Annual General Meeting held on 25 April 2019 appointed us as auditors of the Group for a period of one year from the year ended 31 December 2018.

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

DELOITTE, S.L.

Registered in R.O.A.C. under no. S0692



Carmen Barrasa Ruiz

Registered in R.O.A.C. under no. 17962

13 February 2020



## Appendix to our auditor's report

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

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

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

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

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

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

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

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





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

**Financial Statements and Management Report  
31 December 2019**

Prepared in compliance with Royal Decree 1514/2007, of 16 November, which approved the Spanish General Chart of Accounts, taking into consideration the industry adaptations and amendments approved subsequently thereto.

# LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Balance Sheet at 31 December 2019

(Expressed in thousands of Euros)

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

<u>Assets</u>	<u>Note</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
Investment property		97	98
Land	5	40	40
Buildings	5	57	58
Long-term investments in Group companies and associates		757,436	710,170
Equity instruments	6a	757,436	710,170
<b>Total non-current assets</b>		<b>757,533</b>	<b>710,268</b>
Non-current assets held for sale	8	-	19,834
Trade and other receivables		21,338	50,889
Client receivables for sales and rendering of services		58	76
Clients, Group companies and associates	16	19,593	48,732
Sundry debtors		840	840
Current tax assets	13a	847	1,241
Investments in Group companies and associates	16	28,700	-
Other financial assets		28,700	-
Short-term financial investments	7a	99	3,127
Other financial assets		99	3,127
Short-term accruals		346	481
Cash and cash equivalents		26,703	133,562
Treasury	14	26,703	133,562
<b>Total current assets</b>		<b>77,186</b>	<b>207,893</b>
<b>Total assets</b>		<b>834,719</b>	<b>918,161</b>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the balance sheet at 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Balance Sheet at 31 December 2019

(Expressed in thousands of Euros)

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

<u>Net Equity and Liabilities</u>	<u>Note</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
Share capital			
Capital		175,267	186,438
Issued capital	9a	175,267	186,438
Issue premium	9b	475,130	476,301
Reserves	9c	(48,942)	(24,641)
Legal and statutory		10,879	2,968
Other reserves		(59,821)	(27,609)
(Treasury stock)	9d	(762)	(1,228)
Other shareholder contributions		240	240
Profit for the period	3	61,111	76,082
<b>Total equity</b>		<b>662,044</b>	<b>713,192</b>
Long-term borrowings		139,415	139,114
Bonds and other marketable securities	10	139,376	139,077
Other financial liabilities	10	39	37
<b>Total non-current liabilities</b>		<b>139,415</b>	<b>139,114</b>
Short-term borrowings		3,494	3,482
Bonds and other marketable securities	10	3,482	3,482
Bank borrowings		12	-
Short-term debt with Group companies and associates	10, 16	27,608	50,487
Trade and other payables		2,158	11,886
Short-term suppliers, related companies	11, 16	646	9,303
Sundry creditors	11	347	328
Personnel ( <i>salaries payable</i> )	11	119	116
Other Public Entity payables	11, 13	1,046	2,139
<b>Total current liabilities</b>		<b>33,260</b>	<b>65,855</b>
<b>Total equity and liabilities</b>		<b>834,719</b>	<b>918,161</b>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the balance sheet at 31 December 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.  
Income Statement for 2019

(Expressed in thousands of Euros)

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

	Note	2019	2018
On-going transactions			
Net turnover		71,813	86,721
Income from investments in equity instruments	4h, 15a, 16	67,449	38,941
Income from investments in Group companies and associates	16	-	27,921
Income from rebilling financial expenses within the Group	15a, 16	4,364	4,352
Income from the sale of equity instruments	6a	-	15,507
Other operating income		109	1
Non-core and other current operating income		109	1
Staff expenses		(423)	(502)
Salaries and wages	15b	(367)	(437)
Benefits	15b	(56)	(65)
Other operating expenses		(2,076)	(2,783)
External services	15c	(2,081)	(2,776)
Taxes	15c	(4)	(7)
Losses on, impairment of and change in allowances for trade operations		9	-
Amortisation of fixed assets	5	(1)	(1)
Impairment and profits/(losses) from disposals of financial instruments		(3,547)	(2,796)
Impairment and losses	6a	(3,547)	(2,796)
<b>Operating profit/(loss)</b>		<b>65,875</b>	<b>80,640</b>
Financial income		1	6
From negotiable securities and other financial instruments		1	6
From third parties		1	6
Finance expenses	10c	(4,765)	(4,564)
Borrowings with Group companies and associates		(234)	(84)
Borrowings with third parties		(4,531)	(4,480)
<b>Finance profit</b>		<b>(4,764)</b>	<b>(4,558)</b>
<b>Profit/(loss) before tax</b>		<b>61,111</b>	<b>76,082</b>
Income tax	13b	-	-
Profits/(losses) for the period from on-going transactions		61,111	76,082
<b>Profit for the period</b>		<b>61,111</b>	<b>76,082</b>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the income statement for 2019.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.  
Statement of Changes in Net Equity for 2019

A) Statement of recognised income and expenses for 2019

(Expressed in thousands of Euros)

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

	<u>2019</u>	<u>2018</u>
Income statement result	<u>61,111</u>	<u>76,082</u>
Total income and expense recognised directly in net equity	-	-
Total transfers to the income statement	-	-
Total recognised income and expenses	<u><u>61,111</u></u>	<u><u>76,082</u></u>

The accompanying Notes 1 to 20 and Appendix I form an integral part of the statement of changes in equity for 2019.



LAR ESPAÑA REAL ESTATE SOCIMI, S.A.  
Statement of Changes in Net Equity for 2019

B) Statement of Total Changes in Net Equity at  
31 December 2019

(Expressed in thousands of Euros)

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

	Issued capital	Issue premium	Reserves	Treasury stock	Other shareholder contributions	Profit for the period	Total
Balance at 31 December 2017	185,248	487,349	(16,682)	(175)	240	19,211	675,191
Recognised income and expenses	-	-	-	-	-	76,082	76,082
Transactions with equity holders or owners	4,279	16,645	-	-	-	-	20,924
Capital increases	(3,089)	-	(9,865)	12,954	-	-	-
Distribution of profit							
To reserves	-	-	1,938	-	-	(1,938)	-
To dividends	-	-	-	-	-	(17,273)	(17,273)
Return of the issue premium	-	(27,693)	-	-	-	-	(27,693)
Treasury shares	-	-	(33)	(14,007)	-	-	(14,040)
Other operations	-	-	1	-	-	-	1
Balance at 31 December 2018	186,438	476,301	(24,641)	(1,228)	240	76,082	713,192
Recognised income and expenses	-	-	-	-	-	61,111	61,111
Transactions with equity holders or owners							
Capital increases (Note 9a)	1,243	5,182	-	-	-	-	6,425
Capital decreases (Note 9a)	(12,414)	-	(34,011)	46,425	-	-	-
Distribution of profit							
To reserves	-	-	9,835	-	-	(9,835)	-
To Dividends (Note 9a)	-	-	-	-	-	(66,247)	(66,247)
Return of the issue premium	-	(6,353)	-	-	-	-	(6,353)
Treasury shares (Note 9d)	-	-	(16)	(45,959)	-	-	(45,975)
Other changes	-	-	(109)	-	-	-	(109)
Balance at 31 December 2019	175,267	475,130	(48,942)	(762)	240	61,111	662,044

The accompanying Notes 1 to 20 and Appendix I form an integral part of the statement of changes in net equity for 2019.

**LAR ESPAÑA REAL ESTATE SOCIMI, S.A.**  
**Statement of Cash Flows for 2019**  
**(Expressed in thousands of Euros)**

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

	Note	2019	2018
Cash flows from operating activities			
Profit/(loss) before tax		61,111	76,082
Adjustments to the profit/(loss)		(59,137)	(75,014)
Amortisation of fixed assets (+)	5	1	1
Impairment adjustments (+/-)	6a	3,547	2,796
Income from stakes in equity instruments (-)	16	(67,449)	(38,941)
Income from investments in Group companies and associates (-)	16	-	(27,921)
Finance income (-)		(1)	(6)
Income from disposals of shareholdings (-)	6a	-	(15,507)
Financial expenses (+)	10	4,765	4,564
		-	-
Changes in operating assets and liabilities		19,883	(27,363)
Debtors and other receivables (+/-)		29,433	(22,161)
Creditors and other payables (+/-)		(9,716)	(4,927)
Other current assets (+/-)		164	(128)
Other current and non-current liabilities (+/-)		2	(147)
Other cash flows from operating activities		29,263	48,357
Interest payments (-)		(4,220)	(4,060)
Receipt of dividends (+)	16	33,483	52,417
<b>Cash flows from operating activities</b>		<b>51,120</b>	<b>22,062</b>
Cash flows from investing activities			
Payments for investments (-)		(95,270)	(155,379)
Group companies and associates	6a	(95,266)	(155,253)
Loans to Group companies and associates		-	-
Acquisition of equity instruments	6a	(4)	-
Other financial assets		-	(126)
Proceeds from divestments (+)		72,555	246,741
Group companies and associates	6a	69,555	143,162
Disposal of equity instruments	6a	3,000	53,284
Loans to Group companies and associates	16	-	50,295
<b>Cash flows from investing activities</b>		<b>(22,715)</b>	<b>91,362</b>
Cash flows from financing activities			
Payments made and received for equity instruments		(39,551)	6,885
Issue of equity instruments (+)	9	6,425	20,924
Disposal of equity instruments (+/-)	9	(45,976)	(14,039)
Receivables and payments for financial liability instruments		(23,113)	50,403
a) Issue of:			
Bank borrowings (+)	10	20,083	-
Debt with Group companies and associates (+)	16	-	50,403
b) Returns of:			
Bank borrowings (-)	10	(20,083)	-
Debt with Group companies and associates (-)	16	(23,113)	-
Payments for dividends and remuneration from other equity instruments		(72,600)	(44,966)
Dividends (-)	9	(72,600)	(44,966)
<b>Cash flows from financing activities</b>		<b>(135,264)</b>	<b>12,322</b>
<b>Net increase / decrease in cash or cash equivalents</b>		<b>(106,859)</b>	<b>125,746</b>
Cash or cash equivalents at the beginning of the period		133,562	7,816
Cash or cash equivalents at the end of the period		26,703	133,562

The accompanying Notes 1 to 20 and Appendix I form an integral part of the statement of cash flows for 2019.

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(1) NATURE AND ACTIVITIES OF THE COMPANY

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

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

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

1. The acquisition and development of urban properties for lease.
2. The holding of investments in the capital of other SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs") or in other entities not resident in Spain that have an identical statutory activity and are subject to a regime similar to that applicable to SOCIMIs, insofar as they have a legal or statutory obligation to distribute profits.
3. The holding of investments in the capital of other resident or non-resident entities in Spain, the main activity of which is the acquisition of urban properties for lease. These entities must be subject to the same regime established for SOCIMIs insofar as they have a legal or statutory obligation to distribute profits and must also comply with the investment requirements stipulated in Article 3 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 which governs SOCIMIs.
4. The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November on collective investment undertakings, amended by Royal Decree 83/2015 of 13 February 2015 on collective investment undertakings.
5. In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not amount to more than 20% of the total earnings of the Company in each tax period or those which can be considered complementary pursuant to current prevailing legislation.

The principal activity of Lar España Real Estate SOCIMI, S.A. comprises the holding of investments in the capital of other resident or non-resident entities in Spain whose main activity is the acquisition of urban properties for lease. The functional currency of the Company is the Euro.

Lar España Real Estate SOCIMI, S.A. has been listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and the Spanish automated quotation system since 05 March 2014. Lar España Real Estate SOCIMI, S.A., as a company included under the SOCIMI tax regime, is regulated by Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs, namely:

1. SOCIMIs must invest at least 80% of their assets in urban properties for lease, in land for the development of urban properties for lease, provided that development commences within

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three years after the acquisition, or in the capital or equity of other entities referred to in Article 2.1 of Law 11/2009.

Asset value will be based on the average of the asset values reflected in the consolidated quarterly balance sheets for the period. To calculate this value, the Company chose to replace the carrying amount of the items comprising those balance sheets with their market value, which would apply to the four balance sheets for the period. For these purposes, cash or receivables derived from transfers of these properties or investments, if any, carried out in the current period or previous periods shall not be included provided, in the latter case, that the period for reinvestment stipulated in Article 6 of the aforementioned Law has not expired.

2. Furthermore, at least 80% of income for the tax period and corresponding to each period, excluding that derived from the transfer of those investments and properties held for the purpose of carrying out the principal statutory activity, once the holding period mentioned in the following section has elapsed, must originate from property leases and dividends or shares in profits arising from said investments.

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

3. The properties that constitute the SOCIMI's assets must be leased for at least three years. The period of time during which the properties have been available for lease, up to a maximum of one year, shall be included for the purposes of this calculation. The period shall be calculated as follows:
  - a) For properties included in the SOCIMI's holdings prior to availing of the regime, from the starting date of the first tax period in which the special tax regime established in the Law is applied, provided that on that date the asset was leased or available for lease. Otherwise, the provisions of the following point shall apply.
  - b) For properties developed or acquired subsequently by the Company, from the date on which they were leased or available for lease for the first time.

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

4. SOCIMIs and Spanish resident investees that have chosen to avail themselves of the special SOCIMI tax regime, after having satisfied any relevant trade obligations, shall be obligated to distribute the profit received in the period as dividends to their shareholders, where the distribution must be adopted within six months after each year-end, as follows:
  - a) All profits deriving from dividends or shares of profits distributed by the entities referenced in Article 2.1 of Law 11/2009.
  - b) At least 50% of the profits derived from the transfer of the properties and shares or equity investments referred to in Article 2.1 of Law 11/2009, held for the purpose of complying with the principal statutory activity, realised once the periods mentioned in Article 3.2 of

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Law 11/2009 have elapsed. The remainder of these profits must be reinvested in other properties or equity investments to be held for the purpose of complying with the statutory activity, within three years after the transfer date. Otherwise, these profits must be distributed in full together with any profits obtained during the period in which the reinvestment period expires. If the items in which the investment is made are transferred in the period during which they must be held, the associated profits must be distributed in full together with any profits obtained during the period in which the items were transferred. The mandatory distribution of profits does not apply to any portion of profits attributable to periods in which the Company will not be taxed under the special regime provided for by that law.

- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month following the date of the distribution agreement.

Likewise, as detailed in Article 3 of the Law 11/2009 on SOCIMIs, the entity shall no longer be included in the special tax regime established in said Law, and shall begin paying taxes under the general Corporate Income Tax regime, in the same tax period in which any of the following circumstances arise:

- The exclusion from trading on regulated markets or in a multi-lateral trading system.
- The substantial breach of the information obligations referenced in Article 11 of said Law, unless the following report corrects such breach.
- The failure to agree to the total or partial distribution or payment of the dividends under the terms and within the periods referenced in Article 6 of said Law. In this case, taxation under the general regime shall take place in the tax period referencing the reporting period in which the profits giving rise to said dividends were made.
- The renouncement of the application of this special tax regime.
- The failure to fulfil any other requirements stipulated in said Law in order for the entity to apply the special tax regime, except where the failure to fulfil said requirement is corrected within the following period. Nevertheless, the breach of the period referenced in Article 3.3 of this law on the 3-year leasing period for assets shall not lead to exclusion from the special tax regime.

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

As mentioned in Note 6, the Company owns shares in subsidiaries and associates. Consequently, the Company is the parent of a Group of companies in accordance with current legislation. Presenting the consolidated financial statements is necessary, in accordance with generally accepted accounting principles and regulations, to fairly present the Group's financial condition, results from operating activities, changes in net equity and cash flows. The information on investments in Group companies and associates is presented in Appendix I.

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On 13 February 2020 the Directors of the Company have drawn up the 2019 consolidated financial statements for Lar España Real Estate SOCIMI, S.A. and the subsidiaries thereof, which reflect EUR 80,730 thousand in consolidated profits, EUR 982,780 thousand in consolidated net equity and EUR 1,753,252 thousand in consolidated total assets. The consolidated figures were taken from the consolidated financial statements drawn up by the Company based on the International Financial Reporting Standards, adopted by the European Union, and other provisions of the framework regulations on financial information to which the Group is subject in Spain.

(2) BASIS OF PRESENTATION

(a) Regulatory framework on financial information

These financial statements were prepared by the Directors in accordance with the framework regulations on financial information to which the Company is subject, which is that established in:

1. The Spanish Code of Commerce and related mercantile legislation
2. The Spanish General Chart of Accounts, approved by Royal Decree 1514/2007, which was modified by Royal Decree 602/2016, and its industry adaptations
3. Any mandatory regulations approved by Spain's Accounting and Audit Institute to implement the Spanish General Chart of Accounts and its supplementary rules
4. Law 11/2009 of 26 October, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs
5. All other applicable Spanish accounting principles.

(b) Fair image

The Financial Statements have been obtained from the Company's accounting records and are presented in accordance with the regulatory framework for financial information in such a way that they give a true and fair view of the equity, the financial position and the results of the Company, and cash flows during the financial year under review. These financial statements, which were prepared by the Directors on 13 February 2020, will be submitted for approval at the General Shareholders' Meeting, and they are expected to be approved without any changes. The 2018 financial statements were approved by the General Shareholders' Meeting held on 25 April 2019.

These financial statements do not include any information or itemisations that do not need further details given their qualitative unimportance and were not considered material or to have relative importance according to the concept of materiality or relative importance as defined in the conceptual framework of the Spanish General Chart of Accounts (PGC 2007).

(c) Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. Furthermore, the Directors have prepared these financial statements by taking into account all the compulsory accounting principles and standards with a significant effect thereon. There is no mandatory accounting principle that has not been applied.

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(d) Critical issues regarding the measurement and estimation of uncertainties

In preparing the adjoined financial statements, estimates have been made that are based on historical data and on other factors which are considered reasonable in accordance with current circumstances, and that constitute the basis for establishing the book value of those assets, liabilities, income, expenses and commitments whose values are not easily determined using other sources. The Company reviews these estimates on an ongoing basis.

These estimates were made on the basis of the best available information at the end of the 2019 period; nevertheless, it is possible that future events may make it necessary to modify them (either up or down) in coming years. If necessary, any changes would be made prospectively.

The following are the main assumptions made regarding the future and other sources regarding the uncertainty of the year-end estimates that could significantly affect the financial statements in the upcoming year:

1. The market value of certain financial instruments (Note 6)
2. Assessment of provisions and contingencies (Note 4g)
3. Financial risk management (Note 14)
4. Compliance with the requirements that regulate SOCIMIs (Notes 1 and 14).

(e) Comparative information

The same accounting criteria were applied in the 2018 and 2019 periods, such that there were no operations or transactions that were recorded using different accounting principles that could lead to discrepancies in the interpretation of the comparative figures for the two periods.

(f) Grouping together of items

In order to facilitate the comprehension of the balance sheet, certain items of the balance sheet, the income statement and the statement of changes in equity and the statement of cash flows are presented as a group, though the disaggregated information is included in the corresponding Notes of the report, insofar as it is significant.

(g) Changes in accounting criteria

During the period ended 31 December 2019 there were no changes in accounting criteria with respect to those applied when preparing the financial statements of 2018.

(h) Correction of errors

In preparing the attached financial statements, no significant error has been detected that has required that the amounts included in the financial statement for 2018 be re-stated.

(i) Functional and presentation currency

The figures disclosed in the financial statements are expressed in thousands of Euros rounded to the nearest thousand, the Euro being the functional and presentation currency of the Company.



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(3) DISTRIBUTION OF PROFIT

The proposed distribution of profit for the period, which was prepared by the Company's Directors and will be submitted for approval at the General Shareholders' Meeting, is as follows:

	<u>Euros</u>
<u>Basis of allocation</u>	
Profit for the period	61,111,111
Issue premium	-
<u>Distribution of profit</u>	
Legal reserve	6,111,111
Dividends	<u>55,000,000</u>

The dividend per share to be distributed resulting from the proposal for allocating the profit is EUR 0.6276 per share.

(4) RECORD AND MEASUREMENT STANDARDS

Pursuant to Note 2, the Company has applied the accounting policies in accordance with the accounting principles and standards stipulated in the Commercial Code, which are implemented in the current Spanish General Chart of Accounts (PGC 2007), industry adaptations and subsequent amendments thereto, as well as in other mercantile legislation in force at the year-end of these financial statements. Accordingly, only those policies that are specific to the Company's activity and those considered significant due to the nature of the Company's activities are indicated below:

(a) Financial instruments

(i) Classification of financial instruments

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

The Company classifies financial instruments into the various categories according to the Company's intentions and characteristics at the time of initial recognition.

(ii) Offsetting principles

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

(iii) Loans and receivables

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This item comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They basically consist of receivables from Group companies. They are included in current assets, except for maturities greater than twelve months as of the date of the balance sheet which are classified as non-current assets. Loans and receivables generated in exchange for cash deliveries or commercial transactions are included under “Trade and other receivables” on the accompanying balance sheet.

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

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

(iv) Investments in equity in Group, multi-group and associated companies:

Those companies related to the Company through a relationship of control are considered to be Group companies, and companies over which the Company holds significant influence are considered to be associates. Furthermore, the jointly-controlled category includes those companies over which control is held, by virtue of an agreement, together with one or more partners.

Investments in Group companies are generally recorded initially at the fair value of the consideration plus directly attributable transaction costs.

Any fees paid to legal advisors or other related professionals who may be involved in the acquisition of investments in equity in Group companies granting control over a subsidiary are recorded directly in the income statement for the period in which they are incurred.

After initial measurement, investments in Group and multi-group companies and associates are measured at cost, unless their recoverable value is less than their carrying amount, in which case they are measured at cost less any accumulated impairment. Said adjustments are equal to the difference between the recoverable value and the book value of the shareholdings at the date of measurement. Give that the Company is a holding company, it presents value adjustments made to investments in Group companies under “Operating profit/(loss)”.

In this sense, given the real estate nature of the investees, their recoverable value is closely tied to the measurement of their property assets. In order to calculate the recoverable amount of such investments the Company calculates their fair value, the best estimate of which is the net equity of the investee adjusted for any unrealised gains present at the measurement date, as they are supported by independent expert appraisals.

Accordingly, in order to calculate the fair value of the property investment owned by Group companies and associates, the Company's Management entrusts independent appraisers that have no relation to the Group at year-end with the appraisal of all their property assets on 31 December. The measurement of this investment is conducted in accordance with the statements of the RICS Valuation - Professional Standards published by The Royal Institution of Chartered Surveyors (“Red Book”), based in the United Kingdom.

Specifically, buildings are appraised individually, taking into consideration each of the

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lease contracts in force at the appraisal date. The methodology used to calculate the market value of properties being rented consists of preparing 10 years' worth of income and expense projections for each type of asset, which will subsequently be updated on the date of the statement of financial condition for each review period using a market discount rate. The residual amount at the end of year 11 is calculated applying a rate of return ("exit yield") to the net income projections for year 11.

The market values thus obtained are analysed by calculating and analysing the yield capitalisation implicit in these values. Both the rate of return and the discount rate are defined in accordance with local property companies and considering the conditions prevailing in the institutional market, and the reasonableness of the market value thus obtained, which is tested in terms of initial gain.

In terms of buildings with areas that have not been rented out, they are measured on the basis of estimated future rent, minus a marketing period.

(v) Impairment of financial assets

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

- Impairment of financial assets carried at amortised cost.

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

The Company recognises the impairment loss and uncollectibility of loans and receivables and debt instruments by recognising an allowance account for financial assets, which is charged against profit and loss and is reversible in subsequent periods up to the amortised cost the assets would have had if the impairment loss had not been recognised.

(vi) Financial liabilities

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

Nevertheless, trade payables falling due in less than one year that have no contractual interest rate are carried at their nominal amount on both initial recognition and subsequent measurement, since the effect of discounting the cash flows is immaterial.

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(vii) Derecognition of financial assets

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

The derecognition of a financial asset in its entirety implies the recognition of results as the difference between the carrying amount and the total consideration received, less transaction expenses, including assets obtained or liabilities assumed and any deferred profit or loss in income and expenses recognised in equity.

(viii) Derecognition of financial liabilities

The Company derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The exchange of debt instruments between the Company and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

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

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised in the income statement as part of the result of the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. In the latter case, a new effective interest rate is calculated on the modification date which is that which makes the current value of the flows to be paid according to the new conditions equal to the carrying amount of the financial liability on said date.

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

If the Company delivers non-monetary assets as payment of debt, it recognises the difference between the fair value thereof and their carrying amount as operating profit and the difference between the value of the debt that is extinguished and the fair value of the assets as a financial result. If the company delivers inventories, the relevant sales transaction for same is recognised at the fair value and the change in inventories at the carrying amount.

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(b) Own equity instruments held by the Company

The Company's acquisition of equity instruments is presented separately at the cost of acquisition in the balance sheet as a reduction in its own capital. For transactions carried out with own equity instruments no result is recognised in the income statement, rather it is directly recorded as reserve.

The subsequent redemption of the equity instruments entails a capital decrease equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments, including issue costs associated with a business combination, are accounted for as a reduction in reserves, net of any tax effect.

Dividends associated with equity instruments are recognised as a reduction in equity when approved by the shareholders.

(c) Distributions to shareholders

Dividends are effective and recognised as decreased net equity when approved by the General Shareholders' Meeting.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

(e) Short-term employee benefits

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

The Company recognises the expected cost of profit-sharing and bonus plans when it has a present legal or implicit obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(f) Payments based on shares

The Company recognises, on one hand, goods and services received as an asset or an expense, according to the nature thereof, when same is received, and on the other, the corresponding liability if the transaction is settled with an amount that is based on the value of the equity instruments.

(g) Provisions and contingencies

In preparing the financial statements, the Company's Directors differentiate between:

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- a. Provisions: balances payable covering present obligations arising from past events, the cancellation of which is likely to cause an outflow of resources, but are uncertain as to amount and/or time of cancellation.
- b. Contingent liabilities: possible obligations that arise from past events and whose future existence depends on the occurrence or non-occurrence of one or more future events not under the control of the Company.

The financial statements include all the relevant provisions that are more likely than not to entail an obligation. Unless they are considered remote, contingent liabilities are not recognised in the financial statements, but information on same is provided in the notes to the report.

Provisions are measured at the present value of the best possible estimate of the amount that will be required to settle or transfer the liability, taking into account the information available on the event and the consequences thereof; the adjustments that arise due to updating said provisions are recognised as financial expenses as they accrue.

The compensation to be received from a third party on settlement of the obligation, provided that there is no doubt that said reimbursement will be received, is recognised as an asset, except when there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount in which the corresponding provision, where appropriate, will be stated.

(h) Recognition of income

Pursuant to the publication in September 2009 on the consultation included in Gazette No. 79 of the Institute of Accounting and Account Auditing (ICAC), due to the Company's being a holding company, it presents income from dividends received from subsidiaries, financial income from financing granted thereto and income from disposing of equity instruments as net turnover.

Income from investments in equity instruments

Discretionary dividends accrued after the acquisition of shares are recognised as income in the income statement when the subsidiary's shareholders approve the shareholder's right to receive them.

If distributed dividends are clearly derived from profits generated prior to the acquisition date because amounts have been distributed which are higher than the profits generated by the investee between the acquisition date and the moment the decision to distribute the dividends is taken, the difference is accounted for as a reduction in the carrying amount of the investment and is not recognised as income.

Any distribution of available reserves, which comprises the share premium and other shareholder contributions, is treated as a "distribution of profits" operation, and consequently, income will be recognised at the moment of approval, providing the investee has generated profits since the acquisition date in excess of the reserves being distributed.

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Income from receivables with Group companies and associates

Income from receivables with Group companies and associates is recognised using the effective interest method and dividends are recognised when the shareholder's right to receive same has been declared, as explained in the previous section. In any case, interest and dividends from financial assets accrued after the acquisition are recognised as income in the income statement.

Income from the sale of shareholdings

Income from the sale of equity instruments is recognised when the risks and benefits inherent to the ownership of the sold asset are transferred to the purchaser and the day-to-day management and effective control over said asset are not retained.

Rebiling of costs to Group companies

(i) Interests related to liabilities

The Company classifies financial costs rebilled to Group companies as income when their shareholdings are the collateral for the bond or instead they own assets with a mortgage guarantee on said bond. The Company's distribution approach is based on the relative weight of the underlying market value of each pledged property asset of the investees over the total market value (calculated based on the latest available appraisal from the period immediately prior to 31 December of each period) of such property assets at the beginning of the relevant period.

(ii) Rebiling of costs from service organisations and independent professionals

The Company does not classify costs passed on to its subsidiaries for services received from service organisations and independent professionals as income from the provision of services. The invoicing for these items is included under "External services" on the accompanying income statement, net of expenses paid by the Company for said items. Said rebilled costs total EUR 15,861 thousand in 2019 (EUR 37,049 thousand in 2018).

(i) Taxes on profits

(i) General regime

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

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

Deferred tax income or expenses derived from the recognition and cancellation of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable originating from the differences between the carrying amounts of the assets and liabilities and their tax values, as well as the tax-loss carryforwards pending compensation and any receivables due to tax deductions that have not been fiscally applied. These amounts are recognised by applying the temporary difference or deduction corresponding



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to the tax rate at which they are expected to be recovered or settled.

(ii) Tax regime for SOCIMIs

This tax regime, following the amendment introduced by Law 16/2012 of 27 December 2012, is based on paying a corporate income tax rate of 0%, provided certain requirements are met.

Pursuant to the ninth article of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, governing SOCIMIs, the entity shall be subject to a special tax rate of 19% on the total amount of dividends or shares in profits distributed among shareholders with an interest in the entity exceeding 5%, when such dividends are tax-exempt or are taxed at a rate of less than 10% at the shareholders' seat of economic activity. The Company has established a procedure whereby shareholders confirm their tax status and, where applicable, 19% of the amount of the dividend distributed among the shareholders that do not meet the tax requirements mentioned in Note 1 is withheld.

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

“Current” assets are defined as those assets related to the normal operating cycle generally expected in a year, and also those assets expected to mature or to be disposed or to be settled in the short term at year-end, financial assets held for trading, with the exception of financial derivatives with a settlement period greater than one year and cash and cash equivalents. Assets not meeting these requirements are classified as non-current.

Similarly, “current” liabilities are defined as liabilities related to the normal operating cycle, financial liabilities held for trading, with the exception of financial derivatives with a settlement period greater than one year, and in general all obligations that will mature or terminate in the short term. Otherwise, they are classified as non-current.

(k) Environmental assets and liabilities

Assets considered to be environmental assets are those used on a lasting basis in the Company's operations, the main purpose of which is to minimise the environmental impact and protect and improve the environment, including reducing or eliminating future pollution.

The Company's activity does not have a significant environmental impact due to the nature thereof.

(l) Transactions between Group companies

Transactions between Group companies are carried out at market value and are recognised at the fair value of the consideration paid or collected, except those transactions pertaining to mergers, divisions and non-monetary contributions of business. The difference between said value and the agreed amount is recorded according to the underlying economic substance.

(m) Statement of cash flows

The statement of cash flows has been prepared using the indirect method and the following expressions and definitions:

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- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments not subject to significant risk of changes in value.
- Operating activities: the Company's usual activity and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

(n) Non-current assets held for sale

The Company classifies a non-current asset or a disposal group as being held for sale when a decision has been made to sell same and such sale is expected to happen within the next twelve months.

These assets or disposal groups are measured at their carrying amount or fair value after deducting the necessary sales costs, whichever is less.

Assets classified as non-current and held for sale are not amortised, but at the date of each balance sheet the appropriate value adjustments are made so the carrying value does not exceed the fair value minus sales costs.

Income and expenses generated by non-current assets and disposal groups comprising elements held for sale that do not meet the requirements to be classified as discontinued operations are recognised in the income statement item according to the nature thereof.

(5) INVESTMENT PROPERTY

The composition and movements that had occurred in the accounts included under Investment Property were as follows:

	Thousands of Euros		
	2019		
	Land	Buildings	Total
Cost at 1 January 2019	40	60	100
Additions	-	-	-
Cost at 31 December 2019	40	60	100
Accumulated amortisation at 1 January 2019	-	(2)	(2)
Allocations	-	(1)	(1)
Accumulated amortisation at 31 December 2019	-	(3)	(3)
Carrying amount at 31 December 2019	40	57	97

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	Thousands of Euros		
	2018		
	Land	Buildings	Total
Cost at 1 January 2018	40	60	100
Additions	-	-	-
Cost at 31 December 2018	40	60	100
Accumulated amortisation at 1 January 2018	-	(1)	(1)
Allocations	-	(1)	(1)
Accumulated amortisation at 31 December 2018	-	(2)	(2)
Carrying amount at 31 December 2018	40	58	98

The investment properties owned by the Company comprise an office building and a permanent security post, which provides management services to the entire Abadía business park located in Toledo. Said business park is owned by LE Retail Abadía, S.L.U., which is in turn completely owned by Lar España Real Estate SOCIMI, S.A.

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(6) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

(a) Investments in equity instruments

The breakdown of investments in Group companies and associates at 31 December 2019 and 2018 is as follows (also see the information in Annex I):

Stocks in Group Companies (all at 100%)

Company	Thousands of Euros						
	2019						
	Opening balance	Acquisitions	Transfers (Note 8)	Voluntary contributions	Derecognitions due to available reserves	Derecog.	Closing balance
LE Logistic Alovera I y II, S.A.U.	60	-	-	3,409	-	-	3,469
LE Retail Hiper Albacenter, S.L.U.	12,480	-	-	1,573	-	-	14,053
LE Retail Alisal, S.A.U.	2,210	-	-	117	-	-	2,327
LE Offices Eloy Gonzalo 27, S.A.U.	-	-	19,834	5,918	(19,724)	-	6,028
LE Retail As Termas, S.L.U.	28,532	-	-	4,027	-	-	32,559
LE Offices Joan Miró, S.L.U.	13,798	-	-	980	(13,975)	-	803
LE Logistic Alovera III y IV, S.L.U.	101	-	-	550	-	-	651
LE Logistic Almussafes, S.L.U.	2,529	-	-	445	-	-	2,974
LE Retail Hiper Ondara, S.L.U.	113,729	-	-	15,669	-	-	129,398
LE Retail Vidanova Parc, S.L.U.	24,068	-	-	6,126	-	-	30,194
LE Retail Galaria, S.L.U.	4	-	-	505	-	-	509
LE Retail El Rosal, S.L.U.	32,067	-	-	3,476	(2,000)	-	33,543
Lar España Shopping Centres VIII, S.L.U.	96,854	-	-	24,507	(1)	-	121,360
LE Retail Vistahermosa, S.L.U.	20,345	-	-	1,562	-	-	21,907
LE Retail Sagunto II, S.L.U.	1,536	-	-	-	-	-	1,536
Lar España Inversión Logística IV, S.L.U.	111	-	-	590	-	-	701
LE Retail Villaverde, S.L.U.	1,653	-	-	119	(12)	-	1,760
LE Offices Marcelo Spínola, S.L.U.	31,564	-	-	4,531	(30,579)	-	5,516
LE Retail Albacenter, S.L.U.	30,734	-	-	3,042	-	-	33,776
LE Retail Anec Blau, S.L.U.	78,785	-	-	4,785	-	-	83,570
LE Retail Gran Vía de Vigo, S.L.U.	53,932	-	-	5,238	-	-	59,170
LE Retail Las Huertas, S.L.U.	12,196	-	-	627	-	-	12,823
LE Retail Txingudi, S.L.U.	30,761	-	-	1,866	-	-	32,627
LE Retail Abadía, S.L.U.	34,780	-	-	2,069	-	-	36,849
LE Retail Hipermercados I, S.L.U.	14,735	-	-	880	-	-	15,615
LE Retail Hipermercados II, S.L.U.	15,955	-	-	872	-	-	16,827
LE Retail Hipermercados III, S.L.U.	14,643	-	-	881	-	-	15,524
LE Retail Rivas, S.L.U.	33,361	-	-	1,952	-	-	35,313
LE Retail Cordoba Sur, S.L.U.	-	4	-	950	-	-	954
	701,523	4	19,834	97,266	(66,291)	-	752,336

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Stocks in Associates

Company	Thousands of Euros					
	2019					
	Opening balance	Additions	Impairment recorded	Impairment reversal	Returns	Closing balance
Inmobiliaria Juan Bravo 3, S.L.	8,647	-	(3,547)	-	-	5,100
	8,647	-	(3,547)	-	-	5,100

Stocks in Group Companies (all at 100%)

Company	Thousands of Euros						
	2018						
	Opening balance	Acquisitions	Voluntary contributions	Returns	Transfers	Derecog.	Closing balance
LE Logistic Alovera I y II, S.A.U.	42,594	-	2,242	(44,776)	-	-	60
LE Retail Hiper Albacenter, S.L.U.	11,909	-	1,071	(500)	-	-	12,480
LE Retail Alisal, S.A.U.	-	-	2,508	(9,379)	9,081	-	2,210
LE Offices Eloy Gonzalo 27, S.A.U.	15,260	-	4,574	-	(19,834)	-	-
LE Retail As Termas, S.L.U.	30,125	-	1,607	(3,200)	-	-	28,532
LE Offices Joan Miró, S.L.U.	10,392	-	3,906	(500)	-	-	13,798
LE Logistic Alovera III y IV, S.L.U.	9,838	-	263	(10,000)	-	-	101
LE Logistic Almussafes, S.L.U.	8,092	-	2,437	(8,000)	-	-	2,529
LE Retail Hiper Ondara, S.L.U.	6,778	-	465	(7,239)	113,725	-	113,729
LE Retail Vidanova Parc, S.L.U.	21,426	-	4,956	(2,314)	-	-	24,068
LE Retail Megapark, S.L.U.	77,182	-	3,671	(8,200)	(72,653)	-	-
LE Retail Galaria, S.L.U.	-	-	198	(5,007)	4,813	-	4
LE Retail El Rosal, S.L.U.	33,059	-	2,008	(3,000)	-	-	32,067
Lar España Shopping Centres VIII, S.L.U.	46,292	-	51,022	(460)	-	-	96,854
LE Retail Vistahermosa, S.L.U.	21,949	-	896	(2,500)	-	-	20,345
LE Retail Sagunto II, S.L.U.	3	-	1,533	-	-	-	1,536
Lar España Inversión Logística IV, S.L.U.	2,423	-	3,988	(6,300)	-	-	111
LE Retail Villaverde, S.L.U.	-	-	1,861	(5,397)	5,189	-	1,653
LE Offices Marcelo Spínola, S.L.U.	30,314	-	1,250	-	-	-	31,564
LE Retail Albacenter, S.L.U.	29,376	-	2,558	(1,200)	-	-	30,734
LE Retail Anec Blau, S.L.U.	78,579	-	3,505	(3,300)	-	-	78,784
LE Retail Gran Vía de Vigo, S.L.U.	57,040	-	2,992	(6,100)	-	-	53,932
LE Retail Las Huertas, S.L.U.	12,439	-	457	(700)	-	-	12,196
LE Retail Portal de la Marina, S.L.U.	39,318	-	3,754	(2,000)	(41,072)	-	-
LE Retail Txingudi, S.L.U.	30,280	-	1,380	(900)	-	-	30,760
LE Retail Abadía, S.L.U.	29,059	-	13,920	(8,200)	-	-	34,779
LE Retail Hipermercados I, S.L.U.	15,146	-	240	(650)	-	-	14,736
LE Retail Hipermercados II, S.L.U.	16,416	-	240	(700)	-	-	15,956
LE Retail Hipermercados III, S.L.U.	15,044	-	240	(640)	-	-	14,644
LE Retail Rivas, S.L.U.	-	35,361	-	(2,000)	-	-	33,361
	690,333	35,361	119,742	(143,162)	(751)	-	701,523

Stocks in Associates

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Company	Thousands of Euros					
	2018					
	Opening balance	Additions	Impairment recorded	Impairment reversal	Returns	Closing balance
Inmobiliaria Juan Bravo 3, S.L.	11,443	-	(2,796)	-	-	8,647
	11,443	-	(2,796)	-	-	8,647

Movement in investments in equity instruments 2019

- On 11 January 2019, the sole shareholder of LE Offices Joan Miró, S.L.U approved a reimbursement of shareholder contributions totalling Euros 13,975 thousand, which has been recognised by reducing the carrying amount of investments in Group companies in the accompanying balance sheet, as detailed in the table above. During 2019, the sole shareholder of this subsidiary approved the distribution of supplementary dividends with a charge to 2018 profit and interim dividends with a charge to 2019 profit, amounting to Euros 5,497 thousand, which have been recognised under income from dividends in the accompanying income statement (see notes 15a and 16b).
- On 15 January 2019, the Company acquired 100% of the shares of the company LE Retail Cordoba Sur, S.L.U. (formerly called Global Pergamo, S.L.U.) from Latorre & Asociados Consultoría, S.L. for a total of EUR 4 thousand, having also voluntarily contributed a total of EUR 950 thousand to the company. These amounts will be recovered through the collection of the cash flows of the project in which said company is the SPV.
- In March, LE Offices Marcelo Spínola, S.L.U. approved the reimbursement of shareholder contributions and share premium for a total of Euros 32,461 thousand, of which Euros 1,883 thousand has been recognised as a distribution of profit under income from dividends in the accompanying income statement (see notes 15a and 16b), while the remainder has been recognised as a reduction in the value of investments in Group companies.
- On 24 April 2019 the Company reclassified 100% of the shares held in LE Offices Eloy Gonzalo 27, S.A.U. as shareholdings in Group companies. At 31 December 2018 such shares were classified as non-current assets held for sale, given the sale of the property asset owned by this company instead of the shareholdings in said company. Additionally, during the year, the sole shareholder approved a deduction from available reserves of Euros 23,106 thousand, of which Euros 3,382 thousand has been recognised as a distribution of profits under income from dividends in the accompanying income statement (see notes 15a and 16b) while the remainder has been recognised as a reduction in the value of investments in Group companies. On 31 December 2019, the sole shareholder of this subsidiary approved the distribution of an interim dividend with a charge to 2019 profit of Euros 15,079 thousand, which has been recorded as a distribution of profit under income from dividends in the accompanying income statement (see notes 15a and 16b).
- On 18 December 2019, LE Retail El Rosal, S.L.U. approved the reimbursement of shareholder contributions amounting to Euros 2,000 thousand, with an equivalent reduction in the value of investments in Group companies.

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- On 31 December 2019, the Company impaired its shareholding in the associate Inmobiliaria Juan Bravo 3, S.L. by EUR 3,547 thousand based on the Directors' best estimate of the recoverable value thereof, after having delivered, as of the date of drawing up these financial statements, all of the dwellings of the development owned by the investee.

Movement in investments in equity instruments 2018

- In 2018, the Company made contributions and received contribution returns in the amount of EUR 119,742 thousand and 143,162 thousand respectively.
- On 31 December 2018, the Company classified 100% of the shareholdings in LE Offices Eloy Gonzalo 27, S.A.U. as non-current assets held for sale, based on the decision to sale same and the expectation that such sale will happen in the short-term (Note 8).
- On 31 December 2018, the Company impaired its shareholding in the associate Inmobiliaria Juan Bravo 3, S.L. by EUR 2,796 thousand based on the Directors' best estimate of the recoverable value thereof at said date.
- On 19 September 2018 a merger took place when LE Retail Hiper Ondara, S.L.U. absorbed the subsidiaries LE Retail Megapark, S.L.U. and LE Retail Portal de la Marina, S.L.U. As a result of the merger, the Absorbed Companies were wound up but not liquidated and all their assets and liabilities were transferred en bloc and by means of universal succession to the Absorbing Company, pursuant to the terms of Articles 22 and 23 of Law 3/2009, of 4 April, on Structural Changes in Companies. Therefore, the amount corresponding to the shareholdings of the absorbed companies was transferred to the absorbing company.
- On 6 February 2018, the Company acquired 100% of shareholdings in the company Legaro Spain, S.L. (currently called LE Retail Rivas, S.L.U.) from the company CSRE I Spanish Holding, S.L.U. for a total of EUR 35,361 thousand, EUR 3,519 thousand of which was used to cancel the Group loan held by the company as at the acquisition date. In addition, contribution returns were carried out in the amount of EUR 2,000 thousand.
- On 16 January 2018, after having executed the purchase option signed on 27 September 2017, Lar España Real Estate SOCIMI, S.A. transferred all of the shares in its subsidiary LE Offices Egeo, S.A.U. to Inmobiliaria Colonial SOCIMI, S.A. for a total base price of EUR 49,098 thousand and a floating price of EUR 2,124 thousand tied to the measurement of the asset at 31 December 2018, which was accrued as a whole. Said subsidiary was 100% owned by Lar España Real Estate SOCIMI, S.A. and in turn owns the Egeo office building located in Madrid. The result of the operation, after a EUR 14 thousand price adjustment, was a profit of EUR 14,631 thousand recorded under "Income from disposing of equity instruments" on the adjoined income statement (Note 15 a). The value of the shareholding at the time of sale totalled EUR 36,577 thousand and was classified under "Non-current assets held for sale".

The sale of the aforesaid shareholding was carried out after having held the property asset for lease for three years as required by the SOCIMIs Law (Note 1).



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- On 27 September 2017, the Company sold 100% of the shareholdings in its subsidiary LE Offices Arturo Soria, S.L.U. from the company Inmobiliaria Colonial, SOCIMI, S.A. for a base price of EUR 19,640 thousand and a floating price of EUR 876 thousand tied to the measurement of the asset at 31 December 2018, which was accrued as a whole in 2018.

(7) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

The classification of financial assets held by the Company at 31 December 2019 and 2018 by category is as follows:

	Thousands of Euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Other financial assets	-	99	-	3,127
Investments in Group companies and associates (Note 16b)	-	28,700	-	-
Trade and other receivables				
Customers from sales and services rendered	-	58	-	76
Customers, Group companies and associates (Note 16b)	-	19,593	-	48,732
Sundry debtors	-	840	-	840
Current tax assets (Note 13)	-	847	-	1,241
Total financial assets	-	50,137	-	54,016

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

At 31 December 2018, “Other financial assets” mainly included the amounts of EUR 876 thousand and EUR 2,124 thousand. These amounts were outstanding and corresponded, respectively, to the floating price of the sales operations regarding the shareholdings in the companies LE Offices Arturo Soria, S.L.U. and LE Offices Egeo, S.A.U. (Note 6a). At 31 December 2019, said amount had been collected.

The line item “Investments in Group companies and associates” mainly includes the interim dividend of Group companies and associates distributed using the profit for 2019 (Note 16b).

(8) NON-CURRENT ASSETS HELD FOR SALE

As per the business plan of the Group, the Parent Company of which is the Company, the Group was at 31 December 2018 in the process of disposing of non-core assets, including the company LE Offices Eloy Gonzalo 27, S.A.U., which owns an office building. Therefore, given that the requirements established in the Spanish General Chart of Accounts for classifying such assets as “non-current assets held for sale” were met as at 31 December 2018, 100% of the shares held in said company were reclassified.

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On 24 April 2019, the office building owned by said company — and not the Company's shares therein — was sold, such that the shares were reclassified under "Investments in Group companies and associates" on the adjoined balance sheet (Note 6a).

(9) NET EQUITY

The composition and movements in equity are presented in the statement of changes in net equity.

(a) Capital

At 31 December 2019 the share capital of Lar España Real Estate SOCIMI, S.A. amounts to EUR 175,267 thousand (EUR 186,438 thousand at 31 December 2018) represented by 87,633,730 registered shares (93,219,044 registered shares at 31 December 2018), represented through book entries, with a par value of EUR 2 each, completely subscribed and paid, all granting the same rights.

On 10 June 2019, by virtue of the resolution adopted by the Board of Directors on 7 June 2019, the Parent increased share capital by a nominal amount of EUR 1,243 thousand through the issue of shares (621,337 ordinary shares with a par value of EUR 2 par value) with a share premium of EUR 5,182 thousand. This capital increase has been subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. in compliance with the provisions of the Investment Manager Agreement, which establishes that the manager must invest the post-tax performance fee in the subscription of the capital increase carried out by the Parent in accordance with the terms of the aforementioned agreement. This capital increase was carried out with the exclusion of pre-emptive subscription rights and delegation to the Board of Directors for the execution of the resolution. The new shares issued within the framework of said increase shall be subject to a three-year lock-up period imposed by the Lar Group, pursuant to the terms of the Investment Manager Agreement subscribed with Lar España.

Similarly, on 10 June 2019, by virtue of the resolution adopted by the Board of Directors on 7 June 2019, the Parent reduced capital by EUR 6,506 thousand, corresponding to 3,252,820 shares of EUR 2 par value each, representing 3.5% of share capital. The capital decrease was charged against unrestricted reserves by appropriating to a restricted capital redemption reserve EUR 6,506 thousand, an amount equal to the par value of the redeemed shares. The shares were amortised through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 24,743 thousand.

On 20 December 2019, by virtue of the resolution adopted by the Board of Directors on 19 December 2019, the Parent Company reduced capital by EUR 5,908 thousand, corresponding to 2,953,831 shares of EUR 2 par value each, representing 3.2% of share capital. The capital decrease was charged against unrestricted reserves by appropriating to a restricted capital redemption reserve EUR 5,908 thousand, an amount equal to the par value of the redeemed shares. The shares were redeemed through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 21,682 thousand. On 30 December 2019 the deed reflecting the capital decrease carried out on 20 December 2019 was entered at the Commercial Registry.

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On 7 May 2018, the Board of Directors approved an increase in share capital of EUR 20,924 thousand in par value by issuing shares in the amount of EUR 4,279 thousand (2,139,437 ordinary shares with a par value of EUR 2) and an issue premium in the amount of EUR 16,645 thousand. This capital increase was subscribed by Grupo Lar Inversiones Inmobiliarias, S.A. in compliance with the provisions of the Investment Manager Agreement, which establishes that the manager must invest the post-tax performance fee in the subscription of the capital increase carried out by the Parent in accordance with the terms of the aforementioned agreement. This capital increase was performed without a pre-emptive subscription right and by delegating powers to execute the agreement to the Board of Directors.

On 28 December 2018, by virtue of the resolution adopted by the Board of Directors held on 20 December 2018, the Company reduced capital by EUR 3,089 thousand, corresponding to 1,544,490 shares of with a par value of EUR 2 each, representing 1.63% of the share capital. The capital decrease was charged against unrestricted reserves by appropriating to a capital redemption reserve an amount equal to the par value of the redeemed shares. This reserve will be restricted. The shares were amortised through the use of treasury shares, the value of which at the time of the capital decrease totalled EUR 12,954 thousand.

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

The list value at 31 December 2019 is EUR 7.10 per share and the average list price for 2019 is EUR 7.46 per share (in 2018, EUR 7.45 and EUR 8.91 respectively).

The breakdown of the Company's main shareholders at 31 December 2019 is as follows:

	%
LVS II Lux XII S.a.r.l.	20.7%
Grupo Lar Inversiones Inmobiliarias, S.A.	11.5%
Franklin Templeton Institutional, LLC	7.9%
Santa Lucía S.A. Cía. de Seguros	5.2%
Brandes Investment Partners, L.P.	5.0%
Blackrock Inc.	3.7%
Other shareholders with an interest of less than 3%	46.0%
Total	100.00%

(b) Issue premium

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

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

On 25 April 2019 the resolution was adopted to pay a return against the issue premium in the amount of EUR 6,647 thousand, taking into account all issued shares.

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On 19 April 2018, the distribution of dividends from the 2017 period against the share premium was approved for the amount of EUR 27,714 thousand, where the effect of having the treasury shares was EUR 21 thousand.

At 31 December 2019, the Group's share premium amounted to EUR 475,130 thousand (EUR 476,301 thousand at 31 December 2018).

(c) Reserves

The breakdown of this category as at 31 December 2019 and 2018 is the following:

	Thousands of Euros	
	31.12.2019	31.12.2018
Legal reserve	10,879	2,968
Amortised capital reserve	15,502	3,089
Other reserves	(75,323)	(30,698)
Total	(48,942)	(24,641)

Reserve movements in 2019 and 2018 were as follows:

	Thousands of Euros 2019	Thousands of Euros 2018
	Reserves	Reserves
Opening balance	(24,641)	(16,682)
Profit/(loss) for the financial year	9,835	1,938
Capital decreases	(34,011)	(9,865)
Result from treasury shares	(16)	(33)
Other changes	(109)	1
Closing balance	(48,942)	(24,641)

(i) Legal reserve

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

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

At 31 December 2019 the Company's legal reserve totals EUR 10,879 thousand (EUR 2,968 at 31 December 2018). Therefore, the legal reserve at 31 December 2019 is not fully provided for.

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

(ii) Amortised capital reserve

This reserve includes the nominal amount of the treasury shares depreciated in the capital decreases carried out on 20 December 2019, 10 June 2019 and 28 December 2018, in the total amount of EUR 15,503 thousand. The provision and availability of this reserve shall be held to the same requirements demanded for the capital decrease, in line with the provisions of Article 335 c) of the Spanish Companies Act, the redacted text of which was approved by Royal Legislative Decree 1/2010, of 02 July (Spanish Companies Act).

(iii) Other reserves

These reserves mainly comprise expenses related to the incorporation and capital increases through share issues, capital decreases against unrestricted reserves and other non-distributed profits.

(d) Treasury shares

At 31 December 2019, the Company has treasury shares with an acquisition cost of EUR 762 (EUR 1,228 thousand at 31 December 2018).

Movement during the 2019 and 2018 periods was as follows:

	Number of shares	Thousands of Euros
31 December 2018	164,925	1,228
Additions	6,240,541	46,715
Derecognitions	(94,995)	(756)
Capital decreases (Note 9a)	(6,206,651)	(46,425)
31 December 2019	103,820	762
	Number of shares	Thousands of Euros
31 December 2017	19,880	175
Additions	3,456,153	30,300
Derecognitions	(1,766,618)	(16,293)
Capital decreases (Note 9a)	(1,544,490)	(12,954)
31 December 2018	164,925	1,228

The average selling price of treasury shares in 2019 was EUR 7.77 per share (EUR 8.33 in 2018). Furthermore, losses for the period ended 31 December 2019 amounted to Euros 16 thousand (EUR 33 thousand in losses at 31 December 2018) and were recognised under “Other Reserves” on the balance statement.

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On 28 February 2019 and 17 December 2019 marked the end of the share repurchase programs formalised between the Company and its liquidity supplier, said programs having a target of a maximum of 3,160,000 and 4,660,000 shares, respectively.

After ending the treasury share repurchase programs, which temporarily suspended the liquidity agreement with a financial intermediary pursuant to terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other relevant regulations, the agreement was renewed with the financial intermediate JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of treasury shares.

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider leaving the aforementioned liquidity program temporarily suspended (Note 19).

(e) Dividends paid

On 25 April 2019, the Company's General Shareholders' Meeting approved the distribution of a dividend of EUR 68,353 thousand, at EUR 0.73 per share (taking into account all the shares issued) and recognised in profit and loss for the 2018 period, and of EUR 6,647 thousand, at EUR 0.07 per share (taking into account all the shares issued), charged to the share premium.

The amount distributed totalled EUR 72,600 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Company's equity), taking into consideration the approved amount per share and the shares in circulation at the time of the approval by the Shareholders' Meeting held on 25 April 2019. The distributed dividend was paid on 24 May 2019.

(10) FINANCIAL LIABILITIES BY CATEGORY

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2019 and 2018 is as follows:

	Thousands of Euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Debt and payables				
Financial liabilities from issue of bonds	139,376	3,482	139,077	3,482
Other financial liabilities with third parties	39	-	37	-
Bank borrowings	-	12	-	-
Short-term borrowings with Group companies and associates (Note 16)	-	27,608	-	50,487
Trade and other payables (Note 11)	-	2,158	-	11,886
Total financial liabilities	139,415	33,260	139,114	65,855

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At 31 December 2019 and 2018 the carrying amounts of the financial liabilities recorded at amortised cost do not differ from the fair value.

(b) Classification of financial liabilities by maturity

The details by maturity of the Company's financial liabilities at 31 December 2019 and 2018 are as follows:

	2019						
	Thousands of Euros						
	2020	2021	2022	2023	2024 and remaining years	Indefinite	Total
Debt from issue of bonds (a)	3,482	-	140,000	-	-	-	143,482
Other financial liabilities - security deposits and other	-	-	-	-	-	39	39
Bank borrowings	12	-	-	-	-	-	12
Short-term borrowings with Group companies and associates	27,608	-	-	-	-	-	27,608
Trade and other payables	2,158	-	-	-	-	-	2,158
Total	33,260	-	140,000	-	-	39	173,299

(a) The effect of measuring the financial liabilities from bank bonds at amortised cost amounts decreases the nominal value of these liabilities by EUR 624 thousand (EUR 923 thousand due to bonds in 2018).

(b) This amount corresponds to the current accounts pledged with subsidiaries. Although these accounts mature on 31 December 2019, they are tacitly extended on an annual basis.

(c) Financial liabilities from borrowings

i) Main characteristics of debt from bonds

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

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shareholder of the Company on 5 February 2014.

In this respect, on 19 February 2015 the Company carried out a final bond issue in the amount of EUR 140 million, each with a nominal value of EUR 100 thousand.

The main characteristics of the issue are therefore as follows:

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Amount of the issue: EUR 140,000 thousand.
- Nominal value of each bond: EUR 100 thousand.
- Maturity: 7 years. In certain circumstances the early amortisation of this instrument is possible.
- Interest rate: 2.9%.
- Nature of the issue: Simple bonds.
- Guarantees: Guarantees, which appear below, were established up to a maximum amount of 20% of the placement: Mortgaged assets at 31 December 2019 are as follows: the Txingudi, Albacenter, Las Huertas, Albacenter Hipermercado and Anec Blau shopping centres and the Eroski hypermarkets. An ordinary pledge has also been established on the shares in LE Retail Txingudi, S.L.U., LE Retail Huertas, S.L.U., LE Retail Albacenter, S.L.U., LE Retail Anec Blau, S.L.U., LE Retail Hipermercados I, S.L.U., LE Retail Hipermercados II, S.L.U and LE Retail Hipermercados III, S.L.U.

The issuance expenses associated with this issue amounted to EUR 1,995 thousand, which were recorded by reducing the debt. In 2019, EUR 299 thousand (EUR 289 thousand in 2018) of said expenses were posted under "Financial expenses" on the income statement for the year. Interest accrued at 31 December 2019 totalled EUR 4,060 thousand (EUR 4,060 thousand at 31 December 2018), EUR 3,482 thousand of which was outstanding at 31 December 2019 to be paid in February of 2020.

At 31 December 2019, assets pledged as collateral for the bonds have a fair value of EUR 267,983 thousand and refer to the aforementioned, all of which are property investments owned by companies that are in turn completely owned by the Company.

#### Covenants

With respect to the bonds, the issue entails the Group's obligation to fulfil certain ratios calculated using the consolidated financial statements.

- An Interest Coverage Ratio equal to or greater than 1.25%, calculated as EBITDA over financial expenses for the period.
- A Loan-to-Value Ratio equal to or lesser than 65%, calculated as consolidated financial debt over the total consolidated value of the asset.

Furthermore, the Group has undertaken to establish new guarantees in those cases where the Interest Coverage Ratio is under 1.75% and the Loan-to-Value Ratio is greater than 60%.



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The Directors believe the ratios are met at 31 December 2019 without the need for additional guarantees and they believe these ratios will be met in 2020.

ii) Short-term debt with Group companies and associates

On 01 April 2019, a liquidity facility was signed with the associate Inmobiliaria Juan Bravo 3, S.L., whereby Lar España Real Estate SOCIMI, S.A. may dispose of a maximum amount of EUR 7,000 thousand, maturing on 31 March 2020. This liquidity facility yields a fixed interest rate of 5.95% of the drawn capital payable on the due date. The amount drawn down at 31 December 2019 totals EUR 3,100 thousand, with the accrued interest amounting to EUR 122 thousand, of which EUR 99 thousand euros are pending payment (Note 16).

In addition, in 2018 current accounts were formalised with subsidiaries. The sums of these accounts at 31 December 2019 totalled EUR 24,410 thousand (EUR 50,487 thousand at 31 December 2018). Said current accounts accrue fixed interest at a rate of 0.21% and any interest is payable yearly. The formalised contracts are tacitly renewed for one-year periods, unless express notification to the contrary is received.

Financial interest accrued in 2019 amounted to an expense of EUR 112 thousand (EUR 84 thousand in 2018), such interest being recorded under "Financial expenses - Borrowings with Group companies and associates" (Note 16).

iii) Bank borrowings

On 16 May 2019, the Company renewed the credit facility with Bankinter in the amount of EUR 25,000 thousand. Withdrawals may be made up to the limit established at any time by virtue of cheques, transfer orders, account charges or any other order of payment accepted by Bankinter. The maturity date on which the amount drawn down must be fully repaid is 14 May 2020. Interest accrues quarterly and the interest rate is 12-month EURIBOR plus a spread of 1.20%. It has commissions for having a 4.5% balance surplus. At 31 December 2019 the balance of said credit facility was not negative, having drawn down and repaid EUR 20,083 thousand during the year.

In addition, on 26 October 2018 the Company formalised a funding line in the amount of EUR 70,000 thousand with the European Investment Bank ("EIB"). Said loan matures 7 years from the first withdrawal. At 31 December 2019 no sum has been used. The non-use fee is calculated based on the amounts of the unused and the repaid credit, with ten daily basis points per annum. The fee started to accrue one year from the date the funding was signed and totals EUR 12 thousand. The last date on which this funding line is available is 26 October 2020.

In terms of the funding from the EIB, the Company undertakes to maintain, at all time, on the basis of the consolidated financial statements of the Group of the which it is the Parent Company, a Loan to Value Ratio of less than 50%, a debt service coverage ratio greater than or equal to 2.5x and a net financial debt / net equity ratio of less than 1.0x.

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(11) TRADE AND OTHER PAYABLES

The details of trade and other payables at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	31.12.2019	31.12.2018
Trade payables	347	328
Suppliers, related companies (Note 16)	646	9,303
Personnel	119	116
Other Public Entity borrowings (Note 13)	1,046	2,139
Total	2,158	11,886

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

Information appears below, as required by Additional Provision Three of Act 15/2010 of 5 July (amended through the Final Second Provision of Act 31/2014, of 3 December), drawn up in accordance with the Decision of 29 January 2016 by the Spanish Accounting and Audit Institute (ICAC), on information to be included in the report on the financial statements regarding the average payment period to suppliers in commercial transactions.

	2019	2018
	Days	Days
Average number of days payable outstanding to suppliers	18	13
Ratio of paid operations	18	13
Ratio of operations pending payment	68	136
	Thousands of Euros	Thousands of Euros
Total effected payments	28,654	51,709
Total pending payments	59	93

In accordance with the Decision by ICAC, commercial transactions referring to deliveries of goods or provisions of services accrued as of the date Act 31/2014 of 3 December took effect were taken into account when calculating the average payment period to suppliers.

“Suppliers”, for the exclusive purpose of providing the information envisaged in this Decision, are those trade payables to suppliers of goods and services included under “Short-term suppliers, related parties” and “Sundry payables” under the current liabilities on the balance sheet.

“Average number of days payable outstanding to suppliers” is understood to mean the time passed between the delivery of goods or the rendering of services by the supplier and the material payment of the transaction.

The maximum legal payment period applicable to the Company in the 2014/15 period according to Law 3/2004, of 29 December containing measures to combat late payments in commercial transactions and in accordance with the transitory provisions established in Law 15/2010, of 5 July, is 60 days until the publication of Law 11/2013 of 26 July and 30 days as of the publication of said Law and as of today’s date (unless the conditions established in same are met, which would allow said maximum payment period to be extended to 60 days).

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(13) PUBLIC ENTITIES AND TAXATION

(a) Balances with public entities

The details of balances held with public entities at 31 December 2019 and 2018 are as follows:

Receivables

	2019	2018
	Thousands of Euros	Thousands of Euros
Taxation authorities, other withholdings	847	1,241
	<u>847</u>	<u>1,241</u>

Payables

	2019	2018
	Thousands of Euros	Thousands of Euros
Taxation authorities, VAT payable	961	2,076
Taxation authorities, personal income tax withholdings payable	80	59
Social Security contributions payable	5	4
	<u>1,046</u>	<u>2,139</u>

The amount recorded under “Taxation authorities, other withholdings” mostly comprises withholdings from income from loans granted to associated companies in 2018 that the Company has requested be returned in the Corporate Income Tax for said year.

(b) Reconciliation of accounting profits and losses and taxable income

At 31 December 2019 and 2018, the taxable fiscal base comprises the following items:

	Thousands of Euros	
	31.12.2019	31.12.2018
Profit before taxes	61,111	76,082
Permanent differences	(2,170)	(5,164)
Temporary differences	(3,538)	-
Taxable income (tax loss)	62,479	70,918
Tax payable (0%)	-	-
Corporation tax expense/income	-	-

As of the 2014 period the Company is included under the SOCIMI tax regime. Pursuant to what is established therein, the tax rate applicable to the tax base is 0%, such that no expense has been recorded for Corporate Income Tax.

Deferred tax assets and liabilities

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The Company has not recorded deferred tax assets for the temporary differences because the applicable rate is calculated at 0%.

(c) Periods pending verification and inspections

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the 2019 reporting date, the last four fiscal years of the Group are open to inspection.

On 11 December 2019, partial inspection and verification proceedings began regarding Corporate Income Tax, Value Added Tax, Work and Professional Income Withholdings, Investment Income Withholdings, and Non-resident Tax Withholdings for the periods from 2015-2019 for the company Lar España Real Estate Socimi, S.A. The scope of this procedure is strictly limited to properly verifying the taxation percentages of the Regional Taxation Authorities.

The Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying financial statements would not be significantly affected by any resulting liabilities.

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

	2019 Period
a) Reserves from periods prior to the application of the tax regime provided in Law 11/2009, amended by Law 16/2012 of 27 December	-
b) Reserves for each period in which the special tax regime provided by that Law is applicable	2019 profits proposed to be distributed to reserves: EUR 6,111 thousand to the legal reserve. 2018 profits proposed to be distributed to reserves: EUR 7,608 thousand to legal reserve and EUR 121 thousand to voluntary reserve. 2017 profits proposed to be distributed to reserves: EUR 1,921 thousand to legal reserve and EUR 4 thousand to voluntary reserve. 2016 profits proposed to be distributed to reserves: EUR 380 thousand to legal reserve and EUR 4 thousand to voluntary reserve. 2015 profits to be distributed to reserves: EUR 501 thousand to the legal reserve and EUR 6 thousand to voluntary reserves. 2014 profits to be distributed to reserves: EUR 166 thousand to the legal reserve and EUR 167 thousand to voluntary reserves.
a. Profits from income subject to the general income tax rate	2019 profits: EUR 2,176 thousand. 2018 profits: EUR 5,165 thousand.
b. Profits from income subject to a tax rate of 19%	-
c. Profits from income subject to a tax rate of 0%	2019 profits: EUR 58,935 thousand. 2018 profits: EUR 70,917 thousand. 2017 profits: EUR 19,211 thousand. 2016 profits: EUR 3,800 thousand. 2015 profits: EUR 5,006 thousand. 2014 profits: EUR 1,664 thousand.
c) Dividends distributed against profits for each period in which the tax regime provided by this Law is applicable	Proposed dividend distribution for 2019: EUR 55,000 thousand. Dividend distribution for 2018: EUR 68,353 thousand. Dividend distribution for 2017: EUR 17,286 thousand. Dividend distribution for 2016: EUR 3,416 thousand. Dividend distribution for 2015: EUR 4,499 thousand. Dividend distribution for 2014: EUR 1,331 thousand.
a. Dividends from income subject to the general income tax rate	Proposed dividend distribution for 2018: EUR 5,165 thousand.
b. Dividends from income subject to a tax rate of 18% (2009) and 19% (2010 to 2012)	-
c. Dividends from income subject to a tax rate of 0%	Proposed dividend distribution for 2019: EUR 55,000 thousand. Dividend distribution for 2018: EUR 68,353 thousand. Dividend distribution for 2017: EUR 17,286 thousand. Dividend distribution for 2016: EUR 3,416 thousand. Dividend distribution for 2015: EUR 4,499 thousand. Dividend distribution for 2014: EUR 1,331 thousand.
d) Distributed dividends charged against reserves	-

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	2019 Period
a. Distribution charged against reserves subject to the general income tax rate	-
b. Distribution charged against reserves subject to a tax rate of 19%	-
c. Distribution charged against reserves subject to a tax rate of 0%	- Distribution of dividends from 2018 against the issue premium: EUR 6,647 thousand. - Distribution of dividends from 2017 against the issue premium: EUR 27,714 thousand. - Distribution of dividends from 2016 against the issue premium: EUR 26,565 thousand. - Distribution of dividends from 2015 against the issue premium: EUR 7,521 thousand.
e) Date of the agreement on the distribution of the dividends referenced in c) and d) above	2019 dividends: Pending approval. 2018 dividends: 25/04/2019 2017 dividends: 19/04/2018 2016 dividends: 29/05/2017 2015 dividends: 21/04/2016 2014 dividends: 27/04/2015
f) Date of acquisition of properties for lease that generate income subject to this special regime	2016 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014  2015 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014  2014 Period: Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Marcelo Spínola office building: 31 July 2014
g) Date of acquisition of shares in the capital of the entities referenced in Article 2.1 of this Law.	<ul style="list-style-type: none"> <li>• LE Logistic Alovera I y II, S.A.U.: 23 July 2014</li> <li>• LE Retail Hiper Albacenter, S.A.U. 4 November 2014</li> <li>• LE Retail Alisal, S.A.U.: 04 November 2014</li> <li>• LE Offices Eloy Gonzalo 27, S.A.U.: 18 December 2014</li> <li>• LE Retail As Termas, S.L.U. 18 December 2014</li> <li>• LE Logistic Almussafes, S.L.U.: 04 March 2015</li> <li>• LE Logistic Alovera III y IV, S.L.U.: 04 March 2015</li> <li>• LE Retail Hiper Ondara, S.L.U.: 09 June 2015</li> <li>• LE Offices Joan Miró 21, S.L.U.: 04 March 2015</li> <li>• LE Retail El Rosal, S.L.U.: 07 July 2015</li> </ul>

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	2019 Period
	<ul style="list-style-type: none"> <li>• LE Retail Vidanova Parc, S.L.U.: 26 March 2015</li> <li>• LE Retail Megapark, S.L.U.: 29 May 2015</li> <li>• LE Retail Galaria, S.L.U.: 20 July 2015</li> <li>• Lar España Shopping Centres VIII, S.L.U.: 04 August 2015</li> <li>• LE Retail Vistahermosa, S.L.U.: 04 August 2015</li> <li>• LE Retail Sagunto II, S.L.U.: 04 August 2015</li> <li>• LE Retail Villaverde, S.L.U.: 21 September 2015</li> <li>• LE Retail Anec Blau, S.L.U.: 29 April 2016</li> <li>• LE Retail Albacenter, S.L.U.: 29 April 2016</li> <li>• LE Retail Txingudi, S.L.U.: 29 April 2016</li> <li>• LE Retail Las Huertas, S.L.U.: 29 April 2016</li> <li>• LE Retail Portal de la Marina, S.L.U.: 41.22% on 30 March 2016 and 58.78% on 10 October 2014.</li> <li>• LE Retail Gran Vía de Vigo, S.A.U.: 15 September 2016</li> <li>• LE Retail Abadía, S.L.U. 27 March 2017</li> <li>• LE Retail Hipermercados I, S.L.U: 27 March 2017</li> <li>• LE Retail Hipermercados II, S.L.U: 27 March 2017</li> <li>• LE Retail Hipermercados III, S.L.U: 27 March 2017</li> <li>• LE Retail Rivas, S.L.U.: 06 February 2018</li> <li>• LE Retail Cordoba Sur, S.L.U.: 15 January 2019</li> </ul>
h) Identification of the asset included in the 80% mentioned in Article 3.1 of this Law	<p>- Investment property:</p> <p>Txingudi shopping centre Las Huertas shopping centre Albacenter shopping centre Anec Blau shopping centre Albacenter hypermarket As Termas shopping centre Portal de la Marina hypermarket El Rosal shopping centre Portal de la Marina shopping centre As Termas petrol station Lagoh shopping centre Vidanova Parc business park Megapark shopping centre Vistahermosa business park Gran Vía de Vigo shopping centre Abadía business park and shopping centre Eroski Hypermarkets Megapark recreation area Rivas business park Lagoh shopping centre</p> <p>- Capital investments:</p> <ul style="list-style-type: none"> <li>• LE Logistic Alovera I y II, S.A.U.: 23 July 2014</li> <li>• LE Retail Hiper Albacenter, S.A.U.: 04 November 2014</li> </ul>

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	2019 Period
	<ul style="list-style-type: none"> <li>• LE Retail Alisal, S.A.U.: 04 November 2014</li> <li>• LE Offices Eloy Gonzalo 27, S.A.U.: 18 December 2014</li> <li>• LE Retail As Termas, S.L.U.: 18 December 2014</li> <li>• LE Logistic Almussafes, S.L.U.: 04 March 2015</li> <li>• LE Logistic Alovera III y IV, S.L.U.: 04 March 2015</li> <li>• LE Retail Hiper Ondara, S.L.U.: 09 June 2015</li> <li>• LE Offices Joan Miró 21, S.L.U.: 04 March 2015</li> <li>• LE Retail El Rosal, S.L.U.: 07 July 2015</li> <li>• LE Retail Vidanova Parc, S.L.U.: 26 March 2015</li> <li>• LE Retail Galaria, S.L.U.: 20 July 2015</li> <li>• Lar España Shopping Centres VIII, S.L.: 04 August 2015</li> <li>• LE Retail Vistahermosa, S.L.U.: 04 August 2015</li> <li>• LE Retail Sagunto II, S.L.: 04 August 2015</li> <li>• LE Retail Villaverde, S.L.U.: 21 September 2015</li> <li>• LE Retail Anec Blau, S.L.U.: 29 April 2016</li> <li>• LE Retail Albacenter, S.L.U.: 29 April 2016</li> <li>• LE Retail Txingudi, S.L.U.: 29 April 2016</li> <li>• LE Retail Las Huertas, S.L.U.: 29 April 2016</li> <li>• LE Retail Gran Vía de Vigo, S.A.U.: 15 September 2016</li> <li>• LE Retail Abadía, S.L.U.: 27 March 2017</li> <li>• LE Retail Hipermercados I, S.L.U.: 27 March 2017</li> <li>• LE Retail Hipermercados II, S.L.U.: 27 March 2017</li> <li>• LE Retail Hipermercados III, S.L.U.: 27 March 2017</li> <li>• LE Retail Rivas, S.L.U.: 06 February 2018</li> <li>• LE Retail Cordoba Sur, S.L.U.: 15 January 2019</li> </ul>
i) Reserves from periods in which the special tax regime provided in this Law was applicable that have been applied in the tax period other than for the distribution thereof or to offset losses. The period from which these reserves have been taken must be specified.	-

(14) RISK MANAGEMENT POLICY

(a) Financial risk factors

The Company's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and interest rate risk in cash flows and the risk associated with the special SOCIMI tax regime. The Company's global risk management plan focuses on the uncertainty of the financial markets and tries to minimise the possible adverse effects on its financial profitability.

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



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(i) Market risk

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

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

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the companies of the Group (interest rates, share price, occupancy rates of investment property, etc.). The identification of variables that are interconnected and their degree of connection.
- The time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

Cash and cash equivalents

At 31 December 2019 the Company has cash in the amount of EUR 26,703 thousand, which represents its greatest exposure to risk in terms of these assets (EUR 133,562 thousand at 31 December 2018).

Cash and cash equivalents are held at banks and financial institutions with a high credit rating.

After ending the treasury share repurchase programs (Note 9), which temporarily suspended the liquidity agreement with a financial intermediary pursuant to terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other relevant regulations, the agreement was renewed with the financial intermediate JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of treasury shares.

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider leaving the aforementioned liquidity program temporarily suspended (Note 19).

(ii) Liquidity risk

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

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

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The Company's exposure to liquidity risk at 31 December 2019 and 2018 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

	2019					
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	Total
Financial liabilities from issue of bonds (*)	-	3,482	-	140,000	-	143,482
Other non-current liabilities - security deposits and guarantees	-	-	-	-	39	39
Bank borrowings	-	-	12	-	-	12
Debt with Group companies and associates (a)	-	-	27,608	-	-	27,608
Trade and other payables	1,071	1,087	-	-	-	2,158
Total	1,071	4,569	27,620	140,000	39	173,299
	2018					
	Thousands of Euros					
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Indefinite	Total
Financial liabilities from issue of bonds (*)	-	3,482	-	140,000	-	143,482
Other non-current liabilities - security deposits and guarantees	-	-	-	-	37	37
Debt with Group companies and associates (a)	-	-	50,487	-	-	50,487
Trade and other payables	2,583	9,303	-	-	-	11,886
Total	2,583	12,785	50,487	140,000	37	205,892

(a) This amount corresponds to the current accounts pledged with subsidiaries. Although these accounts mature on 31 December 2018, they are tacitly extended on an annual basis.

\* The effect of measuring the financial liabilities from bonds at amortised cost amounts, which mature in 2022, decreases the nominal value of these liabilities by EUR 623 thousand (EUR 923 thousand in 2018).

(iii) Cash flow and fair value interest rate risks

At 31 December 2019 the Company does not have any short-term deposits at fixed interest.

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At the reporting date, income and cash flows from the Company's operating activities are not significantly affected by fluctuations in market interest rates. At 31 December 2019 the Company has a financial liability for simple bonds issued for a nominal amount of EUR 140,000 thousand at a fixed rate and does not have any amounts drawn down from bank borrowings (see Note 10).

(iv) Tax risk

As mentioned in Note 1, the Company and part of the subsidiaries thereof have availed themselves of the special tax regime for SOCIMIs.

Among the obligations that the Company must comply with are some that are more formalistic in nature, such as the inclusion of the term SOCIMI in the corporate name, the inclusion of certain information in the notes to the individual financial statements, being listed on a stock exchange, etc., and others that additionally require the preparation of estimates and the application of rulings by the Management (determination of tax income, income tests, asset tests, etc.) that may be complex, especially considering that the SOCIMI Regime is relatively recent and its development has been carried out, fundamentally, through the General Directorate of Taxation's response to queries raised by different companies. In this sense, the Group's Management, with the support of its tax consultants, has verified that regime requirements have been satisfied and concluded that at 31 December 2019 all requirements have been satisfied. Management considered the income test non-compliance in 2018 to have since been corrected. This non-compliance was an extraordinary situation caused by the positive result after having returned the loan granted to Inmobiliaria Juan Bravo 3, S.L. (Note 16a). Therefore, the Company shall continue to avail itself of the SOCIMI tax regime, and this has been taken into account when drawing up these financial statements.

Should the Group not satisfy the requirement established in the Regime or the Company's Shareholders' Meeting not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements set forth in the aforementioned law, the companies would be in breach of said law and, consequently, would have to file their tax returns under the general tax regime rather than that applicable to SOCIMIs (Note 1).

(b) Capital management

The Company is essentially financed with its own capital and financial debt. The Company resorted to market financing through mortgage-backed loans or other means of funding to fund the acquisition of new investments. In addition, in 2015 the Company carried out a bond issue (Note 10).

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

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

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(15) INCOME AND EXPENSES

(a) Net turnover

Distribution of the net turnover for the 2019 and 2018 financial years, by business category and by geographical market is as follows:

	2019	2018
	Thousands of Euros	Thousands of Euros
Income from investments in equity instruments:		
Income from dividends (Note 16a)	62,184	38,941
Income from the distribution of available reserves (see notes 6 and 16a)	5,265	-
Income from loans with Group companies and associates (Note 16a)	-	27,921
Income from invoicing financial expenses within the Group (Note 16a)	4,364	4,352
Income from disposing of equity instruments (Note 7a)	-	15,507
	<u>71,813</u>	<u>86,721</u>

	2019	2018
	Thousands of Euros	Thousands of Euros
Spain	71,813	86,721
	<u>71,813</u>	<u>86,721</u>

(b) Personnel expenses

Details of employee benefit expenses at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Salaries and wages	367	437
Other benefits and taxes	56	65
	<u>423</u>	<u>502</u>

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(c) Other operating expenses

	Thousands of Euros	
	2019	2018
Independent professional services	1,541	1,417
Insurance premiums	126	250
Bank fees and commissions	9	8
PR and advertising	112	97
Supplies	3	2
Other expenses	290	1,002
Losses on, impairment of and change in allowances for trade operations	(9)	-
Taxes	4	7
	<u>2,076</u>	<u>2,783</u>

On 31 December 2019 Lar España Real Estate SOCIMI, S.A. invoiced the subsidiaries it completely controls a total of EUR 15,861 thousand for management support services provided to these companies during the year (EUR 37,049 thousand at 31 December 2018). The decrease in the invoiced amount is mainly due to the failure in 2019 to accrue the Performance Fee and Divestment Fee associated with the agreement held with the manager, Grupo LAR (Note 16a). This amount appears net of the expenses included under “Independent professional services” (Note 16a).

(16) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Transactions and balances between the Company and related parties

Manager agreement with Grupo Lar

On 12 February 2014, the Company signed an Investment Manager Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the Manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, the acquisition and management of property assets on behalf of the Company and the financial management thereof.

On 19 February 2018 the Company entered into a new agreement with the manager, in order to novate the terms of the Investment Manager Agreement. According to the aforementioned novation, the IMA will be effective for 4 years from 1 January 2018. In addition, the structure of the fees corresponding to the Management Company (fixed fee or base fee and variable fee or performance fee) has been modified. As of 2018, the base fee to be paid to the Management Company is calculated based on the annual equivalent of the greater between (i) EUR 2 million and (ii) the sum of (a) 1.00% of EPRA NAV (excluding net cash) at 31 December for the previous period up to EUR 1,000 million and (b) 0.75% of the EPRA NAV (excluding net cash) at 31 December for the previous year for any amount that exceeds EUR 1,000 million.

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The fixed amount accrued by the manager totalled EUR 9,877 thousand (EUR 8,740 thousand at 31 December 2018) (net of any expenses discounted based on the manager agreement formalised between the parties, which totalled EUR 398 thousand) and is recorded under “Other operating expenses” on the adjoined Income Statement and was subsequently rebilled to subsidiaries (Note 15c). At 31 December 2019, the amount of EUR 646 thousand was pending payment (EUR 756 thousand at 31 December 2018).

Likewise, the performance fee to be paid to the Management Company shall be 16% of any increase the Group sees in its EPRA NAV above 10% and 4% of any increase the Parent Company sees in its market capitalisation above 10%. Both figures shall be corrected pursuant to the circumstances described in the IMA and the fee shall be subject to an overall limit equal to 3% of the Group’s EPRA NAV at 31 December of the previous period. Pursuant to Clause 7.2.2 of the management agreement, Grupo Lar Inversiones Inmobiliarias, S.A. must use the amount earned as the Performance Fee (after deducting the applicable corporate income tax amount) to subscribe any shares that the Parent Company may issue, or by choice of the Parent Company, to acquire own treasury shares.

In terms of the floating amount, no figures were recorded at 31 December 2019, such that the Directors of the Company believe that developments of the EPRA NAV and market capitalisation at year-end did not reach either minimum established in the IMA for the accrual thereof (EUR 8,566 thousand at 31 December 2018).

Rebiling between Group companies

In 2019, as in previous years, the Company has formalized service provision and management agreements with companies in its group for the period ended 31 December 2019, where the expenses of this nature incurred by the Company on the behalf of the Group companies are passed on.

In this sense, in 2019, the Company has invoiced EUR 15,861 thousand, net of VAT, for management support services (37,049 thousand in 2018). The Company’s distribution approach is based on the relative weight of the underlying market value of each pledged property asset of the investees over the total market value (calculated based on the latest available appraisal from the period immediately prior to 31 December of each period) of such property assets at the beginning of the relevant period.

Likewise, the Company has entered into agreements with the Group companies owning assets used to guarantee the issued bonds (Note 10) in order to pass on the financial cost thereof. The amount passed on as at 31 December 2019 for this item totalled EUR 4,364 thousand (EUR 4,352 thousand in 2018) and is recorded under “Net turnover”. The Company’s distribution approach is based on the relative weight of the underlying market value of each pledged property asset of the investees over the total market value (calculated based on the latest available appraisal from the period immediately prior to 31 December of each period) of such property assets at the beginning of the relevant period.

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*Income from receivables and shareholdings in Group, multi-group and associated companies*

The amount of income the Company collects in terms of the dividends received from subsidiaries totalled EUR 62,185 thousand in 2019 (EUR 38,941 thousand in 2018). Of this amount, EUR 28,700 thousand corresponds to interim dividends distributed against the profit for 2019 of investees, where the remainder corresponds to the final dividends distributed against the profit for 2018 after the distribution of the profit of investees was approved.

Additionally, during 2019 the Company recognised income from the distribution of available reserves of Euros 5,265 thousand (none in 2018) (see notes 4h, 6a and 15a).

Also in 2018, the Company received repayment for two loans granted to Inmobiliaria Juan Bravo 3, S.L. The first was for a nominal amount of Euros 61,303 thousand, having been acquired in 2015 for EUR 40,000 thousand due to the insolvency of the investee. The second, granted on 11 January 2016, amounted to EUR 2,000 thousand. Following the repayment of both loans, the Company recorded positive finance income of EUR 21,303 thousand, corresponding to the difference between the price for which it purchased the first loan from a financial institution and its nominal value.

Likewise, in 2018, the finance income accruing on the loans amounted to EUR 6,618 thousand, in respect of both fixed and variable interest, calculated based on the estimated free cash flow of Inmobiliaria Juan Bravo 3, S.L. No finance income of any kind has accrued for these items in 2019.

*Short-term debt with Group companies and associates*

On 01 April 2019, a liquidity facility was arranged between Lar España Real Estate SOCIMI, S.A., the Parent of the Group, and Inmobiliaria Juan Bravo 3, S.L., whereby Lar España Real Estate SOCIMI, S.A. may dispose of a maximum amount of EUR 7,000 thousand, maturing on 31 March 2020. This liquidity facility yields a fixed interest rate of 5.95% of the drawn capital payable on the due date. In 2019 interest accrued in the amount of EUR 122 thousand, EUR 99 thousand of which is pending payment.

At 31 December 2019, the availed amount totalled EUR 3,100 thousand.

In addition, the Company has formalized current accounts with subsidiaries. The sums of these accounts at 31 December 2019 totalled EUR 24,410 thousand (EUR 50,487 thousand at 31 December 2018). Said current accounts accrue fixed interest at a rate of 0.21% and any interest is payable yearly. The accounts mature yearly and are tacitly renewed for one-year periods, unless express notification to the contrary is received.

Financial interest accrued in 2019 amounted to an expense of EUR 112 thousand (EUR 84 thousand in 2018), such interest being recorded under “Financial expenses - Borrowings with Group companies and associates”.

(b) *Details of transactions and balances held with related parties*

Transactions and balances with related parties in the 2019 and 2018 periods are as follows:

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	2019				
	Thousands of Euros				
	Balances			Transactions	
	Loans and receivables		Trade payables	Current account	
	Long-term	Short-term	Short-term	Short-term	
Balances with Group and related parties					
<b>Balances with Group companies</b>					
LE Retail Txingudi, S.L.U.	-	1,094	-	-	1,533
LE Retail Las Huertas, S.L.U.	-	349	-	-	489
LE Retail Anec Blau, S.L.U.	-	2,861	-	-	3,975
LE Retail Albacenter, S.L.U.	-	1,285	-	-	1,766
LE Offices Marcelo Spinola, S.L.U.	-	-	-	-	12
LE Logistic Alovera I y II, S.A.U.	-	-	-	(903)	-
LE Offices Eloy Gonzalo 27, S.A.U.	-	-	-	-	60
LE Retail As Termas, S.L.U.	-	791	-	-	634
LE Logistic Alovera III y IV, S.L.U.	-	-	-	(216)	-
LE Logistic Almussafes, S.L.U.	-	-	-	(2,756)	-
LE Retail Hiper Ondara, S.L.U.	-	3,173	-	(15,734)	2,603
LE Offices Joan Miró 21, S.L.U.	-	-	-	(416)	-
LE Retail Vidanova Parc, S.L.U.	-	518	-	-	428
LE Retail Galaria, S.L.U.	-	-	-	-	-
Lar España Shopping Centres VIII, S.L.U.	-	2,755	-	-	2,260
LE Retail Vistahermosa, S.L.U.	-	447	-	-	369
LE Retail Gran Vía de Vigo, S.A.U.	-	1,818	-	-	1,276
LE Retail Hiper Albacenter, S.A.U.	-	498	-	-	698
LE Retail Alisal, S.A.U.	-	-	-	(2,223)	-
LE Retail El Rosal, S.L.U.	-	1,012	-	-	816
LE Retail Villaverde, S.L.U.	-	-	-	(1,656)	-
LE Retail Abadía, S.L.U.	-	752	-	-	622
LE Retail Hipermercados I, S.L.U.	-	534	-	-	749
LE Retail Hipermercados II, S.L.U.	-	531	-	-	744
LE Retail Hipermercados III, S.L.U.	-	492	-	-	689
Lar España Inversión Logística IV, S.L.U.	-	-	-	(505)	-
LE Retail Rivas, S.L.U.	-	603	-	-	498
LE Retail Sagunto II, S.L.U.	-	6	-	-	5
LE Retail Cordoba Sur, S.L.U.:	-	-	-	-	-
Inmobiliaria Juan Bravo 3, S.L.	-	74	-	(3,199)	-
Dividends (i)	-	28,700	-	-	62,185
Income from the distribution of available reserves (notes 15a and 6a)	-	-	-	-	5,265
Grupo Lar Inversiones Inmobiliarias, S.A.	-	-	(646)	-	-
	-	48,293	(646)	(27,608)	87,676
					(234)

(\*) Income from rebilling that is presented net of any external service expense, in accordance with Note 4h, totalled EUR 15,861 thousand at 31 December 2019.



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(i) The details of the dividends recorded in 2019 are as follows:

Company	Interim dividends over profit and loss at 31/12/2019	Final dividends over profit and loss at 31/12/2018	Total
LE Retail Alisal, S.A.U	5	2,011	2,016
LE Logistic Almussafes, S.L.U.	159	2,054	2,213
LE Logistic Alovera I y II, S.A.U.	-	15,621	15,621
LE Logistic Alovera III y IV, S.L.U.	12	2,790	2,802
LE Retail As Termas, S.L.U.	1,828	557	2,385
LE Retail Galaria, S.L.U.	-	1,598	1,598
LE Retail Hiper Albacenter, S.A.U.	32	89	121
LE Retail Hiper Ondara, S.L.U.	2,415	657	3,072
LE Offices Eloy Gonzalo 27, S.A.U.	15,079	-	15,079
LE Offices Joan Miró 21, S.L.U.	1	5,496	5,497
LE Retail Villaverde, S.L.U.	5	1,456	1,461
LE Retail Vistahermosa, S.L.U	781	-	781
LE Retail Gran Vía de Vigo, S.A.	-	181	181
LE Retail Abadía, S.L.U.	1,861	132	1,993
LE Retail Hipermercados I, S.L.U.	606	3	609
LE Retail Hipermercados II, S.L.U.	611	53	664
LE Retail Hipermercados III, S.L.U.	554	47	601
LE Retail Anec Blau, S.L.U.	35	266	301
LE Retail Txingudi, S.L.U.	804	-	804
LE Retail Albacenter, S.L.U.	908	176	1,084
LE Retail Las Huertas, S.L.U.	-	1	1
Lar España Inversión Logística IV, S.L.U.	-	293	293
LE Retail Rivas, S.L.U.	1,528	-	1,528
LE Retail Vidanova Parc, S.L.U.	1,095	-	1,095
Le Retail Sagunto II, S.L.U.	-	4	4
LE Retail El Rosal, S.L.U.	381	-	381
<b>Total</b>	<b>28,700</b>	<b>33,485</b>	<b>62,185</b>

The interim dividends over profit and loss at 31 December 2019 were approved on 31 December 2019 and were paid on 21 January 2020.

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2018

Thousands of Euros						
	Balances			Transactions		
	Loans and receivables		Trade payables	Current account	Income (*)	Expense
	Long-term	Short-term	Short-term	Short-term		
Balances with Group and related parties						
<b>Balances with Group companies</b>						
LE Retail Txingudi, S.L.U.	-	1,819	-	-	1,543	-
LE Retail Las Huertas, S.L.U.	-	611	-	-	518	-
LE Retail Anec Blau, S.L.U.	-	2,974	-	-	2,534	-
LE Retail Albacenter, S.L.U.	-	2,368	-	-	1,770	-
LE Offices Marcelo Spinola, S.L.U.	-	1,871	-	-	1,587	-
LE Logistic Alovera I y II, S.A.U.	-	1,778	-	17,152	1,508	(27)
LE Offices Eloy Gonzalo 27, S.A.U.	-	1,874	-	-	1,588	-
LE Retail As Termas, S.L.U.	-	2,552	-	-	2,172	-
LE Logistic Alovera III y IV, S.L.U.	-	380	-	3,002	322	(2)
LE Logistic Almussafes, S.L.U.	-	287	-	4,801	244	(1)
LE Retail Hiper Ondara, S.L.U.	-	10,270	-	15,701	8,817	(1)
LE Offices Joan Miró 21, S.L.U.	-	652	-	-	561	-
LE Retail Vidanova Parc, S.L.U.	-	1,084	-	-	931	-
LE Retail Galaria, S.L.U.	-	193	-	293	166	-
Lar España Shopping Centres VIII, S.L.U.	-	2,669	-	-	2,299	-
LE Retail Vistahermosa, S.L.U.	-	1,499	-	-	1,291	-
LE Retail Gran Vía de Vigo, S.A.U.	-	5,058	-	-	4,328	-
LE Retail Hiper Albacenter, S.A.U.	-	724	-	-	614	-
LE Retail Alisal, S.A.U.	-	112	-	4,228	96	(7)
LE Retail El Rosal, S.L.U.	-	3,368	-	-	2,873	-
LE Retail Villaverde, S.L.U.	-	117	-	3,108	99	(5)
LE Retail Abadía, S.L.U.	-	1,986	-	-	1,711	-
LE Retail Hipermercados I, S.L.U.	-	858	-	-	727	-
LE Retail Hipermercados II, S.L.U.	-	849	-	-	720	-
LE Retail Hipermercados III, S.L.U.	-	858	-	-	728	-
Lar España Inversión Logística IV, S.L.U.	-	144	-	2,202	124	(2)
LE Retail Rivas, S.L.U.	-	1,777	-	-	1,530	-
Inmobiliaria Juan Bravo 3, S.L.	-	-	-	-	27,921	(39)
Dividends (i)	-	-	-	-	38,941	-
Grupo Lar Inversiones Inmobiliarias, S.A.	-	-	(9,185)	-	-	(35,086)
	-	48,732	(9,185)	50,487	108,263	(35,170)

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(i) The details of the dividends recorded in 2018 are as follows:

Company	Interim dividends over profit and loss at 31/12/2018	Dividend over profit and loss at 31/12/2017	Total
LE Retail Alisal, S.A.U	2,098	54	2,152
LE Logistic Almussafes, S.L.U.	2,185	76	2,261
LE Logistic Alovera I y II, S.A.U.	16,050	437	16,487
LE Logistic Alovera III y IV, S.L.U.	2,936	245	3,181
LE Retail As Termas, S.L.U.	-	183	183
LE Retail Galaria, S.L.U.	1,664	30	1,694
LE Retail Hiper Albacenter, S.A.U.	111	24	135
LE Retail Hiper Ondara, S.L.U.	-	28	28
LE Offices Joan Miró 21, S.L.U.	-	-	-
LE Retail Megapark, S.L.U.	-	553	553
LE Retail Villaverde, S.L.U.	1,597	47	1,644
LE Retail Vistahermosa, S.L.U.	-	125	125
LE Retail Portal de la Marina, S.L.U.	-	595	595
LE Retail Gran Vía de Vigo, S.A.	-	1,002	1,002
LE Retail Abadía, S.L.U.	827	38	865
LE Retail Hipermercados I, S.L.U.	343	264	607
LE Retail Hipermercados II, S.L.U.	317	192	509
LE Retail Hipermercados III, S.L.U.	215	128	343
LE Retail Anec Blau, S.L.U.	554	360	914
LE Retail Txingudi, S.L.U.	-	106	106
LE Retail Albacenter, S.L.U.	274	-	274
LE Retail Las Huertas, S.L.U.	56	-	56
LAR España Inversión Logística IV, S.L.U.	5,165	-	5,165
<b>Total</b>	<b>34,392</b>	<b>4,487</b>	<b>38,879</b>

The interim dividends over profit and loss at 31 December 2018 were approved and paid on 27 December 2018.

(c) Information relating to Directors and Senior Management staff of the Company

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2019 and 2018, classified by item, is as follows:

The Board of Directors received EUR 590 thousand in allowances (EUR 590 thousand in 2018). At 31 December 2019, allowances for the Board of Directors include EUR 85 thousand for the non-executive secretary of the Board of Directors (EUR 85 thousand at 31 December 2018).

In 2019 senior management staff received EUR 368 thousand in salaries and wages (EUR 437 thousand in 2018).

The amount of civil liability insurance premiums for directors and senior management covering damages resulting from acts or omissions totalled EUR 120 thousand (EUR 194 thousand in 2018).

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At 31 December 2019 and 2018 the Company has no pension, life insurance, stock options or compensation obligations with former or current members of the Board of Directors or Senior Management personnel of the Company.

At 31 December 2019 and 2018 no advances or loans have been extended to Members of the Board or Senior Management.

At 31 December 2019 and 2018 the Company has 7 Directors: 5 men and 2 women.

(d) Transactions other than ordinary business or under terms differing from market conditions carried out by the Directors

Apart from the transactions with related parties listed above, in 2019 the Directors of the Company and members of its Board of Directors have not carried out any transactions other than ordinary business or under terms that differ from market conditions with said Company or any other Group company.

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

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

Notwithstanding the above, it is hereby stated that the board member Mr Miguel Pereda Espeso holds the following positions in other companies:

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- i. Board Member of Grupo Lar Inversiones Inmobiliarias S.A. (managing company of the Company). Grupo Lar Inversiones Inmobiliarias, S.A. (the then sole shareholder of the Company) and the General Shareholders' Meeting saved this situation of potential conflict of interest by appointing Miguel Pereda as board member of Lar España Real Estate SOCIMI, S.A. on 5 February 2014 and 29 May 2017, respectively.
- ii. Chairperson of the Board of Villamagna, S.A.
- iii. Sole Administrator of Fomento del Entorno Natural, S.A. in which he is also a shareholder (holding property of 13.85% of the shares).
- iv. In addition, Miguel Pereda Espeso holds positions in subsidiaries of Grupo Lar Inversiones Inmobiliarias S.A. as indicated below:

Company	Position/Role	Number of Shares	% of Participation
Grupo Lar Inversiones Inmobiliarias, S.A.	Executive Committee Director and Secretary	5,605	24.95%
Grupo Lar Europa del Este, S.L.U.	Director	N/A	N/A
Grupo Lar Holding Iberia, S.A.U.	President and Chief Executive Officer	N/A	N/A
Inmobérica de Gestión, S.L.U.	Sole Administrator	N/A	N/A
Grupo Lar Terciario, S.L.U. (until 10 June 2019, when the company was wound up by virtue of the merger through absorption of Grupo Lar Holding Iberia, S.A.U.)	President of the Board of Directors	N/A	N/A
Grupo Lar Unidad Terciario, S.L.U.	Sole Administrator	N/A	N/A
Global Caronte, S.L.U.	Joint and Several Administrator	N/A	N/A
Global Byzas, S.L.U.	Sole Administrator	N/A	N/A
Oficinas Calle Albarracín, S.L.U.	Sole Administrator	N/A	N/A
HRE INVERSIONES II, S.L. (formerly HRE INVESTMENT II, B.V.)	Sole Administrator	N/A	N/A
Desarrollos Ibéricos Lar, S.L.U.	Joint and Several Administrator	N/A	N/A
Grupo Lar Desarrollo Suelo, S.L.U.	Joint and Several Administrator	N/A	N/A
Proactivo Servicios Generales, S.L.U.	Sole Administrator	N/A	N/A
Parque Castilleja, S.L.	Chairperson and Several and Joint Managing Director	N/A	N/A
Grupo Lar Grosvenor Servicios Dos, S.L.	Individual representing the Sole Administrator of Grupo Lar Terciario, S.L.	N/A	N/A
Inversiones Yarmuk, S.A.	Individual representing the Liquidator of Global Byzas, S.L.U.	N/A	N/A
Grupo Lar Oficinas Europeas, S.A.U.	Sole Administrator	N/A	N/A
Acacia Inmuebles, S.L.	President of the Board of Directors	N/A	N/A
Inmuebles Logísticos Iberia, S.L.	President of the Board of Directors	N/A	N/A

Notwithstanding the above, the board member Mr Miguel abstained from participating in those decisions that might have created a conflict of interest.

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(17) EMPLOYEE INFORMATION

The average headcount of the Company at 31 December 2019 and 2018, distributed by category, is as follows:

	2019	2018
Professional category		
Senior management personnel	3	4
Total	<u>3</u>	<u>4</u>

Furthermore, the distribution of the Company's personnel by sex at the end of the 2019 and 2018 was as follows:

	2019		2018	
	Female	Male	Female	Male
Professional category				
Senior management personnel	1	2	1	2
Total	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>

Salaries, wages and similar expenses corresponding to these employees at 31 December 2019 totalled EUR 368 thousand (EUR 437 thousand at 31 December 2018).

In 2019 and 2018 the Company did not employ anyone with a disability greater than or equal to 33%.

(18) AUDIT FEES

In 2019 and 2018, the professional fees charged for auditing and other services provided by the Company's audit firm, Deloitte S.L., or by a company related thereto by through shared ownership, management or a control relationship, were as follows (in thousands of Euros):

	Thousands of Euros	
	2019	2018
Audit and related services		
Audit services	163.5	148.5
Other verification services	101.6	12.0
Professional services		
Other services	-	250.0
Total	<u>265.1</u>	<u>410.5</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.  
Notes to the annual financial statements  
Annual period ended 31 December 2019  
(Expressed in thousands of Euros)

(19) EVENTS AFTER THE REPORTING PERIOD

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider, aimed at a maximum of 4,500,000 shares, representing 5% of the share capital, which may be acquired for a price not exceeding (a) the price of the last independent transaction or (b) the highest independent offer at that date at the trading venue where the purchase takes place. This programme will last until 14 October 2020 at the latest. The former programme temporarily suspends the liquidity agreement with a financial intermediary per the provisions of the Spanish National Securities Market Commission Circular 3/2007 of 19 December 2007 on liquidity contracts for the purposes of their acceptance as market practice and other applicable regulations, according to which it maintains a restricted amount of Euros 500 thousand in cash and a maximum of 63,000 shares for the sale-purchase of treasury stock.

(20) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2019

**a) Subsidiaries**

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investments (e)
LE Logistic Alovera I y II, S.A.U.	Leasing of property	Subsidiary	100	100	60	(44)	(24)	-	3,579	3,615	-	-	-	3,615
LE Retail Hiper Albacenter, S.A.U.	Leasing of property	Subsidiary	100	100	60	36	36	(32)	14,004	14,068	19,100	14,095	5,005	14,095
LE Retail Alisal, S.A.U.	Leasing of property	Subsidiary	100	100	60	(1)	6	(5)	2,278	2,339	-	-	-	2,339
LE Offices Eloy Gonzalo 27, S.A.U.	Leasing of property	Subsidiary	100	100	60	20,395	20,427	(15,079)	344	5,752	-	-	-	6,096
LE Retail As Termas, S.L.U.*	Leasing of property	Subsidiary	100	100	4	3,126	2,031	(1,828)	32,480	32,687	86,260	68,476	17,784	32,687
LE Logistic Alovera III y IV, S.L.U.	Leasing of property	Subsidiary	100	100	4	10	14	(12)	646	652	-	-	-	652
LE Logistic Almussafes, S.L.U.	Leasing of property	Subsidiary	100	100	4	169	177	(159)	2,969	2,991	-	-	-	2,991
LE Retail Hiper Ondara, S.L.U.*	Leasing of property	Subsidiary	100	100	4	9,279	2,683	(2,415)	135,741	136,014	345,566	271,495	74,071	129,519
LE Offices Joan Miró 21, S.L.U.*	Leasing of property	Subsidiary	100	100	4	(7)	1	(1)	798	802	-	-	-	802
LE Retail Vidanova Parc, S.L.U.*	Leasing of property	Subsidiary	100	100	4	2,151	1,217	(1,095)	28,433	28,559	55,000	45,854	9,146	30,000



## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2019

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investments (e)
LE Retail El Rosal, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,675	423	(381)	23,079	23,124	110,900	70,364	40,536	33,528
LE Retail Galaria, S.L.U.	Leasing of property	Subsidiary	100	100	4	(6)	(84)	-	504	424	-	-	-	504
LE Retail Lagoh, S.L.U.*	Leasing of property	Subsidiary	100	100	3	930	(210)	-	115,665	115,458	312,000	214,639	97,361	121,097
LE Retail Sagunto II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	(16)	(16)	-	1,532	1,519	1,445	1,227	218	1,532
LE Retail Vistahermosa, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,408	867	(781)	21,490	21,579	50,500	42,238	8,262	21,579
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties	Subsidiary	100	100	3	1,377	1,246	-	697	1,946	-	-	-	700
LE Retail Villaverde, S.L.U.	Leasing of property	Subsidiary	100	100	3	-	6	(5)	1,758	1,762	-	-	-	1,762
LE Retail Anec Blau, S.L.U.*	Leasing of property	Subsidiary	100	100	3	39	39	(35)	82,980	82,987	102,063	86,699	15,364	83,043
LE Retail Albacenter, S.L.U.	Leasing of property	Subsidiary	100	100	3	1,009	1,009	(908)	33,724	33,828	44,600	32,282	12,318	33,724
LE Retail Txingudi, S.L.U.	Leasing of property	Subsidiary	100	100	3	893	893	(804)	32,482	32,574	36,520	30,027	6,493	32,574
LE Retail Las Huertas, S.L.U.	Leasing of property	Subsidiary	100	100	3	220	220	-	12,588	12,811	11,580	11,697	(117)	12,811
LE Offices Marcelo	Leasing of property	Subsidiary	100	100	3	9,029	8,058	-	(1,499)	6,562	-	-	-	5,063

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2019

Company	Activity	Type of entity	% of Participation		Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Thousands of Euros				
			Direct	Total						Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investments (e)
Spinola, S.L.U.														
LE Retail Gran Vía de Vigo, S.A.U.*	Leasing of property	Subsidiary	100	100	502	5,731	3,538	-	26,958	30,998	166,890	105,234	61,656	59,583
LE Retail Abadía, S.L.U.*	Leasing of property	Subsidiary	100	100	7,204	3,258	2,298	(1,861)	16,926	24,567	87,520	63,850	23,670	36,817
LE Retail Hipercameros I, S.L.U.	Leasing of property	Subsidiary	100	100	3	674	674	(606)	14,808	14,879	18,580	14,241	4,339	15,018
LE Retail Hipercameros II, S.L.U.	Leasing of property	Subsidiary	100	100	3	679	679	(611)	14,936	15,007	18,440	14,458	3,982	16,825
LE Retail Hipercameros III, S.L.U.	Leasing of property	Subsidiary	100	100	3	615	615	(554)	13,684	13,748	17,100	13,113	3,987	15,537
LE Retail Rivas, S.L.U.*	Leasing of property	Subsidiary	100	100	3	2,372	1,697	(1,528)	27,361	27,533	67,500	51,903	15,597	35,530
LE Retail Cordoba Sur, S.L.U.:	The acquisition and development of properties	Subsidiary	100	100	4	(14)	(14)	-	947	937	-	-	-	947
					8,023	64,987	48,506	(28,700)	661,893	689,722	1,551,564	1,151,892	399,672	752,231

\* Company audited by Deloitte, S.L.

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

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2019

**b) Joint venture**

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating profit/(loss)	Thousands of Euros			
					Direct	Total			Profit/(loss)	Dividends	Other equity	Carrying amount of investment
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50	50	3,483	4,375	6,060	-	(3,151)	5,100

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2018

**a) Subsidiaries**

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	Leasing of property	Subsidiary	100	100	60	31,642	31,670	(16,050)	169	15,849	-	-	-	6,000
LE Retail Hiper Albacenter, S.A.U.	Leasing of property	Subsidiary	100	100	60	200	200	(111)	12,432	12,581	15,390	12,758	2,632	12,480
LE Retail Alisal, S.A.U.	Leasing of property	Subsidiary	100	100	60	4,145	4,110	(2,098)	2,162	4,234	-	-	-	2,210
LE Offices Eloy Gonzalo 27, S.A.U.	Leasing of property	Subsidiary	100	100	60	(1,783)	(1,783)	-	19,314	17,591	39,400	18,547	20,853	19,830
LE Retail As Termas, S.L.U.*	Leasing of property	Subsidiary	100	100	4	1,815	630	-	28,227	28,861	85,500	67,931	17,569	28,530
LE Logistic Alovera III y IV, S.L.U.	Leasing of property	Subsidiary	100	100	4	5,724	5,725	(2,935)	97	2,891	-	-	-	10,000
LE Logistic Almussafes, S.L.U.	Leasing of property	Subsidiary	100	100	4	4,238	4,239	(2,185)	2,525	4,583	-	-	-	2,520
LE Retail Hiper Ondara, S.L.U.*	Leasing of property	Subsidiary	100	100	4	5,559	657	-	122,115	122,776	339,735	275,034	64,701	113,720
LE Offices Joan Miró 21, S.L.U.*	Leasing of property	Subsidiary	100	100	4	6,081	5,496	-	13,794	19,294	-	-	-	13,790
LE Retail Vidanova Parc, S.L.U.*	Leasing of property	Subsidiary	100	100	4	373	(236)	-	22,796	22,564	59,687	47,209	12,478	24,060
LE Retail El Rosal, S.L.U.*	Leasing of property	Subsidiary	100	100	3	(438)	(1,805)	-	23,246	21,444	110,210	71,761	38,449	32,060
LE Retail	Leasing of property	Subsidiary	100	100	4	3,310	3,261	(1,665)	(1)	1,599	-	-	-	-

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2018

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Galaria, S.L.U. LE Retail Lagoh, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100	100	3	(3,036)	(3,184)	-	94,344	91,163	132,000	104,262	27,738	96,852
LE Retail Sagunto II, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	4	4	-	1,532	1,539	1,223	1,223	-	1,532
LE Retail Vistahermosa, S.L.U.*	Leasing of property	Subsidiary	100	100	3	413	(167)	-	20,169	20,005	50,540	42,903	7,637	20,342
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100	100	3	7,676	5,575	(5,165)	(9)	404	307	307	-	11,118
LE Retail Villaverde, S.L.U.	Leasing of property	Subsidiary	100	100	3	3,161	3,054	(1,598)	1,651	3,110	-	-	-	1,651
LE Retail Anec Blau, S.L.U.*	Leasing of property	Subsidiary	100	100	3	1,025	1,025	(554)	77,989	78,463	97,060	78,745	18,315	78,745
LE Retail Albacenter, S.L.U.	Leasing of property	Subsidiary	100	100	3	220	220	-	30,638	30,861	44,960	31,993	12,967	30,733
LE Retail Txingudi, S.L.U.	Leasing of property	Subsidiary	100	100	3	(21)	(21)	-	30,637	30,619	37,500	30,640	6,860	30,700
LE Retail Las Huertas, S.L.U.	Leasing of property	Subsidiary	100	100	3	1	1	-	11,960	11,964	12,600	11,842	758	12,192
LE Offices Marcelo Spinola, S.L.U.	Leasing of property	Subsidiary	100	100	3	(2,158)	(2,158)	-	28,590	26,435	37,000	27,629	9,371	31,560
LE Retail Gran Vía de Vigo, S.A.U.*	Leasing of property	Subsidiary	100	100	502	2,430	226	-	21,831	22,559	173,000	106,947	66,053	53,932
LE Retail	Leasing of property	Subsidiary	100	100	7,204	2,151	1,199	(827)	14,617	22,193	83,410	63,110	20,300	34,783

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2018

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
Abadía, S.L.U.*														
LE Retail Hipermercados I, S.L.U.	Leasing of property	Subsidiary	100	100	3	346	346	(343)	13,929	13,935	17,734	14,427	3,307	14,734
LE Retail Hipermercados II, S.L.U.	Leasing of property	Subsidiary	100	100	3	370	370	(317)	14,064	14,120	17,541	14,647	2,894	15,935
LE Retail Hipermercados III, S.L.U.	Leasing of property	Subsidiary	100	100	3	262	262	(215)	12,803	12,853	17,749	13,284	4,465	14,649
LE Retail Rivas, S.L.U.*	Leasing of property	Subsidiary	100	100	3	422	(185)	-	25,593	25,411	67,500	52,586	14,914	33,361
					8,019	74,132	58,731	(34,063)	647,214	679,901	1,440,046	1,087,785	352,261	721,351

\* Company audited by Deloitte, S.L.

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

## LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on Group Companies  
31 December 2018

**b) Joint venture**

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Thousands of Euros					
					Direct	Total	Share capital	Operating profit/(loss)	Profit/(loss)	Dividends	Other equity	Carrying amount of investment
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50	50	3,483	26,067	17,513	-	(3,151)	8,647

## **1 Position of the Company**

### **1.1 Organisational structure and functional operation**

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

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

Group companies, most of which are 100% owned by the Company, with the exception of IJB (50%), carry out their activity with the following types of assets:

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

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

- Offices: the rental of offices.

The Group implemented a plan to build up the value of assets in its portfolio in order to maximise shareholder returns from divesting in said assets

- Logistics: the rental of logistics bays.

The Group implemented a plan to build up the value of assets in its portfolio in order to maximise shareholder returns from divesting in said assets.

- Residential.

The Group made an exception investment in the luxury residential market in Madrid, through the joint development (50%) of the Lagasca99 project with PIMCO. The development, most of which has already been delivered, is not in response to a strategic line in envisaged in the future business plans.

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

- On assets the company considers to be strategic assets, mainly commercial parks and shopping centres.
- Investment opportunities in mid-sized assets that offer great management possibilities, avoiding those segments where competition may be greater.
- Risk diversification, expanding throughout Spain mainly in shopping centre investments.

The company maintains a robust pipeline that offers it security as regards the achievement of its investment plans as forecast.



## **2 Development and business results**

### **2.1 Introduction**

At the 2019 reporting date, the Company's revenue amounted to EUR 71,813 thousand, which corresponded to returns from dividends received from investee companies, financial income from financing granted to same and returns from the disposal of equity instruments in accordance with their standing as holding companies.

The operating result before amortisations, provisions and interest (EBITDA, is calculated as the result of the operations, net of amortisation expenses) presents a positive result of EUR 69,423 thousand.

The negative financial result was EUR 4,764 thousand.

The Company's profit for the period amounts to EUR 61,111 thousand.

### **2.2 Other financial indicators**

At 31 December 2019, the Company presents the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 43,926 thousand (EUR 142,038 thousand at 31 December 2018).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 2.32 (3.16 at 31 December 2018).
- Solvency ratio (calculated as non-current liabilities and equity divided by non-current assets → 1.06 (1.20 at 31 December 2018)).

These ratios represent particularly high values, indicating that the Company enjoys a sufficient level of liquidity and a high degree of safety margin in order to meet its payments.

The ROE ("Return on Equity"), which measures the Company's rate of return divided by its equity, is 9.23% (it was 10.67% as of 31 December 2018). This is calculated as the quotient of the profit for the last 12 months and the Company's net equity at 31 December 2019.

The ROA ("Return on Assets"), which measures the efficiency of the Company's total assets, regardless of the source of funding used, i.e. the capacity of a company's assets to generate profit, is 7.32% (8.29% as of 31 December 2018). This is calculated as the quotient of the profit for the last 12 months and the Company's total assets at 31 December 2019.

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA) regarding the calculation and determination of Alternative Performance Measures used by the Company's Management in taking financial and operational decisions, sections 3 and 6 of the "Full year report 2019", which was published on the same date as these Financial Statements and explanatory notes, state how the EPRA (European Public Real Estate Association) indicators are calculated and defined.

## **2.3 Matters regarding the environment and personnel**

### **Environment**

The Company takes measures to prevent, reduce and repair the damage caused to the environment by its activities. However, due to its nature, the Company's activity does not have a significant impact on the environment.

### **Personnel**

At 31 December 2019 the Company has 3 employees (2 men and 1 woman). Said employees are classified as Senior Management. In the 2019 period the Company has had no employees with a 33% or greater disability.

## **3 Liquidity and capital resources**

### **3.1 Liquidity and capital resources**

In this sixth year of activity, the Company obtained liquidity mainly through:

- Credit and funding lines with Bankinter (EUR 25,000 thousand, EURIBOR 12M + 1.20% with maturity 05/16/2020).
- Divestments of assets and current accounts with Group companies.

### **3.2 Analysis of contractual obligations and off-balance-sheet transactions**

The Company does not have any contractual obligations that imply an outflow of liquid resources at 31 December 2019 beyond those mentioned in point 3.1.

At 31 December 2019, the Company does not present off-balance-sheet transactions that have had, or are expected to have, a significant effect on the financial position of the Company, the expenditure structure, the operating result, liquidity, capital expenses or on own resources.

## **4 Main risks and uncertainties**

The Company is exposed to a variety of risk factors arising from the nature of its business. The Company's Board of Directors is responsible for approving the risk management and control policy, and it assumes responsibility for identifying the Company's main risks and supervising the internal oversight systems; it is informed by the Audit and Oversight Committee. The Group's Risk Management and Control System identifies, groups, manages and control risks that could potentially affects said Group in the areas that make up the Group's corporate risk map, which is adequately reported in the Annual Corporate Governance Report.

## **5 Significant circumstances occurring after the close**

No important circumstances arose after the reporting period other than those mentioned under post-closing events.

## **6 Information on the foreseeable evolution of the Company**

After the investment volume carried out since March 2014, active property management capacity will be key in upcoming years.

This active management strategy will lead to an increase in current income and in the profitability with respect to the purchase price. All of this will be reflected in the greater value of the assets in our portfolio.

The Company will, however, continue to analyse any investment opportunities that may be attractive and thus continue to generate value for its shareholders.

Based on available information and the current business plans, we believe that the Company will be in a position to continue making progress in 2020 and in subsequent years.

## **7 R&D+i activities**

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

## **8 Acquisition and disposal of treasury stock**

The Parent Company formalised a share buy-back programme between Lar España and its liquidity provider, aimed at a maximum of 4,660,000 shares, representing 5% of the share capital, which may be acquired at a price no greater than (a) the price of the last independent transaction or (b) the highest independent offer at that time in the business centre where the purchase is made. The maximum deadline for this programme is 25 December 2019.

The aforesaid programme suspends the liquidity agreement with a financial intermediary pursuant to the terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other applicable regulations, such that a restricted amount of EUR 500 thousand is held in the Treasury and there is a maximum of 63,000 shares available for purchase/sale as treasury shares.

On 28 February 2019 and 17 December 2019 marked the end of the share repurchase programs formalised between the Company and its liquidity supplier, said programs having a target of a maximum of 3,160,000 and 4,660,000 shares, respectively. After ending the treasury share repurchase programs, which temporarily suspended the liquidity agreement with a financial intermediary pursuant to terms of Circular 3/2007, of 19 December by the Spanish Securities Market Commission on liquidity agreements for the purposes of accepting same as a market practice and other relevant regulations, the agreement was renewed with the financial intermediate JB Capital Markets. By virtue of said liquidity agreements, a restricted amount of EUR 500 thousand is kept in the treasury and a maximum of 63,000 shares are kept for the sale of treasury shares.

The average selling price of treasury shares was EUR 7.77 per share in 2019 (EUR 8.33 in 2018). The result at 31 December 2019 amounted to 16 thousand euros (33 thousand euros at 31 December 2018) was recorded under Other Reserves on the balance sheet.

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The acquisitions were carried out within the framework of a discretionary treasury share management contract, of which the Spanish Securities Market Commission (CNMV) was notified in compliance with the recommendations published by said body on 18 July 2013.

At of 31 December 2019 the share price was EUR 7.10.

As of 31 December 2019, the Parent Company holds a total of 103,820 shares, representing 0.1% of total issued shares.

On 10 June 2019, pursuant to the Board of Directors' resolution in 29 May 2019, the Parent Company reduced capital by EUR 6,506 thousand, corresponding to 3,252,820 shares of EUR 2 par value each and representing 3.5% of share capital. The capital reduction was charged against unrestricted reserves by appropriating to a capital redemption reserve an amount equal to the par value of the redeemed shares. This reserve will be restricted. The shares were redeemed using treasury shares, the value of which at the capital reduction date was EUR 24,743 thousand.

On 20 December 2019, pursuant to the Board of Directors' resolution in 19 December 2019, the Parent Company reduced capital by EUR 5,908 thousand, corresponding to 2,953,831 shares of EUR 2 par value each and representing 3.2% of share capital. The capital reduction was charged against unrestricted reserves by appropriating to a capital redemption reserve an amount equal to the par value of the redeemed shares. This reserve will be restricted. The shares were redeemed using treasury shares, the value of which at the capital reduction date was EUR 21,682 thousand.

## **9 Other relevant information**

### **9.1 Stock exchange information**

The initial share price at the start of the year was EUR 7.33 and the nominal value at year end was EUR 7.10. During 2019, the average price per share was EUR 7.46.

It is important to take into consideration that in April 2019, the following capital increase was effected, where same was fully subscribed by Grupo Lar Inversiones Inmobiliarias by virtue of the formalised management contract.

- The issue of 621,337 shares with a nominal value of EUR 2 plus an issue premium of EUR 8.34 per share.

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

### **9.2 Dividend policy**

On 25 April 2019, the General Shareholders' Meeting approved the distribution of a dividend of EUR 68,353 thousand, at EUR 0.73 per share (considering all the shares issued) with a charge to 2018 profit, and a dividend of EUR 6,647 thousand or EUR 0.07 per share (considering all outstanding shares) with a charge to the share premium.

The total pay-out was EUR 72,600 thousand (after deducting the amount corresponding to treasury shares, which does not leave the Parent Company's equity and totals EUR 2,227 thousand in dividends charged to profit and EUR 173 thousand in dividends charged to the share premium), given the amount per share approved and shares outstanding at the time of approval by the General Shareholders' Meeting on 25 April 2019. The dividend pay-out was settled in full on 24 May

Management report for the period ended  
31 December 2019

2019.

**9.3 Average number of days payable outstanding to suppliers**

The average number of days payable outstanding to suppliers is 18, complying with the maximum legal payment period applicable to the Company in the year 2019 according to Law 3/2004, of 29 December containing measures to combat late payments in commercial transactions and in accordance with the transitory provisions established in Law 15/2010, of 5 July.

**10 Annual Corporate Governance Report**

To the effects of Article 538 of the Spanish Companies Act, it is stated for the record that the 2019 Annual Corporate Governance Report forms part of this Director's Report.

**11 Events after the reporting period**

On 14 January 2020 a new share repurchase program has been signed between Lar España and its liquidity provider, aimed at a maximum of 4,500,000 shares, representing 5% of the share capital, which may be acquired for a price not exceeding (a) the price of the last independent transaction or (b) the highest independent offer at that date at the trading venue where the purchase takes place. This programme will last until 14 October 2020 at the latest. The former programme temporarily suspends the liquidity agreement with a financial intermediary per the provisions of the Spanish National Securities Market Commission Circular 3/2007 of 19 December 2007 on liquidity contracts for the purposes of their acceptance as market practice and other applicable regulations, according to which it maintains a restricted amount of Euros 500 thousand in cash and a maximum of 63,000 shares for the sale-purchase of treasury stock.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Preparation of accounts and management report  
for 2019 and statement of compliance of  
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 13 February 2020, pursuant to the requirements of Article 253 of the Revised Spanish Companies Act and Article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the “Company” or “Lar España”) drew up the financial statements and management report for the period ended 31 December 2019. The financial statements are incorporated based on the adjoined documents that precede this writ and are labelled on the adjoined folios of ordinary paper. All of said folios have been endorsed by the Vice-Secretary of the Board of Directors and this last sheet has been signed by all the members of the Board of Directors.

According to the provisions of Royal Decree 1362/2007, of 19 October, (Article 8.1 b) the undersigning directors of Lar España, hereby declare that:

To the best of their knowledge, the financial statement for the year ended 31 December 2019, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Company and that the management report accompanying the financial statements includes a reliable analysis of the development and business results and position of the Company together with a description of the principal risks and uncertainties that it faces.

Signatories:

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Mr José Luis del Valle Doblado (Chairman)

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Mr. José Luis del Valle Doblado (on behalf  
of Mr. Alec Emmott)

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Mr Roger Maxwell Cooke

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Ms Leticia Iglesias Herraiz

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Mr Miguel Pereda Espeso

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Mr José Luis del Valle Doblado (on behalf of  
Mr Laurent Luccioni)

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Ms Isabel Aguilera Navarro

Madrid, 13 February 2020

\*The Director Mr Laurent Luccioni and the Director Mr. Alec Emmott attended the meeting via telephone and approved the financial statements. As such, the financial statements were drawn up and Mr José Luis del Valle Doblado was expressly authorised to sign the statements on behalf of Mr Luccioni and Mr Alec Emmott.

## Appendix I

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

#### DATA IDENTIFYING THE ISSUER

**Financial year end:**

31/12/2019

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

A-86918307

**Registered business name:**

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

**Registered office:**

Rosario Pino 14-16, Madrid.

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

<b>ANNUAL CORPORATE GOVERNANCE REPORT FORM FOR PUBLICLY LISTED COMPANIES</b>
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<b>A</b>	<b>OWNERSHIP STRUCTURE</b>
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**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
20/12/2019	175,267,460	87,633,730	87,633,730

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

Yes ☐ No ☒

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

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

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name or company name of the direct shareholder	Number of voting rights	
BLACKROCK INC.	0		2,778,497	3.679%
BRANDES INVESTMENT PARTNERS, L.P.	0		4,555,489	5.031%
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	4,570,501		0	4.934%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	FTIF-Franklin European Small Mid Cap Growth Fund FGT-Franklin International Small Cap Growth Fund	7,322,773	7.905 %
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	9,476,400		0	10.000%
PIMCO BRAVO II FUND, L.P.	0	LVS II LUX XII S.À.R.L.	18,157,459	20.044%
SANTA LUCIA S.A. CIA DE SEGUROS	3,624,593		1,237,890	5.216%
BLACKROCK INC.	0		2,778,497	3.679%



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

In 2019, Lar España has carried out an increase and two capital reductions, in addition to continuing with its share buyback program.

The capital increase was approved at the General Shareholders' Meeting on April 25, 2019 and was presented to the public on June 10, 2019. The operation has been fully subscribed and paid up by its management company, Grupo Lar Inversiones Inmobiliarias, S.A. ("Grupo Lar"), through the disbursement of the amount received as a performance fee. The share capital was increased by an amount of 1,242,674.00 euros through the issuance of 621,337 registered shares of two euros of nominal value each, at a unit issuance rate of 10.34 euros.

The first capital reduction was made through amortization of own shares that was approved by the Board of Directors of the Company, dated June 7, 2019. The share capital of Lar España has been reduced by 6,505,640.00 euros as a consequence of the amortization of 3,252,820 own shares of two euros of nominal value each.

The second capital reduction was made on December 20 and approved on December 19 by the Board of Directors, under the delegation made by the ordinary General Meeting of shareholders of the Company held on May 29, 2017. This operation has reduced the capital stock by 5,907,662 euros as a result of the amortization of 2,953,831 own shares of two euros of nominal value each.

Following the execution of the capital reduction, the Company's share capital has been set at 175,267,460 euros, represented by 87,633,730 registered shares of two euros of nominal value each.

The share buyback program is explained in sections A.8 and A.9 of this report.

In addition, during 2019 there has been a variation in shareholders with significant holdings, which according to article 8 of the bylaw are those with a percentage equal to or greater than 5%. Santa Lucia S.A. reached a significant participation quota of 5.216% dated March 12, 2019. Threadneedle Asset sold its holdings that reached a participation quota of 5.024%. The sale has been carried out in a phased manner in several sessions of sale of shares.

On July 8, 2019 PIMCO BRAVO II Fund. L.P. stated that he had crossed the 20% threshold as a result of the change in voting rights of the issuer. This fact was notified to the CNMV, notifying that the date on which said threshold was crossed was June 7, 2019, reached 20.044%.

<b>Name or company name of shareholder</b>	<b>Transaction date</b>	<b>Transaction background</b>
SANTA LUCÍA S.A.	12/03/2019	Purchase of shares above the threshold of "Significant Participation" in the company.
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	10/06/2019	Increase in participation due to capital increase.
LAR ESPAÑA S.A.	10/06/2019	Reduction of shares due to amortization of own shares.
PIMCO BRAVO II FUND L.P.	10/06/2019	Increase in share percentage due to the amortization of shares owned by LAR España S.A.
THREADNEEDLE ASSET	several	Sale of shares. Previously it had a quota higher than the threshold of "Significant

		Participations”.
LAR ESPAÑA S.A.	20/12/2019	Reduction of shares due to amortization of own shares.

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

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Number of direct voting rights	Number of direct voting rights	
José Luis del Valle	0	Eugemor, SICAV, S.A.	22,425	0.025%
Isabel Aguilera	2,620		2,620	0.003%
Alec Emmott	1,155		1,155	0.001%
Roger Maxwell Cooke	2,500		2,500	0.003%
Miguel Pereda	29,905		29,905	0.032%
Leticia Iglesias	350		350	0.000%

% of total voting rights held by the board of directors	0.064%
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**Complete the following table detailing the directors who have stock options in the company:**

Name or company name of director	Number of direct voting rights	Indirect voting rights		Number of equivalent shares	% of total voting rights
		Name of the direct shareh older	Number 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
Miguel Pereda y Grupo Lar Inversiones Inmobiliarias, S.A.		Miguel Pereda is part of the Pereda family, owner of Grupo Lar Inversiones Inmobiliarias, S.A.

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

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

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

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

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

Yes ☐ No ☒

Name or company name
Observations

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

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
103,820	0	0.12%

(\*) 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 established in article 5.n of the Regulations of the General Shareholders' Meeting, it is the responsibility of the Board to authorize the derivative acquisition of own shares.

At the General Meeting of Ordinary Shareholders held in May 2017, it was agreed to delegate to the Board of Directors, for a term of five years, the authorization for the derivative acquisition of own shares in accordance with the limits and requirements established in the Law on Capital Companies, expressly empowering you to reduce, where appropriate, the share capital once or several times in order to proceed with the amortization of the own shares acquired. Delegation of powers to the Board for the execution of the indicated agreement.

During 2019, the Board of Directors has carried out the acquisition and amortization of own shares according to the power delegated by the General Meeting of Ordinary Shareholders.

- A.9 bis** Estimated free float:

Estimated free float	67.7 %
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- A.10** Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

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

Yes ☒ No ☐

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

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

**B****GENERAL MEETING**

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

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

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

The general legal regime is applicable. There is no specific rule that contemplates the modification of the Articles of Association.

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

	Attendance data				
General meeting date	% attending in person	% attending by proxy	% correspondence voting		Total
			Votes cast electronically	Other	
19/04/2018	5.893	68.51	0.005	0	74.415
25/04/2019	12.829	64.00	0.005	0.278	77.111

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

Yes ☐ No ☒

**B.6** Section repealed

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

<https://www.larespana.com/gobierno-corporativo/junta-general-ordinaria-2019>

## C CORPORATE GOVERNANCE STRUCTURE

### C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or company name of director	Representative	Director class	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis del Valle		Independent	Chairman	05/02/2014	29/05/2017	Not applicable
Alec Emmott		Independent	Director	05/02/2014	29/05/2017	Not applicable
Roger Cooke		Independent	Director	05/02/2014	29/05/2017	Not applicable
Miguel Pereda		Proprietary	Director	05/02/2014	29/05/2017	Not applicable
Laurent Luccioni		Proprietary	Director	29/05/2017	29/05/2017	Not applicable
Isabel Aguilera		Independent	Director	29/05/2017	19/04/2018	Cooptation ratified by the Board
Leticia Iglesias		Independent	Director	16/10/2018	25/04/2019	Cooptation ratified by the Board

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

There have been no cessations in the period.

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

#### **EXECUTIVE DIRECTORS**

Name or company name of director	Position at the company

Total number of executive directors	
% of total board members	



**EXTERNAL PROPRIETARY DIRECTORS**

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

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

**EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of director</b>	<b>Background</b>
Mr. José Luis del Valle	<p>Mr. José Luis del Valle Doblado is an independent external director of Lar España and Chairman of the Board. He was appointed director of Lar España by Grupo Lar Inversiones Inmobiliarias, S.A., the then sole shareholder of the Company, the February 5, 2014, and re-elected as an independent external director, at the proposal of the Appointments and Remuneration Committee and following a favorable report from the Board of Directors, by the Ordinary General Shareholders Meeting of May 29, 2017. On February 6, 2014 the Board of Directors of the Company appointed him as Chairman and member and Chairman of the Audit and Control Committee, a position he held until May 29, 2017, date on which he submitted to the Board his resignation as Chairman of the Committee, since then Vocal of it.</p> <p>Mr. del Valle has extensive experience in the banking and energy sectors. From 1988 to 2002 he held various positions at Banco Santander, one of the largest financial institutions in Spain. In 1999 he was appointed Senior Executive Vice President and CFO of the bank (1999-2002). Subsequently he was Chief Strategy and Development 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 President from the wind turbine manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Wizink Bank Administrator Board Chairman; Director of Abengoa, S.A., which provides innovative technological solutions for sustainable development; Director of the insurance group Ocaso and Counselor of the Instituto de Consejeros-Administradores.</p> <p>Mr. José Luis is a Mining Engineer from the Polytechnic University (Madrid, Spain), number one of his promotion, and Master in Science and Nuclear Engineer from the Massachusetts Institute of Technology (Cambridge, USA). Furthermore, Mr. del Valle holds a MBA with High Distinction from Harvard Business School (Boston, USA).</p>
Mrs. Leticia Iglesias	Leticia Iglesias Herraiz is an independent external director of Lar España. She was appointed director of Lar España by the Board of Directors of the Company, by the co-optation system, at its meeting of October 16, 2018, date on which the Board of Directors also appointed her as a member of the Audit and Control Committee and

	<p>President of the same, being ratified his appointment by the General Meeting of Shareholders held on April 25, 2019.</p> <p>Mrs. Leticia Iglesias has extensive experience in regulation and supervision of securities markets and financial services. He began his career in 1987 in the Audit Division of Arthur Andersen. Between 1989 and 2007, he developed his professional career in the National Securities Market Commission (CNMV). From 2007 to 2013 he was CEO at the Sworn Account Census Institute of Spain (ICJCE). Also, between 2013 and 2017 she was an independent director of the Board of Directors of Banco Mare Nostrum (BMN), as well as a member of the Executive Committee, President of the Global Risk Commission and a member of the Audit Committee. During 2017 and 2018 he served as an independent director at Abanca Servicios Financieros, EFC, as well as Chairman of the Joint Audit and Risk Committee. Since May 2108 he has been a member of the Board of Directors of Abanca Corporación Bancaria, Chairman of the Audit and Compliance Committee and a member of the Comprehensive Risk Committee. Since April 2019, she is Independent Director and Chairman of the Audit Committee of AENA SME, S.A.</p> <p>Mrs. Leticia has a degree in Economics and Business Administration from the Universidad Pontificia de Comillas (ICADE). He is a member of the Official Registry of Auditors of Spain (ROAC), Patron of Fundación PRODIS Special Employment Center as well as a member of the Board of Directors of the ICADE Business Club.</p>
Mr. Alec Emmott	<p>Mr. Alec Emmott is an independent external director of Lar España. He was appointed director of Lar España by Grupo Lar Inversiones Inmobiliarias SA, the then sole shareholder of the Company, on February 5, 2014 and re-elected independent external director, at the proposal of the Appointments and Remuneration Committee and after a favorable report from the Board of Directors, by the ordinary General Meeting of shareholders of May 29, 2017. The Board of Directors of the Company appointed him as a member of the Appointments and Remuneration Committee on February 6, 2014.</p> <p>Mr. Alec Emmott has a broad professional career in real estate listed and unlisted in Europe and resides in Paris. He worked as CEO (CEO) of Société Foncière Lyonnaise (SFL) between 1997 and 2007, and subsequently as an executive advisor to SFL until 2012.</p> <p>He is currently Director of Europroperty Consulting, and since 2011 he is Director of CeGeREAL S.A. (on behalf of Europroperty Consulting). He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I / II). He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He has an MA from Trinity College (Cambridge, United Kingdom).</p>

Mr. Roger M. Cooke	<p>Mr. Roger Maxwell Cooke MBE is an independent external director of Lar España. He was appointed director of Lar España by Grupo Lar Inversiones Inmobiliarias SA, the then sole shareholder of the Company, on February 5, 2014 and re-elected independent external director, at the proposal of the Appointments and Remuneration Committee and after a favorable report from the Board of Directors, by the ordinary General Meeting of shareholders on May 29, 2017. The Board of Directors of the Company appointed him as member and Chairman of the Appointments and Remuneration Committee on February 6, 2014.</p> <p>Mr. Roger M. Cooke is a professional with more than 30 years of experience in real estate. In 1980 he joined the London office of Cushman &amp; Wakefield, where he participated in the drafting of the valuation standards (Red Book). From 1995 until the end of 2013 he held the position of CEO of Cushman &amp; Wakefield Spain, placing the company in a leading position in the sector.</p> <p>In 2017, Mr. Roger was awarded by Queen Elizabeth II with an MBE for his services to British companies in Spain and to Anglo-Spanish trade and investment.</p> <p>D. Roger holds a degree in Urban Estate Surveying from Trent Polytechnic University (Nottingham, United Kingdom) and is currently a member of the Royal Institution of Chartered Surveyors (FRICS). Until May 2016, he chaired the British Chamber of Commerce in Spain. Also, since September 2017, Mr. Roger Maxwell is Chairman of the Editorial Board of Iberian Property and since January 2020 is Chairman of RICS in Spain.</p>
Mrs. Isabel Aguilera	<p>Mrs. Isabel Aguilera Navarro is an independent external director of Lar España. She was appointed director of Lar España by the Board of Directors of the Company, by the co-optation system, at its meeting on May 29, 2017, date on which the Board of Directors also appointed her as a member of the Audit and Control Committee, his appointment being ratified by the General Meeting of Shareholders held on April 19, 2018.</p> <p>Mrs. Isabel Aguilera has developed her professional career in different companies in various sectors and has been President of Spain and Portugal of General Electric, General Director in Spain and Portugal of Google, Chief Operating Officer of the NH Hoteles Group, Chief Executive Officer for Spain, Italy and Portugal from Dell Computer Corporation. He has also been part of the Board of Directors of various companies such as Indra Sistemas, Mare Nostrum Bank, Aegon Spain, Laureate Inc or Egasa Group. Doña Isabel Aguilera is currently a director of Grupo Cemex, Banca Farmafactoring, Oryzon Genomics, HPS (Hightech Payment Systems) and Making Science.</p> <p>Mrs. Isabel has a degree in Architecture, Building and Urban Planning from the Higher Technical School of Architecture in Seville, has completed the Master's Degree in Commercial Management and Marketing at IE, the IESE General Management Program and the Program for Senior Business Management and Leading Institutions of the San Telmo Institute. She is currently an Associate Professor at ESADE and a Strategy and Innovation Consultant.</p>

Total number of independent directors	5
% of total board members	71.43%

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

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

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

### **OTHER EXTERNAL DIRECTORS**

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

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

Total number of other external directors	
% of total members	

List any changes in director classification during the reporting period:

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

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

	Number of female directors				% of each directorship category			
	2019	2018	2017	2016	2019	2018	2017	2016
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	2	1	0	40%	40%	20%	0
Other external	0	0	0	0	0	0	0	0
Total:	2	2	1	0	29%	29%	14%	0

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

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

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

In addition, Lar España drew up a director selection and appointment Policy, approved by the Board of Directors on January 20, 2016, which fosters boardroom diversity in terms of knowledge, skills, experience, and gender. The policy, reviewed and approved again by the Board of Directors on December 20, 2018, emphasises the provisions that would foster diversity in the Board and pursues the target of having at least 30% of all Board members be female by 2020.

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

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

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

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

Likewise, both the Committee and the Board reviewed this issue at the end of 2019; and finally, a modification of the Regulations of the Board of Directors and a new regulation for the Appointments and Remuneration Committee were approved, with the objective of compiling in the internal regulations of the Company both the recommendations of the CNMV contained in both the Technical Guide 1 / 2019 on Appointments and Remuneration Committees as in Law 11/2018, of December 28, among others, regarding diversity.

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

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

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

Likewise, as mentioned in the upper section C.1.6, at the end of the year 2019, the Regulations of the Board of Directors were revised and a new own Regulation for the Appointments and Remuneration Committee was approved, with the objective of collecting in the internal regulations of the Company, both the recommendations of the CNMV contained both in Technical Guide 1/2019 on Appointments and Remuneration Committees and in Law 11/2018, of December 28, among others, regarding diversity.

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

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

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

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

Name or company name of shareholder	Reasons

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

Yes ☐ No ☒

Name or company name of shareholder	Explanation

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

Yes ☐ No ☒

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

Yes ☐ No ☒

Name or company name of shareholder	Brief description

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

Name or company name of director	Registered name of the group company	Position	Do they have executive duties?
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL VIDANOVA PARC, S.L.U. (previously LE RETAIL SAGUNTO, S.L.U.)	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL LAGOH, S.L.U. (previously LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.)	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO II, S.L.U. (previously LAR ESPAÑA OFFICES VI, 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	LE RETAIL ABADÍA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS I, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS II, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPERMERCADOS III, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL RIVAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL CORDOBA SUR, S.L.U. (previously GLOBAL PERGAMO, S.L.U.)	Chairman of the Board of Directors	No
Miguel Pereda Espeso	INMOBILIARIA JUAN BRAVO 3 S.L.	Director of the Board of Directors	No
Roger Maxwell Cooke	INMOBILIARIA JUAN BRAVO 3 S.L.	Chairman of the Board of Directors	No

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

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



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**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)	504
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	

**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 and CFO
Susana Guerrero Trevijano	Legal Director and deputy secretary of the board
Hernán San Pedro López de Uribe	Director of Investor Relations
<b>Total senior management remuneration (in thousands of euros)</b>	<b>368</b>

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

Name or company name of director	Company name of significant shareholder	Position
Miguel Pereda	Grupo Lar Inversiones Inmobiliarias, S.A	CEO

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

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

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

Yes ☒ No ☐

**Description of the amendments:**

Articles 5 (“Competences of the Board”), 8 (“Qualitative composition”), 15 (“Appointments and Remuneration Committee. Composition, competencies and operation”), 19 (“Appointment of directors”) and 28 (“General Obligations of the Director”) of the Regulations of the Board of Directors of Lar España Real Estate SOCIMI, SA have been modified.

The modification of the Regulations of the Board of Directors of the Company is intended to incorporate, first, the basic principles and criteria of the Technical Guide of the CNMV 1/2019 on Appointments and Remuneration Committees and, in connection therewith, incorporate expressly certain Recommendations of the Code of Good Governance that the Company complies with and, secondly, collect the novelties introduced in the Capital Companies Law by Law 11/2018 in relation to diversity in the composition of the Board and with the competences non-delegable of this body.

Likewise, it is proposed to introduce certain modifications of a technical nature, replacing the reference to a norm repealed by the current Law 3/2015, of March 30, regulating the exercise of the high position of the General State Administration, and eliminating article 28 ( "General obligations of the director") the reference to the directors who must provide their strategic vision are "to a greater extent the independent", since all directors must provide such strategic vision from their unique capacity, whatever their category.

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

Lar España has a director selection Policy, which was approved by the Appointments and Remuneration Committee on 20 January 2016, and updated by Board agreement of December 20, 2018. It was designed with the following objectives in mind:

- a. Being concrete and verifiable.
- b. Assuring that resolutions to appoint or re-elect directors are underpinned by prior analysis of the Board's needs.
- c. Duly fostering diversity in terms of skills, backgrounds and gender.

- d. Making a concerted effort to ensure that by 2020 at least 30% of all members of the Board of Directors are female.

The criteria set down in that policy are the following:

### **1. Director aptitudes**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **3.1. Proposal**

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

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors. Against this backdrop, it will define the duties and aptitudes required of the candidates to fill each vacancy and assess the time and dedication needed so that they can duly perform their remit.
- ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

### **3.2. Candidacy presentation**

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

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

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

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

- i. In the event that the Appointments and Remuneration Committee believes that the candidate presents the required aptitudes, it will submit a proposal for his/her appointment/re-election accompanied by a copy of the information received to the Board

of Directors.

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

### **3.4. Appointment**

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

In the event of re-election of directors, the Board of Directors will evaluate, before proposing the re-election of directors to the General Meeting of Shareholders and with the abstention of the affected directors, the quality of the work and the dedication of the directors proposed during the preceding mandate.

In the event of director appointments by means of co-option, the procedure described above must be followed and the appointment must be ratified at the first Annual General Meeting celebrated after the appointment. 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.

At the time of appointment of a new director, he must follow a training program for new directors established by the Company, so that he can acquire a quick and sufficient knowledge of the Company, as well as its corporate governance rules.

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

Director evaluation shall take two forms:

- i. Annual assessment of director qualifications: Every year, in the month of January, the Appointments and Remuneration Committee will send all the directors a questionnaire, the purpose of which is to verify that they continue to meet the aptitudes required of the post. The directors have 15 calendar days to fill out, sign and return the form. The Appointments and Remuneration Committee will then analyse the answers received and proceed as follows in the event it detects an incident in this respect.
- ii. Ad-hoc assessment in the event of special circumstances: Each director is individually responsible for notifying the Appointments and Remuneration Committee immediately, in writing and in detail of any event or circumstances that could have a significant impact on the assessment of his or her suitability for the post in terms of the aptitude requirements defined in this policy and in prevailing legislation. The directors are liable for any damages to the company caused by any failure to report or delay in reporting any circumstances affecting his or her suitability.

Whenever the Appointments and Remuneration Committee is notified of circumstances which adversely affect a director's suitability assessment or it learns of their existence as

part of an annual review, it will decide whether or not it is necessary to temporarily or permanently suspend the affected party.

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

As a consequence of the evaluation process carried out, and in accordance with the best Corporate Governance practices, the recommendations of the CNMV in section 3 of the Third Section of Technical Guide 1/2019, the general requests of stakeholders and , as provided in article 5 of the new Regulations of the Appointments and Remuneration Committee, the Appointments Committee has been working during 2019, in coordination with all the members of the Board, in the analysis of the composition of the Board, as well as in the preparation of a matrix that defines the necessary competences of the Board for the proper functioning of the Company and the main skills and knowledge of the Directors. In this context, at the end of the year, the following competency matrix was approved that summarizes in a very synthetic way the capacities that the Board considers most relevant for the management of the Company, pointing out the most outstanding aspects of the profile of each of the Directors. This matrix in no way reflects the entire capacity of the members of the Board, but only those in each of the Directors can be considered expert, among those previously defined as essential.

Capability Matrix on the Board of Directors of Lar España

	Position/ Committees	Nationality	Sectorial: Real Estate / Retail / Ratings	Sectorial: Architecture/ Town planning/ Engineering	IT	Finance	Audit / Risks
Jose Luis Del Valle (Chairman)	Non-Executive Chairman - Independent / A&CC Member	Spanish		X		X	X
Leticia Iglesias	Independent Director / Chairman A&CC	Spanish				X	X
Isabel Aguilera	Independent Director / A&CC member	Spanish		X	X	X	
Roger Cooke	Independent Director / Chairman A&RC	British	X				
Miguel Pereda	Proprietary Director / A&RC member	Spanish	X			X	
Laurent Luccioni	Proprietary Director / A&RC member	French	X			X	
Alec Emmot	Independent Director / A&RC member	British	X				

Capability Matrix on the Board of Directors of Lar España (continuation)

	International market	Other Directors	Investor / stakeholder knowledge	Team and talent management	ESG	Functions of first executive / CEO
Jose Luis Del Valle (Chairman)	X	X	X		X	X

Leticia Iglesias	X	X	X	X		X
Isabel Aguilera	X	X		X		X
Roger Cooke	X			X	X	X
Miguel Pereda	X		X	X	X	X
Laurent Luccioni	X	X	X			X
Alec Emmot	X	X	X		X	X

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

Article 18 of the Regulations of the Board of Directors establishes that the Board will evaluate its performance once a year and adopt, if necessary, an action plan that corrects deficiencies in:

- The quality and efficiency of the functioning of the Board
- Diversity in the composition and competences of the Board.
- The performance of the Chairman of the Board.
- The performance and contribution of each director, paying special attention to those responsible for the different committees of the Board.
- The operation and composition of the Board committees.

In addition, article 18 of the Regulations of the Board of Directors, pt.3 states that every three years the Board will be assisted to carry out such evaluation by an external consultant.

In this context, in 2019 the Board, after requesting three different proposals from independent experts, approved the hiring of an external consultant to carry out the evaluation of the functioning of the Board in 2018, all under the coordination and supervision of the Chairman of the Board and in coordination with the Appointments and Remuneration Committee.

- First, the Appointments Committee analyzed that there were no conflicts of interest with the selected consultant (Georgeson) that could undermine its independence. After verifying that Georgeson provides advisory services to the Department of Investor and Shareholder Relations of Lar España in matters of identification of shareholders, proxy solicitation on the Board and organization of road shows in the matter of ESG, it was verified that in no case has Georgeson has been involved in processes of selection or appointment of a director or in matters related to remuneration. After informing to the Board of such and confirming that there is no reason to undermine its independence, the contracting of Georgeson was approved to carry out the evaluation of the Board.
- Regarding the methodology used, Georgeson, as an external advisor, has 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 objectivity and confidentiality thereof; always in

collaboration with the Appointments Committee and under the supervision and organization of the Chairman of the Board.

First, each member of the Board was personally interviewed by Georgeson, gathering the conclusions of this analysis in the document "Interviews Analysis". Likewise, the most relevant investors and proxy advisors, completed some questionnaires elaborated by Georgeson, which systematized the information extracted from the questionnaires, collecting all this in the document "Perception Analysis". Additionally, the internal structure and functioning of the Board and Committees were analyzed and a comparative exercise was carried out with other comparable companies (national and international) of the main corporate governance parameters.

- The evaluation carried out in 2019 has analyzed the following issues: (i) structure and operation of the Board of Directors of Lar España; (ii) the perceptions and valuations of each of the directors, the chairmen of the Board and Committees and the secretariat of the Company; (iii) the perception of the most relevant investors and proxy advisors; and (iv) the main parameters of corporate governance with respect to comparable companies.
- The main conclusion of the evaluation process was that the Board and Committees had worked efficiently during 2018, the Board is in very good shape, is balanced and in accordance with the best corporate governance practices. It is a well cohesive Board, the positive perception that all the directors have regarding the Chairman of the Board and the performance of their duties being unanimous. In particular, both the composition (diversity, knowledge and experience of the members of the Board and their Committees and, in particular, of their Chairmans, dedication and critical attitude thereof) and the functioning of the Board and the Committees (frequency, duration and effectiveness of their meetings, attendance at meetings of their members, agenda of the meetings, exercise of their competences, and advice, including external advice if necessary) were assessed very positively. It was also found that the Company is a benchmark for compliance and implementation of the main corporate governance parameters.
- Areas of improvement were detected, such as the need to develop a matrix of capabilities of the Board, review the remuneration of the Management team and the Directors, delve into the succession plans, the implementation of the new technical guide of the CNMV on Appointments Committees, assess the advisability of appointing a vice Chairman or the objective that more than 50% of the members of the Appointment and Remunerations Committee were independent.
- The Board approved an action plan to comply with these and other recommendations that have already been implemented. Thus, among other issues, the following was addressed in 2019: (i) the adequacy of the remuneration of both independent Directors and Senior Executives has been reviewed, (ii) an amendment to the Board Regulations and the Audit and Control Committee Regulations has been approved, (iii) a new Regulation of the Appointments and Remuneration Committee has been approved; (iv) it has deepened issues such as succession plans or the convenience of appointing a vice Chairman; and (v) a competency matrix of the Board has been developed and approved.

**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.**

Georgeson provides advisory services to the Department of Investor Relations of Lar



España in matters of identification of shareholders, proxy solicitation at the Meeting and organization of road shows in the matter of ESG. In no case they have been involved in the selection or appointment of a director or in matters related to remuneration or in any other matters related to the Board or Directors that could compromise your independence.

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

According to Article 23 of the Regulations of the Board of Directors:

The directors must make their position available to the Board of Directors and formalize, if deemed appropriate, the corresponding resignation in the following cases:

- a. When they leave the executive positions to which their appointment as director was associated.
- b. When they are involved in any of the cases of incompatibility or statutory or statutory prohibition.
- c. When they are seriously admonished by the Board of Directors for having breached their obligations as directors.
- d. When their permanence on the Board may jeopardize or damage the interests, credit or reputation of the Company or when the reasons for which they were appointed disappear (for example, when a proprietary director discards their participation in the Company or reduce it in a relevant manner as indicated in section e. below).
- e. When they are part of more than four boards of directors of other listed companies (other than the Company).
- f. In the case of proprietary directors (i) when the shareholder they represent sells its shareholding in its entirety or reduces it in a relevant manner and, (ii) in the corresponding number, when said shareholder reduces its shareholding to a level that requires the reduction of the number of proprietary directors.

In the event that, by resignation or for any other reason, a director ceases office before the end of his term, he must explain the reasons in a letter that he will send to all the members of the Board.

The Board of Directors may only propose the dismissal of an independent director before the statutory term has elapsed when a just cause exists, as assessed by the Board of Directors. In particular, it will be understood that there is just cause when the director had breached the duties inherent to his position or had incurred in any way in the impediment described in the definition of independent director established in current regulations or, in his defect, in the recommendations of good corporate governance applicable to the Company at all times.

**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
<p>The agreements shall be adopted by an absolute majority of the concurrent directors, present or represented, at the meeting, except when the Law, these Bylaws or the Regulations of the Board of Directors provide for other majorities. In case of a tie, the Chairman will have a vote of quality. Art 39.2 Corporate Bylaws.</p> <p>The Audit and Control Committee will be validly constituted when half, plus one of the directors who are part of the Committee, present their resolutions by majority vote. In case of a tie, the Chairman will have a vote of quality. Art 42.3 Bylaws, Art. 14.5 of the Board Regulations and Art. 8.2 Regulations of the Audit and Control Committee.</p> <p>The Appointments and Remuneration Committee will be validly constituted when the majority of its members and their agreements will be adopted by majority vote. In case of a tie, the Chairman of the Appointments and Remuneration Committee will have a quality vote. Article 15.7 of the Board Regulations (new article 15.6) and Art. 8.1 of the new Regulations of the Appointments and Remuneration Committee.</p>

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

Yes ☐ No ☒

Age limit for chairman ☐

Age limit for CEO ☐

Age limit for directors ☐

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

Yes ☐ No ☒

Maximum term of office (years)	
--------------------------------	--

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

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

Chairman of the Board of the proxy.

**C.1.29** Indicate the number of board meetings held during the year, indicating the number of times, if any, the board met without its chairman in attendance. This calculation should include proxies appointed with specific voting instructions as attendances:

Number of board meetings	17
Number of board meetings held without the chairman in attendance	0

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

Number of meetings	
--------------------	--

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

Number of executive committee meetings	N/A
Number of audit & control committee meetings	10
Number of appointments 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:

In 2019, there have been 17 Board meetings and on three occasions more agreements have been adopted following the voting procedure in writing and without a session.

The directors attended all meetings personally except in a single session in which Ms. Isabel Aguilera was represented by the Chairman having granted proxy in her favor with specific voting instructions.

Number of meetings held with all members in attendance	17
% attendance over total votes cast in the year	100%

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

Yes ☐ No ☒

Identify, if appropriate, the person(s) certifying the separate and consolidated

**financial statements before submission to the board for approval:**

Name	Position

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

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

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

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

Yes ☐ No ☒

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

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 5 of the Regulations of the Audit and Control Committee, according to its last modification of December 12, 2019, establishes that, without prejudice to any other tasks that may be assigned at any time by the Board of Directors, the Audit and Control Committee will exercise, among others, the following specific basic functions to maintain the independence of the external auditor:

c. In relation to the external auditor:

1. To 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 the provisions of the applicable regulations, as well as the conditions of their hiring, and for this purpose shall:

1st. define the auditor's selection procedure; and

2nd. Issue a motivated proposal that will contain at least two alternatives for the auditor's selection, except in the case of re-election of the auditor.

Receive regular information from the external auditor on the audit plan and the results of its execution and verify that senior management takes into account its recommendations.

2. Establish the appropriate relationships with the account auditors to receive information on those issues that may pose a threat to their independence, for consideration by the Audit and Control Committee, and any others related to the development process of the audit of accounts and, where appropriate, the authorization of services other than those prohibited, in the terms provided in the applicable regulations, as well as those other communications provided for in the accounts audit legislation and in the remaining auditing standards.

In any case, it must receive annually from the account auditors written confirmation of their independence from the Company or entities linked to it directly or indirectly, as well as detailed and individualized information of the additional services of any kind provided and the corresponding fees received from these entities by the external auditor or by the persons or entities linked to it, in accordance with the provisions of the legislation on the auditing of the accounts.

3. Issue annually, prior to the account audit report, a report that will express an opinion on whether the independence of the auditors or audit firms is compromised, which will be available to shareholders and investors through of the Company's website in advance of that of the Ordinary General. This report must contain, in any case, the motivated valuation of the provision of each and every one of the additional services referred to in the previous letter individually considered and as a whole, other than the legal audit and in relation to the regime of independence or with the regulations governing the activity of auditing accounts.

4. Preserve the independence of the external auditor in the exercise of its functions and, to this end: (i) supervise that the Company communicates the change of auditor as relevant to the National Securities Market Commission and accompanies it with a statement on the possible existence of disagreements with the outgoing auditor and, if they had existed, of their content; (ii) ensure that the Company and the auditor respect the current regulations on the provision of services other than those of auditing and, in general, the other standards established to ensure the independence of the auditors; and (iii) that in case of resignation of the external auditor examine the circumstances that would have motivated it.

5. In the case of groups, favor that the group auditor be responsible for the audits of the companies that integrate it.

6. Ensure that the external auditor's work does not compromise its quality or independence.

7. Ensure that the external auditor holds an annual meeting with the full Board of Directors to inform him about the work done and the evolution of the accounting and risk situation of the Company.

8. Make a final evaluation about the auditor's performance and how it has contributed to the quality of the audit and the integrity of the financial information.

As for financial analysts, investment banks and rating agencies, any contract is subject to controls to avoid any problem of independence and / or conflicts of interest. Especially relevant is the procedure followed for the hiring of asset valuations, which requires the approval of these contracts from the Audit and Control Committee and the Board.

The Communication and Contact Policy with shareholders and investors, approved in

December 2017, and updated in December 2018, under the supervision of the Committee, has the purpose of delimiting, analyzing and developing the main instruments, channels and information mechanisms of the Company with its shareholders, investors, voting advisors (proxy advisors) and other interest groups, the communication and information strategy being a faithful reflection of its commitment to these interest groups.

The basic principles of it are:

- a) Truthfulness, transparency and equality of the information communicated.
- b) Strict compliance, in a timely manner, with the legally established communication and information obligations.
- c) Protection of the legitimate rights and interests of all shareholders. Provision of adequate communication channels for shareholders to exercise their right to information.
- d) Equal treatment in the recognition and exercise of the rights of all shareholders.
- e) Continuous dialogue, accessibility and speed of information. The Board of Directors of Lar España will at all times ensure that communication and information with its shareholders, investors, voting advisors and other interest groups is continued, facilitating permanent access to the various communication channels.
- f) Commitment and promotion of the informed participation of shareholders in the General Meeting of the exercise of their rights.

In addition, the Communication Policy and contact with shareholders has a specific section on “Conferences for investors, analysts, press and other interested parties” where it is stated that Lar España, with the participation of its top executives, will create such conferences to report on the progress of the Company and its projects, always taking into account the principle of not providing information that has not been previously made public and the parity of treatment of shareholders.

In accordance with the provisions of the Regulations of the Board of Lar España, the Audit and Control Committee shall be responsible for the periodic supervision of both the content and the application and development of this Communication and Contact Policy with shareholders, informing all of this to the Board of Directors of the Company and may propose the improvement proposals it deems appropriate.

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

Yes ☐ No ☒

Outgoing auditor	Incoming auditor

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

Yes ☐ No ☒

Explanation of the disagreements

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

Yes ☐ No ☒

	Company	Group	Total
<b>Fees for non-audit work (thousands of euros)</b>	0	0	<b>0</b>
<b>Fees for non-audit work / total amount invoiced by the audit firm (%)</b>	0%	0%	<b>0%</b>

**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	6	6

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

**C.1.40** Indicate whether there are procedures in place for directors to receive external advice:

Yes ☒ No ☐

**Details of the procedure:**

Article 26 of the Board Regulations stipulates:

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

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

- a. It is not necessary to due performance of the duties incumbent upon the external directors;
- b. Its cost is not reasonable in light of the scale of the issue or in relation to the

Company's assets or revenues; or

- c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

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

Yes ☒ No ☐

**Details of the procedure:**

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

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

4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.

2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.

3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.

4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

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

Yes ☒ No ☐

**Details of the rules**

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.

2. Directors must also inform the Company of directorships held at other listed



companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.

3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings. If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

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

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

Yes ☐ No ☒

Name of director	Offence	Observations

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

Yes ☐ No ☐

Decision/action taken	Substantiated explanation

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

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

Number of beneficiaries	
Type of beneficiary	Description of the agreement

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

	Board of directors	General meeting
Body authorising the clauses		

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

## C.2. Board committees

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

### **EXECUTIVE OR STEERING COMMITTEE**

Name	Position	Job category

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

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

#### **Duties**

Without prejudice to the authority that may be granted to any person, the Board of Directors may set up a permanent Executive Committee. The rules for governing 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 favorable 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 2019.

**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>
Leticia Iglesias	Chairman	Independent
José Luis del Valle	Member	Independent
Isabel Aguilera	Member	Independent
Juan Gómez-Acebo	Secretary	Non-board member

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

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

**Duties**

As described in article 42.2 of the Bylaws of Lar España, in article 14.3 of its Regulations of the Board of Directors, and in Article 5.1 of the Regulations of the Audit and Control Committee, and without prejudice to other tasks that were legally attributable to it or entrusted by the Board of Directors, the Audit and Control Committee shall have, at a minimum, the following main responsibilities:

a) Regarding the supervision of financial information:

- (i) It shall inform the General Meeting of shareholders about issues raised by the shareholders in matters related to their competence.
- (ii) Supervise the process of preparing and presenting regulated financial information;
- (iii) Ensure that the Board of Directors seeks to present the accounts to the General Meeting of shareholders without limitations or qualifications
- (iv) Inform the Board of Directors, in advance, about the financial information that, due to its status as a listed company, the Company must publish periodically

b) In relation to the supervision of information systems and internal control:

- (i) Supervise the preparation process and the integrity of the financial information related to the Company
- (ii) Periodically supervise the effectiveness of the internal control of the Company and its Group as well as the activity of the internal audit of the Company
- (iii) Establish and supervise a mechanism that allows employees and any third party to communicate, in a confidential manner and, if deemed appropriate, anonymous, irregularities of potential significance

c) In relation to the external auditor:

- (i) Submit to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor
- (ii) Establish the appropriate relationships with the account auditors to receive

information on those issues that may pose a threat to their independence  
(iii) Issue annually, prior to the account audit report, a report in which an opinion will be expressed as to whether the independence of the account auditors.  
(iv) Preserve the independence of the external auditor in the exercise of his functions. Likewise, to favor that the group auditor assumes the responsibility of the audits of the company that integrate it, ensuring that the remuneration of the external auditor does not compromise its quality or its independence.

d) In relation to the supervision of management and risk control:

- (i) supervise the effectiveness of the internal control of the Company and its Group, as well as its risk management systems;
- (ii) Supervise the internal control and risk management function.
- (iii) In relation to risk policy and management, identify the different types of risk, the determination of acceptable risk levels, the planned measures, and the information and internal control systems, as well as their annual reevaluation, at least.

e) In relation to the obligations of listed Companies, inform the Board of Directors, prior to the adoption of decisions with a significant impact on the Company, which could impair the transparency of the group, as well as related transactions that are defined by current legislation, economic conditions and accounting impact in relation to risk policy and management, and any modification of the internal rules of conduct.

f) In relation to the corporate governance obligations of the Company:

- (i) Supervise compliance with legal requirements and internal regulations,
- (ii) Periodically review the internal corporate governance regulations
- (iii) Promote the corporate governance strategy of the Company
- (iv) Supervise the communication and relationship strategy with shareholders and investors, including small and medium shareholders.
- (v) Evaluate everything related to non-financial risks, coordinate the process of reporting non-financial and diversity information, orient the Company regarding corporate reputation

g) (vi) Inform, prior to its approval, the annual corporate governance report of the Company

h) Other functions of the Committee are:

- (i) supervise the calculation of the commissions received by the Management Company in the performance of its functions;
- (ii) Name and supervise the services of external valuations in relation to the valuation of the assets of the Company.
- (iii) Any other report and proposal function entrusted to it by the Board of Directors, with a general or particular nature.
- (iv) Any other competence or function attributed to it by Law, Bylaws or Board Regulations

### **Organisation and operation**

The Audit and Control Committee shall consist 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 Board will also determine who will serve as Chairman, especially taking into account their knowledge and experience in accounting, auditing or risk management and most of these members will be independent directors. The Chairman of the Committee must be replaced every three years, and may be re-elected after a period of one year has elapsed since his / her termination. The position of

Secretary and Vice Secretary shall be held by the Secretary and Vice Secretary of the Board.

The Audit and Control Committee shall meet, ordinarily, quarterly and, in any case, whenever it is convenient for the proper performance of its functions.

The Audit and Control Committee will be validly constituted when the majority of its members attend, present or represented. The agreements will be adopted by a majority of concurrent members, present or represented.

It will be obliged to attend the sessions of the Committee and to provide them with their collaboration and access to the information available to them, any member of the management team or the staff of the Company that was required for this purpose. The Committee may also require attendance at its meetings of the company's auditors.

The matters within the competence of the Audit and Control Committee were reordered for compliance with Technical Guide 3/2017 of the CNMV.

Likewise, on December 27, 2017, an Operating Regulation of the Audit and Control Committee was approved, which provides, in addition to the above, that the members of the Audit and Control Committee will hold their position for a maximum period of time, three years, being able to be re-elected one or more times for periods of equal maximum duration and, in any case, the members of the Committee will cease their position when they do so in their capacity as Directors or when so agreed by the Board of Directors.

### **Activities**

The Audit and Control Committee met 10 times during 2019.

The main activities developed by the Audit and Control Committee during fiscal year 2019 have been the following:

1) Regarding the supervision of financial information:

- Review of the periodic financial information: the Committee has supervised the process of preparing and the integrity of the quarterly and semi-annual financial information, both individual and consolidated, that the Board of Directors must supply to the market and send to the CNMV by virtue of its obligations of periodic information as a listed company. Review of the annual accounts
- Review of the annual accounts: The Audit and Control Committee, in order to prevent the individual and consolidated annual accounts formulated by the Board of Directors from being presented at the General Meeting with qualifications in the audit report. It is noted that the audit reports of the individual and consolidated annual accounts of Lar España for the year ended December 31, 2018 did not present exceptions.

2) Regarding the supervision of information systems and internal control:

- Internal Audit Supervision: the Committee has approved the orientation and its work plans, making sure that its activity was mainly focused on the relevant risks of the Company. In particular, it has approved the work done in the 2018 audit plan as well as the 2019 audit plan.
- Supervision of the information and internal control systems: During fiscal year 2019, and in relation to the Company's ICFR, the Audit and Control Committee has analyzed the internal control systems, being informed by the internal auditor in different meetings about the progress of the review process. In relation to fiscal year 2019, the external auditor has issued a report of agreed procedures, in line with what was done in previous years.

3) In relation to the supervision of relations and the independence of the external auditor:

- Proposal for the appointment, re-election, replacement of the external auditor: The Audit and Control Committee has analyzed the proposal for the Board of Directors for the appointment of the external auditor of the Company for the year 2019, for subsequent submission to the General Meeting of Shareholders, agreeing to propose to the Board of Directors the renewal of the current external auditor for a period of one year.
- Supervision of the relations and independence of the External Audit: The Accounts Audit Law and section 4, function f), of article 529 quaterdecies of the Capital Companies Law require that the Audit Committee issue annually, in character prior to the audit report, a report expressing an opinion on the independence of the auditors. On the basis of this requirement and the confirmation of independence received from the auditors through a letter dated February 13, 2020, the Audit and Control Committee has concluded that there are no objective reasons to question the independence of the auditor in fiscal year 2019.

#### 4) Regarding the supervision of management and risk control:

In this matter, the Audit and Control Committee has carried out different activities such as the review and approval of the new risk map, after explaining the Internal Auditor that the Company's risk control levels are very healthy and explaining the changes in the Priority risks of the Company. In addition, the external auditor informed the Committee about the main risk aspects for the Company that were being examined, confirming that no issue that should be of concern was detected.

#### 5) In relation to the corporate governance obligations of the Company:

- Supervision of compliance with corporate governance regulations: The Committee has reviewed and accepted the Annual Corporate Governance Report for the 2018 financial year, which, in accordance with the wording of article 538 of the Capital Companies Law, must be included in a separate section, in the Management Report that accompanies the Annual Accounts. During the year 2019 the Committee has reviewed the internal corporate governance regulations, in particular, has agreed to issue a favorable report regarding the proposed changes in the Regulations of the Board of Directors to adapt it to the Technical Guide 1/2019 of the CNMV on Appointments and Remuneration Committees and send to the Board for final approval the new proposal for the Regulations of the Board of Directors.

#### 6) In relation to the obligations of listed companies:

The Committee was informed of the main terms of the development of the share repurchase program implemented by the Company, the current situation and the proposal for the future, positively informing said proposal for its elevation to the Board, and also analyzed the situation of Share price of the Company, agreeing to continuously monitor it.

#### 7) Other functions of the Committee

The Audit and Control Committee has additionally attributed the following powers:

- Supervise the calculation of Committees paid to the Management Company for the performance of its functions.

- Name and supervise the services of external valuations in relation to the periodic valuation of the assets of the Company.

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

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

### **APPOINTMENTS AND REMUNERATION COMMITTEE**

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

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

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

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

#### **Duties**

In accordance with article 43.2 of the Bylaws and with article 15.4 of the Board Regulations and article 5.1 of the new Regulations of the Appointments and Remuneration Committee, and without prejudice to other functions that were legally attributable or assigned by the Board of Directors of Administration, the Appointments and Remuneration Committee will have, at a minimum, the following basic responsibilities:

- a. Competences related to the composition of the Board of Directors and its committees

- i. Advise and review the criteria that must be followed for the composition of the Board of Directors and the selection of candidates and, in particular, evaluate the skills, knowledge and experience necessary in the Board of Directors. For these purposes, it will define the necessary functions and skills in the candidates that must fill each vacancy and evaluate the time and dedication necessary for them to effectively perform their duties, ensuring that non-executive directors have sufficient availability of time for the correct development of its functions. For these purposes, the Committee will periodically develop and update a matrix with the necessary competencies of the Board that defines the skills and knowledge of the candidates for directors, especially those of executives and independents.
  - ii. Establish a representation objective for the sex less represented on the Board of Directors and develop guidelines on how to achieve such goal, proposing to the Board of Directors the policy of diversity of directors based on, among others, the criteria of age, disability, training, professional experience and gender.
  - iii. To ensure annually compliance with the criteria for the promotion of diversity in the composition of the Board of Directors established by the Company, which will be reported in the Annual Corporate Governance Report.
  - iv. Advise the Board of Directors on the most convenient configuration of the Board of Directors itself and its Committees regarding size and balance between the different classes of directors existing at any time. To this end, the Committee will periodically review the structure of the Board of Directors and its committees, especially when vacancies occur within those bodies.
  - v. Periodically check the category of directors. saw. Inform or formulate proposals regarding the appointment or separation of the members that must be part of each of the Committees.
- b. Competences related to the selection of candidates for directors and senior executives
  - i. Select the possible candidates to be, where appropriate, appointed directors of the Company and submit their proposals or reports, as appropriate, to the Board of Directors through its Chairman.
  - ii. Bring to the Board of Directors the nomination proposals (for their appointment by co-option or for submission to the decision of the General Shareholders' Meeting) of the independent directors, as well as the proposals for the re-election of said directors by the General Meeting.
  - iii Inform, at the request of the Chairman of the Board of Directors, the nomination proposals (for their appointment by co-optation or for submission to the decision of the General Shareholders' Meeting) of the remaining directors, as well as the proposals for re-election of said directors by The General Meeting
  - iv. Prepare the report referred to in article 5.6 of the Board Regulations and verify annually compliance with the policy for the selection of directors, reporting it in the annual corporate governance report. In particular, the Committee will ensure that, when new vacancies are provided or when appointing new directors, the selection procedures do not suffer from implicit biases that may imply any discrimination and, in particular, that may hinder the selection of female directors.
  - v. Inform the proposals of the Chairman of the Board of Directors or the CEO regarding the appointment or separation of senior managers.
- c. Competences related to the process of appointment of internal positions of the Board



of Directors

- i. Inform proposals regarding the appointment or separation of the Chairman of the Board of Directors.
  - ii. Inform the proposals of the Chairman of the Board of Directors regarding the appointment or separation of the CEO.
  - iii. Examine or organize the succession of the Chairman of the Board of Directors and the Chief Executive Officer of the Company and, where appropriate, make proposals to the Board of Directors so that such succession occurs in an orderly and planned manner, preparing a succession plan for this purpose. .
  - iv. Advise the proposals of the Chairman of the Board of Directors regarding the appointment or separation of the Vice Chairman or Vice-Chairs of the Board of Directors.
  - v. Bring to the Board of Directors the proposal for the appointment of an Independent Coordinating Director, who will be especially empowered in the event that the Chairman of the Board of Directors exercises executive functions, and to inform the proposal of their separation.
  - vi. Advise of the proposals of the Chairman of the Board of Directors regarding the appointment or removal of the secretary and, where appropriate, of the Deputy secretary or Deputy secretaries of the Board of Directors, of the secretary general and of the legal counsel.
- d. Competences related to the assessment of directors
- i. Establish and oversee an annual program of evaluation and continuous review of the qualification, training and, where appropriate, independence, as well as the maintenance of the necessary conditions for the exercise of the position of director and member of a certain Committee, and proposing Board of Directors the measures it deems appropriate in this regard. In particular, it will periodically design and organize knowledge update programs for the directors.
  - ii. Conduct in coordination with the Chairman of the Board and with the collaboration, where appropriate, of the Independent Coordinating Director, the annual evaluation of the functioning of the Board and its committees, including the performance evaluation of the Chairman of the Board of Directors and the Chief Executive Officer, and submit to the Board the results of its evaluation together with a proposal for an action plan or with recommendations to correct the possible deficiencies detected or improve its functioning.
- e. Competences related to the separation and dismissal of directors
- i. Inform the Board of Directors about the proposals for the separation of non-independent directors in the event of non-compliance with the duties inherent to the position of director or for having incurred in an unexpected way in any of the circumstances of resignation or termination, in accordance with the law or Internal regulations of the Company.
  - ii. Propose to the Board of Directors the proposals for the separation of independent directors in case of breach of the duties inherent to the position of director or for having incurred in an unexpected way in any of the circumstances of resignation or termination, in accordance with the law or internal regulations of the society.

f. Competences related to remuneration of directors and senior executives

- i. Propose to the Board of Directors the remuneration policy for directors and senior executives.
- ii. Periodically review the remuneration policy for directors and senior executives, including remuneration systems with shares and their application, as well as ensure that their individual remuneration is proportionate to those paid by the other directors and senior managers of the Company, as well as ensuring by its observance, being able to propose its modification and update to the Board of Directors.
- iii. Propose to the Board of Directors the individual remuneration of non-executive directors, taking into account the functions and responsibility attributed to each director.
- iv. Propose the individual remuneration of executive directors and the other basic conditions of their contracts for approval by the Board of Directors, including any compensation that may be set for the event of early termination of their duties and the amounts to be paid by the Company in concept of insurance premiums or contributions to savings systems, in any case in accordance with the provisions of the internal regulations of the Company and, in particular, in accordance with the remuneration policy approved by the General Meeting of Shareholders.
- v. Inform and submit to the Board of Directors the proposals of the Chairman of the Board of Directors or the Chief Executive Officer regarding the remuneration structure of senior managers and the basic conditions of their contracts, including any compensation or compensation that may be set for the assumption of separation.
- vi. Review the conditions of the contracts of executive directors and senior management and verify that they are consistent with current remuneration policies.
- vii. Ensure compliance with the Company's compensation programs and inform the documents to be approved by the Board of Directors for general disclosure regarding information on remuneration, including the Annual Report on Directors' Remuneration and the corresponding sections of the Annual corporate governance report of the Company, as well as verifying the information on remuneration of directors and senior executives contained in the different corporate documents.
- viii. Inform, on a mandatory basis and prior to its approval by the competent corporate body, the remuneration established for the independent directors of other Group companies.

g. Competences related to corporate social responsibility and sustainability:

- i. Be aware of, promote, guide and supervise the actions, practices and strategy of the Company in matters of corporate social responsibility and sustainability, assessing their degree of compliance, and report on it to the Board of Directors or, where appropriate, to the Executive Committee.
- ii. Review the corporate responsibility policy of the Company, ensuring that it is oriented to the creation of value, including its monitoring and evaluation and supervise its degree of compliance. The report that, if applicable, the Appointments and Remuneration Committee on the corporate social responsibility policy of the Company will be prepared using any of the internationally accepted methodologies and will be available to shareholders and investors through the website of the

Company well in advance of the Ordinary General Meeting.

- iii. Supervise and evaluate the relationship processes with the different interest groups.
- h. Ensure that any conflicts of interest do not prejudice the independence of the external advice provided to the Committee in relation to the exercise of its functions. In the development and exercise of its functions, the Appointments and Remuneration Committee will take into account the principles and criteria established in Technical Guide 1/2019 on appointments and remuneration Committee of the National Securities Market Committee of February 20, 2019, notwithstanding their adaptation to the particular circumstances and characteristics of the Company and its Group, always following the principle of proportionality. The Appointments and Remuneration Committee shall annually establish an action plan that will contemplate the main activities of the Committee during the year in relation to the fulfillment of its functions, of which it will report to the Board, to which it will respond for the work performed.

### **Organisation and operation**

The Appointments and Remuneration Committee shall consist of a minimum of three and a maximum of five directors, appointed by the Board itself, from among the external directors, at the proposal of the Chairman of the Board, ensuring that most of them are independent directors

The Board shall appoint the Chairman of the Committee from among the directors who are part of said Committee. For his part, the position of Secretary and Deputy Secretary of the Appointments and Remuneration Committee will be held by those who occupy such positions on the Board of Directors.

The members of the Appointments and Remuneration Committee will have adequate knowledge, skills and experience to the functions they are called to perform and, whenever this is possible in accordance with the principle of proportionality, it will be endeavored (i) that the members of the Committee, in as a whole, be designated taking into account their knowledge and experience in areas such as human resources, selection of directors and managers and design of policies and compensation plans; and (ii) favor diversity in relation to gender, professional experience, skills, personal abilities, sectoral knowledge or international experience; all of this taking into account the limitations arising from the smaller size of the Committee when compared to the Board.

The directors who are part of the Appointments and Remuneration Committee will hold their positions while their appointment as directors of the Company remains in effect, unless the Board of Directors agrees otherwise.

The Appointments and Remuneration Committee will meet, usually, at least three times a year. Likewise, it will meet at the request of any of its members and each time convened by its Chairman, who must do so whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever it results Convenient for the proper development of its functions. Every effort shall be made to ensure that the meetings of the Committee take place well in advance of the meetings of the Board. The Appointments and Remuneration Committee shall be validly constituted when the majority of its members and their agreements attend, present or represented. They will adopt by majority vote. In case of a tie, the Chairman of the Appointments and Remuneration Committee will have a quality vote.

The Committee should consult the Chairman, especially when dealing with matters related to executive directors and senior managers.

On December 12, 2019, an Operating Regulation of the Appointments and Remuneration Committee was approved in order to develop Article 15 of the Board Regulations, incorporating the basic aspects regarding the composition, functions and functioning of the Committee included in the Technical Guide 1/2019 of the CNMV. The Board

Regulations were also modified for these same purposes.

## **Activities**

During 2019 the Appointments and Remuneration Committee held 6 meetings and carried out the following activities:

1) Regarding the composition of the Board of Directors and its Committees and the process of designating internal positions of the Board of Directors and senior executives:

- Analysis of the possible incompatibilities of two of its directors before their appointment as members of the Board of Directors of other entities, concluding that neither by the number of meetings and workload requirement, nor by the corporate objects of the companies, nor by the number of committee of which the directors are part of there was no reason for incompatibility to accept the charges.
- In response to the best practices of Corporate Governance, to the recommendations of the CNMV in section 3 of the Third Section of Technical Guide 1/2019, the general requests of the stakeholders and, as provided in article 5 of the new Regulations of the Appointments and Remuneration Committee, the Appointments Committee has worked during 2019, in coordination with the full Board, in the analysis of the composition of the Board, as well as in the elaboration of a matrix that defines the necessary competences of the Board for the proper functioning of the Company and the main skills and knowledge of the Directors. In this context, at the end of the year, the competency matrix explained in section C.1.20 was approved, which summarizes in a very synthetic way the capacities that the Board considers most relevant for the management of the Company, pointing out the most important aspects of the profile of each One of the Directors. This matrix in no way reflects the totality of the capacities of the members of the Board, but only those in which each of the Directors can be considered expert, among those previously defined as essential.
- Approval of the proposal for the appointment of a new Internal Auditor, also agreeing to submit the proposal to the decision of the Board of Directors.

2) Regarding the selection of candidates for Directors:

- The Committee reviewed and approved the Report of the Committee on the ratification of the appointment of Mrs. Leticia Iglesias as an independent director of the Company, also agree to send it to the Board for final approval, a report that was made available to shareholders at the time of the convening of the Ordinary General Meeting of Shareholders.

3) Regarding the evaluation and re-election of directors:

- Analysis of the absence of conflicts of interest and hiring Georgeson as an external advisor to carry out the evaluation of the Board, its members and its Committees in 2018. Coordination and supervision of the Board's evaluation process. In this context, analysis of the structure and operation of the Board of Directors of Lar España; of the perceptions and valuations of each of the directors, the chairmen of the Board and Committees and the secretariat of the Company; of the perception of the most relevant investors and proxy advisors; and of the main parameters of corporate governance with respect to comparable companies.
- Following the evaluation process, analysis of the recommendations and the action plan proposed by Georgeson, agreeing to review the conclusions of the evaluation in the plenary of the Board of Directors to implement the highest number of recommendations, thus improving the functioning of the Board and continuing being

a reference in terms of corporate governance.

4) Regarding remuneration:

- Approval of the implementation of a long-term incentive plan for the directors of the Company
- Also with respect to executives, the Committee analyzed the components of its remuneration packages, assessing the convenience of being adjusted to adapt them to market conditions, agreeing to submit to the Board the proposal to (i) review the fixed components of remuneration and (ii) commission an independent consultant to study the market conditions that would correspond to the specific profiles of the three managers, with the idea of being able to assess their conclusions and / or recommendations.
- In relation to independent directors, the Appointments and Remuneration Committee agreed to commission a comparative exercise of the remuneration of independent directors of comparable companies to assess the advisability of proposing the revision of their remuneration. This comparative analysis has been carried out by Willis Towers Watson after having made a contest between three different independent firms.
- The Committee reviewed and approved the Annual Report on Directors' Remuneration corresponding to the 2018 financial year in accordance with the provisions of article 541 of the Capital Companies Law by sending it to the Board for final approval and subsequent referral to the General Meeting of Shareholders
- Finally, the Committee reviewed the proposal of global objectives of the directors of the Company for 2019 as well as the degree of compliance with those of 2018.

5) Regarding Corporate Social Responsibility and Sustainability:

- Supervision of the aspects of corporate social responsibility (CSR) and sustainability of the Company. In this regard, among other issues, the actions carried out in 2018 and compliance with the CSR policy were reviewed, an action plan for 2019 was established and the Committee stressed the importance of continuing to monitor sustainability and sustainability issues. CSR since they are becoming increasingly relevant in the investment market, also promoting and promoting actions and improvements in this area.

6) Other actions

- Review and proposal of modification of the Regulations of the Board of Directors to adapt it to Technical Guide 1/2019 of the CNMV, preparing and also agreeing to submit to the Board a proposal for a Regulation of the Appointments and Remuneration Committee for final approval.
- Approval of the annual plan of activities of the Committee for 2020.

**COMMITTEE**

Name	Position	Class of director

% of executive directors	
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% 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			
	2019 Number %	2018 Number %	2017 Number %	2016 Number %
<b>Executive committee</b>	NA	NA	NA	NA
<b>Audit committee</b>	2 – 67%	2 – 67%	1- 33%	0
<b>Appointments and remuneration committee</b>	0	0	0	0
<b>Nomination committee</b>	NA	NA	NA	NA
<b>Remuneration committee</b>	NA	NA	NA	NA
<b>_____ committee</b>	NA	NA	NA	NA

**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 Regulations of the Board of Directors regulate the operation of the Appointments and Remuneration Committee (Article 15) and the Audit and Control Committee (Article 14). The Audit and Control Committee and the Appointments and Remuneration Committee have their own regulations of operation, approved on December 27, 2017 and December 12, 2019 respectively. All these regulations are available at the following link on the corporate website:

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

In 2018, the remuneration policy was completed with a document on ‘ ‘ Remuneration Policy for the Board of Directors’, available at the following link on the corporate website:

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

Lar España elaborates annual reports on the composition and activities of the committees of the Board of Directors of the Company and makes them available to shareholders on the occasion of the Ordinary General Meeting.

**C.2.6 Section repealed**

## D

## RELATED PARTY AND INTRA-GROUP TRANSACTIONS

### **D.1. Outline the procedure, if any, in place for approving related-party and intra-group transactions.**

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

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

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

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

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

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Nature of the transaction	Amount (thousands of euros)
Grupo Lar Inversiones Inmobiliarias S.A.	Grupo Lar Inversiones Inmobiliarias S.A.	Contract	Management contract	9,877
Grupo Lar Inversiones Inmobiliarias S.A	Gentalia 2006, S.L	Contract	Management contract	3,544

### **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.**

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

Article 31 of the Board Regulations

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

For Board regulation purposes, the following definitions apply:

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



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

b. Persons related to legal person directors:

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

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

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

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

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

Internal Securities Markets Code of Conduct

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

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

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

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

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

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

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

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

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

#### Code of Conduct

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

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

Yes ☐ No ☒

**Identify the subsidiaries listed in Spain:**

Listed subsidiaries

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

Yes ☐ No ☐

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

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

The integrated 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 has been described and developed in the Risk Control and Management Policy approved by the Board of Directors of Lar España, which establishes a methodology to identify, evaluate, prioritize and manage risks in an effective way, taking into account the circumstances of the Company and the economic and regulatory environment where it operates. 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 ERM system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain risk management activities are performed by specialist service providers which assist with significant processes such as:

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

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

The main participants in the ERM model are:

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

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

### **Risk officer**

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

### **Audit and Control Committee**

In accordance with the provisions of article 14 of the Regulations of the Board of Directors and article 5 of the Regulations of the Audit and Control Committee, it is entrusted, among others, with the following functions:

- Supervising the effectiveness of the internal control and risk management systems and, in particular, reviewing them to make sure the main risks are properly identified, managed and disclosed.
- Supervising the internal risk control and management function.
- Identify the different types of risk (operational, technological, financial, legal, reputational) that the Company faces, including, among financial or economic, contingent liabilities and other off-balance sheet risks.
- The determination of risk levels that the Company considers 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 2019, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- Compliance with the requirements of the SOCIMI regime.
- Sale-purchase of real estate assets, planning, information and execution.
- Loss of value of real estate, mainly as a result of variations that may affect the economic cycle in general, or the real estate sector in particular.
- Political situation and socio-economic factors (political instability, change in the economic cycle, in consumption patterns, increasing digitalization, etc.).
- Investment / Asset Manager unit.
- Cybersecurity.
- Retention of internal talent.
- Increased competition, both for competitive actions and for a greater proliferation of alternative products.
- Market situation that may adversely affect the materialization of investment / divestment opportunities.
- Regulations and regulatory changes.
- Confidentiality.
- Technological infrastructure.

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.**

During the year 2019, there has been no knowledge of the materialization of any risk of any type, including those of a fiscal nature, that has had a significant impact on the achievement of the Company's objectives.

**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.

It should be noted that, at least annually, the Audit and Control Committee of Lar España analyzes the validity of the Organization's Risk Map and proceeds to incorporate, modify or discard the risks that are necessary due to changes in the strategic objectives, organizational structure, new risks, current regulations, 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:

- The supervision of the process of preparing and presenting the financial information and the management report, which will include, where appropriate, the mandatory non-financial information, as well as the approval of the financial information that, due to its status as a listed company, the company must make public periodically.
- Approving the risk control and management policy and the periodic monitoring of the internal information and control systems.

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

Lar España establishes in Article 14 of its Regulations of the Board of Directors and in Article 5 of the Regulations of the Audit and Control Committee, which it has among its competences:

- Periodically supervise the effectiveness of the internal control of the Company and its group, as well as the activity of the internal audit of the Company, discussing, together with the account auditors, the significant weaknesses of the internal control system detected in the development of the audit.
- Supervise the process of preparation and presentation of mandatory financial information

and submit recommendations or proposals to the administrative body, aimed at safeguarding its integrity.

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 supervision activity of the Audit and Control Committee consists in ensuring the effectiveness of the ICFR, obtaining sufficient evidence of its correct design and operation, which requires evaluating the process of identifying the risks that may affect the faithful image of the financial information, verify that there are controls to mitigate them and that they work effectively.

It also consists of reviewing, analyzing and commenting on the financial and the ICFR information with the Management and with the auditors, internal and external, to ensure that the accounting criteria applied are correct and the information provided is complete and consistent with the operations, and that the ICFR is suitable for achieving its objectives and has functioned efficiently throughout the year.

Likewise, the Audit and Control Committee verifies that the ICFR takes into account all aspects established in the recommendations of the CNMV and reports its conclusions to the Board of Directors.

### **Corporate and Financial Management**

The Corporate & Financial 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:

- Supervise the sufficiency and effectiveness of the ICFR and of the general and process controls.
- 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 & Financial 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 & Financial 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 & Financial 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 & Financial 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 & Financial 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 & CFO can call on the resources, whether internal or external, he or she needs to manage the different activities of the Company, for assistance and advice. Against this backdrop, Lar España has entered into a Management Agreement with Grupo Lar under which the Manager undertakes to devote the staff and resources needed to fulfil its functions, including its financial reporting related duties.

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

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

Lar España has a Code of Conduct, which aims to establish the conduct guidelines that will regulate the behavior of all those acting on behalf of Lar España and its subsidiaries. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's Management Company, and any other person which could be related to Lar España even if they are not employees.

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

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

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

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

According to article 14.3.b.iv of the Board Regulations, it will be the responsibility of the Audit and Control Committee to establish and supervise a mechanism that allows Lar España employees and interest groups to communicate confidentially and, if deemed appropriate, anonymously, irregularities of potential significance, especially financial and accounting, that warn within the Company.

Lar España has a Regulation for the Operation of the Whistle- blowing Channel whereby 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: [canaldenuncias@larespana.com](mailto:canaldenuncias@larespana.com)
- A confidential explanatory letter

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

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

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

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

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

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

Corporate & Financial 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 & Financial Management directly validates with the accounting expert, subcontracted for the preparation of the financial-accounting information, the training and knowledge of the teams assigned to these activities in relation to the regulations required in order to ensure the reliability of the information financial.

Director Corporate & CFO, responsible for ICFR, has extensive training in accounting and financial reporting as a result of audit experience in accounting and financial management.

During the year, the Corporate & Financial Management is informed of any changes that affect the preparation and supervision of financial information, both through subscriptions to information pills and newsletters from external sources, as well as through attendance at conferences and seminars specific materials and technical updating organized by expert companies in financial regulations, accounting and auditing.

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 & Financial 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.

Likewise, Lar España has documented the most significant processes through a narrative, a flow chart and a matrix of risks and controls. This documentation identifies and analyzes, among others, transaction flows, possible risks of error or fraud in the financial information, as well as those key controls established in the Company, which adequately mitigate and with the necessary anticipation the risks associated with the process. During the year 2019, this documentation has been reviewed, updated and completed, obtaining a more efficient model, adapted to the objectives of financial information, and focused on material processes, both quantitatively and qualitatively.

- **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.**

The documentation prepared for each of the significant processes includes, among other elements, a matrix of risks and controls. This document links the financial risks at the process level with the control (s) that mitigates it. These matrices are designed to detail the relationships between risks and controls at the process level and to facilitate the evaluation of the effectiveness of the design of the implanted system, verifying that all risks have been mitigated by the controls associated with them. Among the information that the matrices incorporate, they include the assertions or specific control objectives in relation to the identified risk: integrity, existence and occurrence, rights and obligations, measurement and valuation, presentation.

- **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 & Financial Management, with the collaboration of the Legal Department, 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.

Additionally, 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.**

As established by the internal regulations (article 42 of the Social Statutes of Lar España, article 14 of the Regulations of the Board of Directors, and article 5 of the Regulations of the Audit and Control Committee), the Audit and Control Committee is responsible for supervise the effectiveness of the internal control of the Company and of the risk management systems, including fiscal ones, and specifically of the Internal Financial Information Control System.

### **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 carry out these functions, it has the support of the Audit and Control Committee who, with the collaboration of the UPS, is entrusted with the function of supervising and evaluating the Group's ICFR. The Board of Directors also has the support of those responsible for the processes and the Corporate & Financial Management as responsible for ensuring that it is adequate and effective.

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

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

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

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

- Closing of Financial Statements and Consolidation
- Asset valuations
- Rental income
- Investments
- Cash management
- Financing
- Management of accounts payable - Promotion projects
- Management of accounts payable - Management fees
- Disposals

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. During fiscal year 2019, the Corporate & Financial Management has continued with the process of progressive implementation of the policies and procedures included in the ICFR Manual and has reviewed and updated the documentation related to significant processes with the objective of achieving a system of internal control more efficient and adapted to the objectives of financial information, which covers all material processes, both quantitatively and qualitatively.

**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, the Corporate & Financial Management ensures that the contracted entity has a certified information security management system in accordance with ISO 27001, in addition to constantly monitoring and supervising both the outsourcing contract and the financial information reported by the third party to prevent it from containing 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. Additionally, the company periodically carries out evaluation work on the key controls carried out by third-party service providers, to verify their correct functioning.

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 & Financial Management.

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

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

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

Corporate & Financial 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 & Financial Management, which reports to the Audit and Control Committee on the progress made on a regular basis. Additionally, and when necessary, the criteria adopted with accounting experts or other advisors to resolve any doubt or possible conflict arising from the interpretation of any standard are confirmed.

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 & Financial Management supervises and

reviews the financial information before presenting it to the Audit and Control Committee.

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

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

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

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

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

The Audit and Control Committee has the support of the UPS for the supervision of the ICFR. Specifically, the Statute of the Internal Audit Function, updated in this year, attributes to the UPS, among others, the following functions: therefore, the activity of this Service includes the following tasks:

- Supervise the quality and reliability of financial and management information, in particular, of the regulated information that the Group must provide to the markets.
- Ensure the proper functioning of the internal financial information control system (ICFR) established in the Group, proposing the improvement recommendations it deems appropriate.
- Check the implementation of the corrective measures approved to address the weaknesses of the risk management and internal control system that have been revealed.

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 program of work by processes including, on a regular basis, the supervision of the proper implementation of the ICFR, review of the documentation that is part of it, and the review of the effectiveness of the controls defined. Periodically, at least quarterly, the UPS reports directly to the Audit and Control Committee on the level of compliance with the Plan and the results of its work.

The ICFR Manual provides for the annual evaluation and supervision of the different components thereof. In this sense, throughout the year 2019 it has been reviewed and updates have been introduced in the documentation corresponding to all significant processes. Likewise, work has been carried out to verify the operation of controls, among others, in the processes of asset valuation, management and registration of the Manager's fees, and in relation to compliance with the SOCIMI regime, without finding significant incidents. The Directorate and the Audit and Control Committee have received the information



corresponding to the development of the indicated activities.

Additionally, the Corporate & Financial Management and the Audit and Control Committee carry out a review process of the quarterly financial information sent to the CNMV, in accordance with the established schedules.

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

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

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

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process and adopting the opportune measures for addressing them, as required. In this regard, during the year 2019, the account auditors have attended 3 meetings of the Audit and Control Committee. In these sessions, the account auditors inform the Committee of the important audit matters identified in the course of the work and, if applicable, of the significant weaknesses of internal control, in addition to the recommendations identified that allow improving the Internal control system of the Company.
- 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.

**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 ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

- a) Report on auditor independence.**
- b) Reviews of the operation of the audit committee and the nomination and remuneration committee.**
- c) Audit committee report on third-party transactions.**
- d) Report on corporate social responsibility policy.**

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Explain ☐

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

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

**This criterion can be relaxed:**

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

Compliant ☒ Explain ☐

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

Compliant ☒ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

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

Compliant ☒ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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



Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

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

Compliant X Explain ☐

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

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

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

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

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

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

Compliant X Partially compliant ☐ Explain ☐

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

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

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

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

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

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

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

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

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

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☐ Partially compliant ☒ Explain ☐

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

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

Compliant ☐ Explain ☐ Not applicable ☒

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

**a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**

**b) They should be chaired by independent directors.**

**c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**

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

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

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

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

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

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

Compliant ☒ Explain ☐

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

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

Compliant ☒ Partially compliant ☐ Explain ☐

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

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

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

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

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

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

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X



**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 those registered at the CNMV's shareholder records at the time of been recorded.

This annual corporate governance report was approved by the Company's Board of Directors on February 13<sup>th</sup>, 2020.

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

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

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

Yes ☐ No ☒

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

## **Lar España Real Estate SOCIMI, S.A.**

Assurance' report on the 2019  
"Information Relating to the  
system of internal control over  
financial reporting (ICFR)"

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

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

**ASSURANCE' REPORT ON THE 2019 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2019**

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 December 12<sup>th</sup> 2019, we have applied certain procedures to the accompanying "Information relating to the ICFR" of Lar España Real Estate Socimi, S.A. for fiscal year finished on December 31<sup>st</sup> 2019, 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 the Entity 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 the Entity 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 2019 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.

In addition, since this special engagement does not constitute an audit of financial statements and is not subject to 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 5/2013 of June 12<sup>th</sup> 2013, subsequently modified by CNMV Circular 7/2015 of December 22<sup>nd</sup> 2015 and CNMV Circular 2/2018 of June 12<sup>th</sup> 2018.

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 Circulars 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.



Carmen Barrasa Ruiz

February 13<sup>th</sup> 2020