

## **REPORT ISSUED BY THE APPOINTMENTS AND REMUNERATIONS COMMITTEE OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. IN CONNECTION WITH THE PROPOSED AMENDMENT OF THE REMUNERATIONS POLICY OF THE COMPANY, SET OUT IN ITEM SEVEN OF THE AGENDA OF THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON APRIL 21 AND 22, 2021, ON FIRST AND SECOND CALL, RESPECTIVELY**

### **1. INTRODUCTION**

Article 529 novodecies of the consolidated text Spanish Companies Act, enacted by Royal Legislative Decree 1/2010, of 2 July ("**Spanish Companies Act**") the Board of Directors of Lar España Real Estate SOCIMI, S.A. ("**Lar España**" or "**Company**"), includes the obligation for listed companies to draft and submit for the approval of the General Shareholders' Meeting a policy on the remuneration of the members of the board of directors. The drafting of the proposal that will be submitted for the approval of the General Shareholders' Meeting corresponds to the Board of Directors of the Company. Furthermore, the proposal must be submitted together with a specific report issued by the Appointments and Remunerations Committee. In order to comply with the aforementioned provision, the Appointments and Remunerations Committee of Lar España has drafted this report on the proposed Remunerations Policy of the Company for the financial year 2021 to 2023, both included (the "**Remunerations Policy**"), which will entirely replace the policy applicable from 2018 to 2020, for its submission to the Board of Directors of the Company.

### **2. APPLICABLE RULES TO THE DIRECTORS' REMUNERATION**

The main rules that govern the remuneration of the directors of Lar España are the following:

#### **a. Spanish Companies Act**

The Spanish Companies Act states that the directors' office in listed companies must be remunerated, unless otherwise provided for in the by-laws of the corresponding company. Lar España's by-laws confirm that the directors' office is remunerated and include the remuneration structure for the directors on their condition as such. Furthermore, the by-laws regulate the additional remuneration that payable to executive directors and that shall be determined by the Board of Directors, where appropriate. Directors' remuneration, whether for their condition as such or for the performance of executive duties, must comply with the provision included in the Remunerations Policy.

With regard to the directors on their condition as such (non-executive directors), the Remunerations Policy must determine their remuneration within the system provided for in the by-laws of the Company and necessarily include the annual amount payable to all the directors on their conditions as such.

With regard to the directors that carry out executive duties (executive directors), the Remunerations Policy must include their annual fixe remuneration and its variation throughout the period during which the policy is applicable, the parameters used to determine the variable remuneration and the main terms and conditions of the service agreements entered into with the Company (specifically including their duration, any

severance pay triggered by early termination of the contractual relationship, exclusivity agreements, post-contractual non-compete clauses and any retainers).

Any compensation paid to the directors for the performance or termination of their duties, or the performance of executive duties must be in accordance with the applicable Remunerations Policy, except for those compensations specifically approved by the General Shareholders' Meeting.

Furthermore, the Spanish Companies Act states that, in general, directors' remunerations must be in accordance with the relevance of the company, the economic situation that it may have from time to time and the market standards of comparable companies. Likewise, the remuneration system must promote the long-term profitability and sustainability of the company and incorporates the necessary safeguards to avoid excessive risk-taking or the reward of unfavourable results.

#### **b. Lar España's by-laws and other internal rules**

The Company's regulation regarding directors' remuneration is included in article 40 of the Company's by-laws and it is further developed in article 27 of the Board of Directors' Rules and Regulations. These rules also govern the composition, functioning and powers of the Appointments and Remunerations Committee.

### **3. PRINCIPAL CHANGES TO THE REMUNERATIONS POLICY**

The new Remuneration Policy essentially includes the same terms and conditions of the current Policy, with the modifications introduced in the proposed Remuneration Policy, in comparison with the current one, having the sole purpose of (i) incorporate in section I the reference to the current context marked by the Covid-19 pandemic, (ii) include the literal wording of Recommendation 56 of the Good Governance Code with which the Company had already been complying, and (iii) adapt certain aspects of wording to the literal wording of the provisions of the Capital Companies Act and the Company's internal regulations.

### **4. CONTENT OF THE REMUNERATIONS POLICY**

The complete text of the proposed Remunerations Policy is attached to this report.

### **5. IN-FORCE PERIOD**

Under article 529 novodecies of the Spanish Companies Act, the Remunerations Policy will be applicable during the financial years 2021, 2022, and 2023, except if the Company's General Shareholders' Meeting agrees to its amendment or substitution during this period.

### **6. CONCLUSIONS**

Based on the information included in this report, the Appointments and Remunerations Committee of the Company considers that the proposed Remunerations Policy for the financial year 2021 to 2023, which substitutes the policy valid from 2018 to 2020, contains all the items required by the applicable law, specifically regarding the regulation of the remuneration of listed companies, complies with good governance and transparency criteria and is aligned with shareholders' interests.

Madrid, March 18, 2021



*This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.*

## **ANNEX**



*This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.*



# Remunerations Policy for the members of the Board of Directors

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## **1. BACKGROUND AND SCOPE OF THE REMUNERATIONS POLICY**

This document reflects the Remunerations Policy for the members of the Board of Directors of Lar España Real Estate SOCIMI, S.A. (“**Lar España**” or the “**Company**”) in compliance with the statutory requirements included in the consolidated text of the Spanish Companies Act (the “**Remunerations Policy**”).

The Remunerations Policy has been prepared by the Company taking into account the significance of the Company, its economic situation, its condition as a Listed Real Estate Investment Company (SOCIMI), the market standards for other Spanish SOCIMIS and Real Estate Investment Trusts (REITs) from the rest of Europe and the particular dedication of the directors of the Company. The Company has also, of course, taken into account the current context marked by the crisis generated by the Covid-19 pandemic.

At the beginning of this process, the Company was advised by Willis Towers Watson to carry out a comparative analysis of the remuneration applicable in comparable companies and sectors. However, in view of the situation generated as a result of the pandemic, the Company has considered it appropriate to submit to the approval of the Board a remuneration policy that is contained and continues with the previous policy, without making any material changes thereto.

The remuneration defined below maintains an adequate proportion and promotes the Company’s long-term profitability and sustainability. The Remunerations Policy also incorporates the necessary safeguards to avoid excessive risk-taking or rewarding unfavorable results, and to align the interest of the directors with those of the Company and its shareholders without compromising the independence of the directors.

## **2. OBJECTIVES OF THE REMUNERATIONS POLICY**

The Remunerations Policy is intended to define and control the remuneration practices of the Company’s directors to contribute to the creation of value for the shareholders of the Company in a sustainable manner in the long term.

Consequently, the Remunerations Policy seeks to establish an adequate remuneration scheme linked to the dedication and responsibilities assumed by the directors, and shall be applied to attract, retain and motivate the directors of Lar España with the objective of ensuring that the Company has the adequate professional that contribute to the achievement of the Company’s strategic objectives.

### **3. GOVERNING PRINCIPLES AND CRITERIA OF THE REMUNERATIONS POLICY**

In order to develop a good corporate governance framework, Lar España has considered appropriate to establish clear corporate governance principles to ensure that the remuneration strategy approved by the Board of Directors is implemented in accordance with the Company's strategy, based on the principles of competitiveness and fairness.

In this respect, the remuneration of directors who receive remuneration for the performance of their duties shall be governed by the following principles:

#### **3.1. Independent judgment**

Remuneration shall be structured so that the independent judgment of the directors is not compromised, with a special focus on the remuneration granted to non-executive directors.

#### **3.2. Attraction and retention of the best professionals**

The remunerations granted by the Company will be competitive in order to attract and retain talent that contributes to the creation of value for the shareholders of the Company and the achievement of the Company's strategic objectives.

#### **3.3. Long-term sustainability**

Remuneration shall be compatible with the Company's long-term business interests and strategy, as well as its values and goals, and shall take into account, if necessary, any adequate precautions to avoid conflicts of interest.

#### **3.4. Transparency**

The Remunerations Policy and the specific rules for the determination of the remuneration amounts shall be explicit and disclosed in advance. In particular, the Company will make the Annual Report on Remuneration of Directors available to its shareholders at the moment of the announcement of its ordinary General Shareholders Meeting, which will be submitted for a consultative vote on a separate item of the agenda.

#### **3.5. Simplicity and individualization**

The rules governing the management and determination of compensation shall be drafted clearly and concisely.

#### **3.6. Fairness and proportionality of compensation**

Remuneration shall be set taking into account the dedication, qualification, experience and responsibilities of each director and the functions and tasks performed by such director.

Also, the remuneration paid by the Company shall maintain a balance between market competitiveness and internal fairness.

### **3.7. Involvement of the Appointments and Remunerations Committee**

The Remunerations Policy has been proposed, on the proposal of the Appointments and Remuneration Committee, by the Board of Directors for its submission to the Ordinary General Shareholders' Meeting of the Company for its approval.

The Appointments and Remunerations Committee will overview the compliance with this Remunerations Policy, carry out periodic reviews and propose its amendments to the Board of Directors for it to, in turn, submit the proposal to the General Shareholders' Meeting for its approval, in accordance with the provisions included in the Company's By-Laws, the Board of Directors' Rules and Regulations and the Committee's own Regulations.

### **3.8. Approval of the annual global maximum quantity of the directors' remuneration by the General Shareholders' Meeting and delegations in favor of the Board of Directors**

Based on the annual maximum amount of the directors' remuneration for their condition as such, approved by the General Shareholders' Meeting, the Board of Directors has the power to determine such amount among its members in accordance with the duties and responsibilities of each director, its assistance and participation in any of the Committees of the Board and other objective circumstances that the Board considers relevant.

## **4. REMUNERATION OF THE DIRECTORS AS MEMBERS OF THE BOARD**

In connection with the remuneration payable to the members of the Board of Directors in their capacity as such, i.e., for the performance of their supervisory and decision-making functions within the Board of Directors and the Committees to which they belong, the objective of the Remunerations Policy is to compensate them adequately and sufficiently for their dedication, qualification and responsibility, without compromising their independent judgment.

In accordance with Article 40 of the By-Laws of the Company, directors are entitled to receive an annual fixed remuneration in considerations for their duties as directors, without prejudice to the fact that, in accordance with the provisions of this Remunerations Policy, the Board of Directors may take into account for these purposes the distinction between proprietary and independent directors. In turn, directors that carry out executive duties, where appropriate, are entitled to receive the compensation provided for in the services



contract entered into with the Company. Additionally, all directors will receive the corresponding compensation for any travel expenses in which they may incur to attend the meeting of the Board and the Committees to which they belong.

The maximum amount payable by the Company as compensation to all of its directors for these items may not exceed the relevant amount determined for this purpose by the General Shareholders' Meeting. The amount thus determined by the General Shareholders' Meeting shall apply unless and until the General Shareholders' Meeting approves other amount in accordance with applicable laws.

However, the determination of the specific amount to be paid to each director for these items within the maximum amount approved by the General Shareholders' Meeting shall be agreed by the Board of Directors in accordance with this Remunerations Policy. For such purpose, the Board shall take into account the office held by each director within the Board itself, as well as the membership and attendance of each director to any Committee.

Finally, the Company shall pay for any premium due for any civil liability insurance policy taken out by the Company in respect of its directors upon customary market terms and commensurate with the circumstances of the Company.

#### **4.1. Maximum amount of annual remuneration for directors**

The maximum annual remuneration payable to the members of the Board of Directors in their capacity as such shall amount to EUR 530,000.

This maximum amount does not include: (a) any salary, compensation of any kind or payment that may be carried out under other concepts to the directors in accordance with the Remunerations Policy for their executive duties or for any other concept; (b) the premiums paid for any civil liability insurance by the Company for its directors; and (c) an reimbursement for the expenses incurred by the directors to attend the meeting of the Board or any of its Committees.

#### **4.2. Annual fixed remuneration**

The Board of Directors shall establish the criteria in order to determine the remuneration payable to each director, taking into account:

- The category of the Director.
- The office held by the director in the Board of Directors and in any of its Committees.

- The specific functions and responsibilities assumed during the year.
- The experience and knowledge required to carry out those functions.
- The amount of time and dedication required to carry out effectively such functions.
- Any other objective circumstances that may be considered relevant.

Considering the above, it is hereby stated that, for the exception of proprietary directors, which will not receive any compensation (notwithstanding the fact that they are beneficiaries of civil liability insurance), each director of Lar España will receive an annual fixed remuneration of EUR 70,000. The Chairman of the Board will receive, an additional annual remuneration of EUR 55,000 (amounting to a total of EUR 125,000 annually).

Additionally, and except for proprietary directors, members of the Board of Directors that are members of:

- the Audit and Control Committee will receive an additional annual remuneration of EUR 15,000 for participating in the meetings of the Committee. The Chairman of the Audit and Control Committee will receive, an additional remuneration of EUR 7,500 (amounting to a total of EUR 22,500 annually).
- the Appointments and Remunerations Committee will receive an additional annual remuneration of EUR 15,000 for participating in the meetings of the Committee. The Chairman of the Appointments and Remunerations Committee will receive, an additional remuneration of EUR 2,000 (amounting to a total of EUR 17,000 annually).

Those directors, who, appointed by Lar España, participate in any corporate bodies of the subsidiaries that Lar España participates with other partners may perceive an additional fixed remuneration of EUR 15,000 per year and subsidiary.

These amounts are payable on the basis of a full tax year. Where a director sits in the Board for less than a full tax year, the amount payable to such a director shall be prorated accordingly. If the number of members of the Board of Directors were increased within the limits foreseen in the Company's by-laws, the fixed remuneration payable to any additional director shall be determined in accordance with the provisions above.

## **5. TERMS INCLUDED IN THE EXECUTIVE DIRECTORS' SERVICE AGREEMENTS**

In the event that Lar España decides to appoint executive directors, it shall be up to the Board of Directors to set the remuneration payable to them for performance of their executive duties, according to legal requirements and in accordance with the By-Laws of the Company.

This Remunerations Policy would therefore have to be adapted in order to specify the amount of fixed annual remuneration and the change therein during the reporting period; the various parameters used to determine their variable remuneration; and the main terms and conditions of their contracts, specifically including their duration, any severance pay triggered by early termination of the contractual relationship, exclusivity agreements, post-contractual non-compete clauses and any retainers.

## **6. OTHER REMUNERATION PAID TO THE DIRECTORS FOR SERVICES NOT INCLUDED IN THEIR DUTIES AS DIRECTORS**

Directors may receive an additional remuneration in cash, shares or options over shares of the Company if the Board of Directors, following a report issued by the Appointments and Remunerations Committee, considers that it is in the best interest of the Company to incentivize and reward a director's involvement and worthy performance in certain transactions and, specifically, when the director is involved in the planning, preparation, negotiation or execution of transactions deemed to be relevant or fundamental for the future of the Company. The objectives to be achieved by the beneficiaries of these plans may be complemented with the achievement of other parameters that measure the positive evolution of the Company's business in the long term.

To promote the correct performance of their duties and aligned the long term interests of the directors and those of the shareholders, remunerations for the services rendered to the Company that are different from those corresponding to their condition as directors may be carried out through the granting of shares of the Company. In that case, in accordance with the provisions included in the Spanish Companies Act, the remuneration will required the approval of the Company's General Shareholders' Meeting.

## **7. GOVERNANCE MATTERS**

### **7.1. Preparation, approval and review of this Remunerations Policy**

The Board of Directors, on the proposal of the Appointments and Remuneration Committee, shall submit to the General Shareholders' Meeting a Remunerations Policy proposal at least every three years. This proposal shall be submitted as a separate item of the agenda, which shall be accompanied by a specific report from the Appointments and Remuneration Committee. The report of the Appointments and Remuneration Committee shall be attached to the proposal of the Board of Directors.

The proposed Remunerations Policy submitted by the Board of Directors and the report prepared by the Appointments and Remuneration Committee shall be made available to the shareholders on the Company's website as of the date of the announcement of the General Shareholders' Meeting. Shareholders may also request the delivery or sending, free of charge, of a copy of the referred documents. The announcement shall make a reference to this right.

The Appointments and Remuneration Committee will continuously review this Policy and, specifically, its appropriateness to achieve the objectives included in section 2 of this Policy. Likewise, at the proposal of the Appointments and Remunerations Committee, the Board of Directors may approve to hire an external expert for it to participate in the review process of the Remunerations Policy.

### **7.2. Supervision and application of the Remunerations Policy**

The Board of Directors is responsible for establishing a control and supervision regime in respect of the specific requirements set out in the Remunerations Policy, while the Appointments and Remuneration Committee is responsible for ensuring the compliance of such Policy.

### **7.3. Term of the Remunerations Policy**

This Remunerations Policy shall be in effect for three financial years after its approval by the General Shareholders' Meeting of the Company (financial years 2021, 2022 and 2023). Notwithstanding the above, the General Shareholders' Meeting of Lar España may amend, modify or replace this Remunerations Policy at any time in accordance with the procedure described above.