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End-to-End Risk Management and Control

Lar España implemented its enterprise **risk management (ERM) system** in 2015 in order to facilitate delivery of its strategic targets by ensuring that all risks to their delivery are duly and systematically identified, evaluated, managed and controlled. The ERM system manages company's risks end to end and continuously; it encompasses each business unit and subsidiary, as well as every corporate support areas.



Risk Control and Management Policy

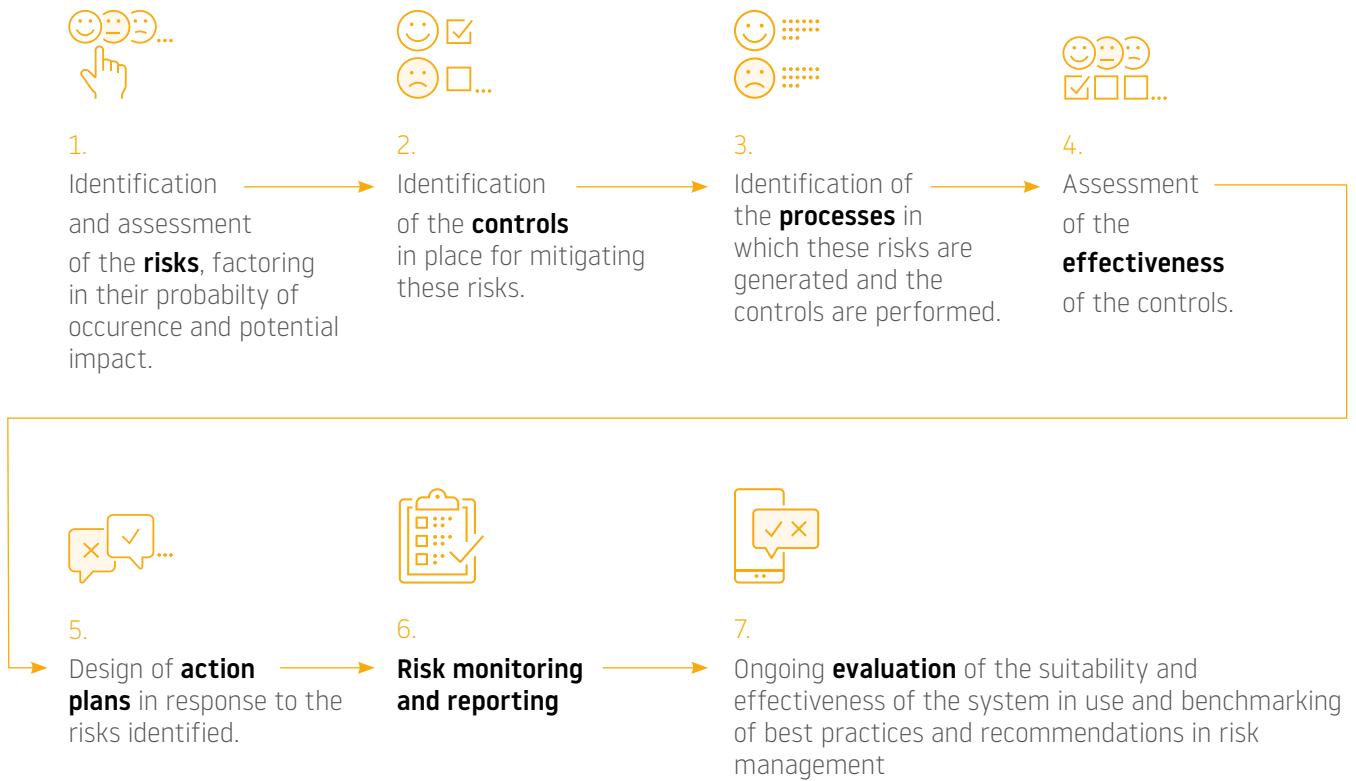
Lar España approved its **Risk Control and Management Policy** in 2015, setting down the principles and procedures for the correct assessment, control and mitigation of risks. The emanating end-to-end ERM system establishes a policy for identifying, evaluating, prioritising and managing risks effectively and efficiently, factoring in the organisation's specific circumstances and the economic and regulatory environments prevailing in its operating markets.

Enterprise Risk Management (ERM) System

Lar España's ERM system has been implemented at the corporate level and designed to mitigate all the risks, include tax-related risks, to which the company is exposed on account of its business activities.

The ERM system's mission is **to ensure a reasonable level of assurance with respect to the company's ability to achieve its strategic and operating targets**. 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.

Lar España views risk management as a continuous and dynamic process which encompasses the following steps:



Management, under the supervision of the internal audit function, establishes risk management priorities and the measures to be implemented, ensuring that the processes are performed and working as intended.

Risk Management Bodies

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.**
- Half-yearly asset **appraisals**.

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

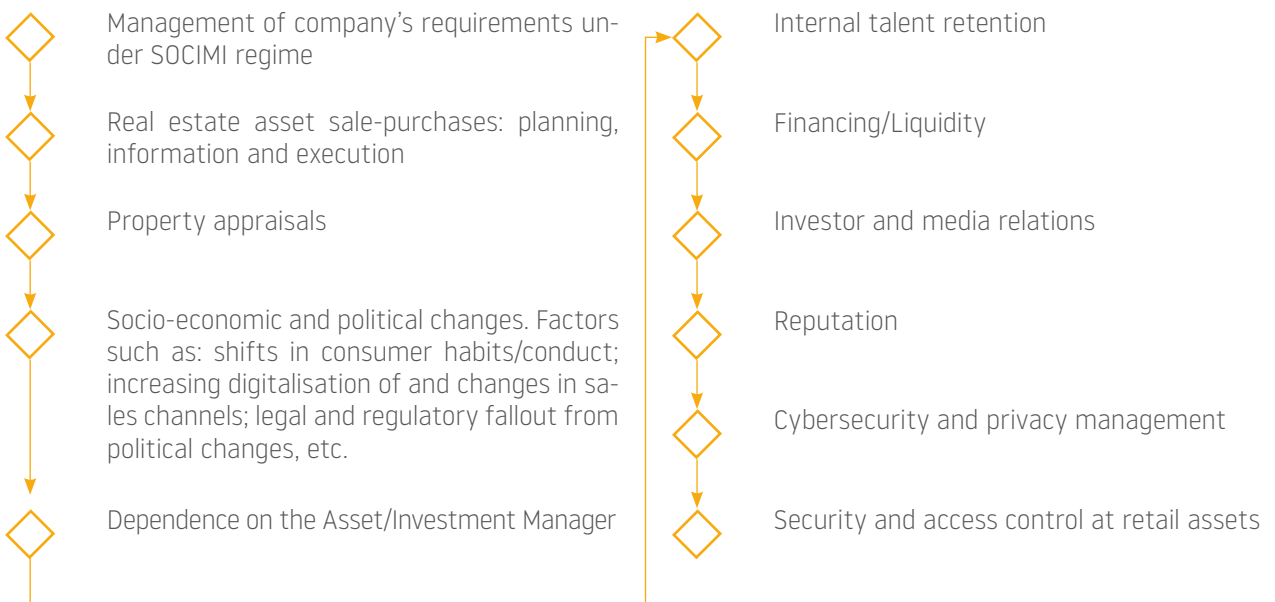
The main participants in the ERM model are:

Governance bodies	Responsibility	Competencies
Process manager or owner	Direct management of everyday operations.	Risk identification, analysis, assessment and mitigation.
Risk officer	Analysing and consolidating the risk information collected by the process owners.	Compiling risk files, identifying new events, gathering information and preparing action and monitoring plans as required.
Audit and Control Committee	Monitoring application of the Risk Control and Management Policy defined by the Board of Directors.	Identifying risks, establishing risk tolerance thresholds and identifying adequate risk mitigation measures, IT systems and controls. Reporting to the Board of Directors on its activities over the course of the year and monitoring application of the Risk Control and Management Policy Analysing, at least once a year, the continued suitability of the risk map and adding, modifying or eliminating risks as a result of changes at the organisation or in its business environment.
Board of Directors	Approval of the Risk Control and Management Policy.	Ultimate responsibility for identification of the main risks facing the company and for supervision of its internal control systems.

Risk map

Lar España has an updated **risk map** illustrating the universe of risks that could affect the company. The risks listed below have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2018, it managed and monitored these risks adequately, and this process will be run on an annual basis in subsequent years:

Main risks:



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

Response and monitoring plans

The specific characteristics of Lar España and its business sector make it of tantamount importance to correctly monitor and update the **various risks** to which the company is exposed, including tax risks.

The level and frequency applied to monitoring 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.



C) Rationalisation and optimisation of the controls applied to risks of relatively less importance.

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 those risks in **individual risk files** in order to enable enhanced monitoring. The 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**.

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:** 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

Note that the **Audit and Control Committee** has been tasked with analysing the effectiveness of the **organisation's risk map** at least annually and adding, modifying or disregarding risks as warranted as a result of changes in the company's strategic objectives, organisational structure, legislative environment, etc.

