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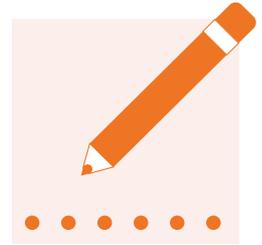
Internal Control Over Financial Reporting (ICFR) System

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.



In the following table is a summary of the bodies involved in the ICFR, their responsibilities and duties with respect to it:

| Body/Party | Responsibility | Duties |
|---|--|--|
| Board of Directors | Ultimately responsible for the existence and maintenance of a suitable and effective ICFR system | <ul style="list-style-type: none"> • Approving the financial information which the organisation must report periodically in its capacity as a listed entity • Approving the risk control and management policy and the periodic monitoring of the internal information and control systems |
| Audit and Control Committee | Supervising the ICFR system (with the support of the internal audit function), control of compliance and reporting to the Board of Directors | <ul style="list-style-type: none"> • 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 |
| Corporate Management | Responsible for the design, implementation and workings of the ICFR system | <ul style="list-style-type: none"> • 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 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 | Supporting supervision of the ICFR system, a duty vested in it by the Audit and Control Committee | <ul style="list-style-type: none"> • Supervising the operation of the ICFR system and its general controls and processes • Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter • Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process • Assisting Corporate Management to prepare reports on the status and description of the ICFR system |
| Process owners involved in the financial reporting process | Staff with financial reporting responsibilities | <ul style="list-style-type: none"> • Defining, documenting, and updating the internal processes and procedures • Executing the control activities as designed and intended and documenting evidence of their performance for traceability purposes • Reporting to Corporate Management on any change to their modus operandi or transactions that could trigger the need to update how their processes and controls are defined and documented and on any control shortcomings they may detect • Defining and implementing action plans in response to incidents observed within their sphere of responsibility |



Training

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

The Corporate Director can call on the resources, whether internal or external, he or she needs to manage the 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 **ICFR 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 ⁽¹⁾.

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

The Corporate Director, who is responsible for ICFR, boasts an extensive background in accounting and financial reporting, acquired during his years in auditing and financial management work. In 2017, the Corporate Director was in frequent contact with the financial statement auditor and the firm tasked with the accounting function during the year, addressing any issues arising and receiving updates from them on any developments with an **impact on the ICFR system**.

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.

(1) The second option is currently being pursued following confirmation from the third party that is providing accounting services.



Lar España **selects selects providers to outsource these activities rigorously.** It only works with specialist firms of renowned prestige. That are chosen for their quality and expertise. Corporate Management ensures that these advisors indeed have the expertise required and continuous learning policies relevant for 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.

Financial reporting risk assessment

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 Lar España Real Estate SOCIMI"**.

Lar España has assessed the risks associated with its own financial accounting. Having determined the level of risk associated with each account, the most significant risks were related with the Company processes which generate and control its material financial information.

The purpose of this mapping exercise is to identify the processes or business units within the Group of greatest importance in terms of financial information generation.

Lar España has documented the most significant processes. In 2018, it revised the documentation prepared the year before. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company **to mitigate the risks associated with each process.** Having documented the majority of the most significant processes during the previous years, the idea is to continue to flesh out and fine-tune this information for these and other processes related to the financial reporting function.

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

Control activities

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

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of the Internal Audit Service), the **ICFR Manual** of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering the intended objectives. In 2018, Corporate Management continued the process of gradually implementing **the policies and procedures** itemised in the ICFR Manual.

Information and communication

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 organization'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 being supervised continually by **Corporate Management**, which is reporting to the **Audit and Control Committee** on the progress made on a regular basis. In addition, the external auditor is being contacted as required to confirm certain approaches taken in order to resolve any questions and avoid any potential conflicts arising from the interpretation of any given accounting standard.

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



System monitoring

The gradual rollout of the ICFR system continued in 2018, identifying the most critical accounts and processes and working to document them in detail. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Corporate Management and the Audit and Control Committee reviewed the financial information submitted to the securities market regulator (and its timeliness) quarterly. Meanwhile, the **ICFR Manual** contemplates annual assessment and oversight of the system's various components.

Lastly, it is worth noting in this respect that Corporate Management meets regularly with the **external auditor** to discuss its proposed financial reporting criteria and the

level of progress made on developing the ICFR system. All required steps were taken to implement the provisions contained in the Board Regulations with respect to its own mandate to the Audit and Control Committee, specifically that of:

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process and adopting the opportune measures for addressing them, as required.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence.

Internal risk monitoring and management systems information have been reviewed by the **external auditor** and no inconsistencies or incidences were raised that could affect this.

