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*ESG Report 2018*  
*Lazora*



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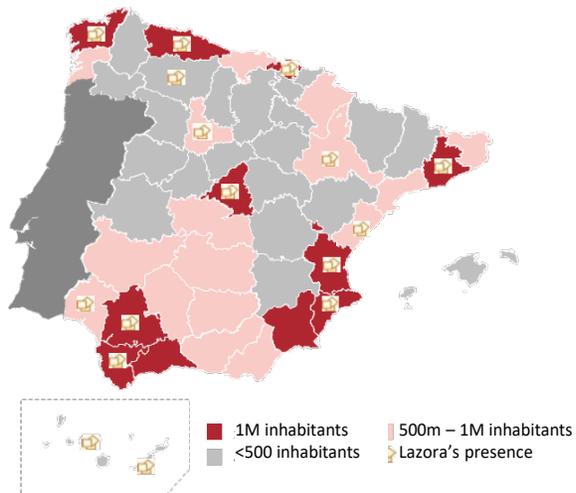
5. Commitment to the Environment

## LAZORA AT A GLANCE

Lazora, Sociedad de Inversión Inmobiliaria, S.A. (hereinafter, “Lazora” or “the Company”) is a Company engaged in investment and comprehensive management of residential housing in Spain. The Company is known for offering **quality housing at affordable prices** through its professional service and its aim to maximise returns for its shareholders.

Lazora is present in 9 autonomous communities and **15 Spanish provinces**, with the majority of its activity being carried out in Madrid (68% of its Gross Asset Value or GAV).

The Company's objective is to continue to grow, with the aim to reach 10,000 properties under its management in order to continue generating value for its main stakeholders.



### Lazora in figures<sup>(1)</sup>

 **74** assets

 **0.017 t** direct / indirect CO<sub>2</sub> emissions

 **51%** social housing tenancies

 **6,826** units

 **53,252** m<sup>3</sup> of water

 **168** professionals

 **>1,083M** GAV

 **3,453** MWh of electricity consumption

 **27%** recruitment rate

 **€ 1,771** /m<sup>2</sup>

 **538** t CO<sub>2</sub> avoided

 **+1,000** training hours



(1) Data as at 31 December 2018

# COMPANY PROFILE

## Corporate Structure and Composition of Shareholders

Lazora was founded in 2004 as an investment vehicle in the residential sector.

Therefore, the main business line of the Company is the acquisition of completed buildings and turnkey contracts for rented housing as well as properties still in their construction phase for their subsequent rent.

The Company was founded by Spanish institutional investors and, at the end of 2018, some large foreign institutional investors

made a significant investment of capital in the Company, leading to new capital being available to continue investing in rental housing in Spain.

Due to its status as a *Sociedad de Inversión Inmobiliaria (S.I.I.)* (Property Investment Company) and in compliance with the requirements set forth in the Law of Collective Investment Schemes and its implementing regulations, Lazora is managed by Azora Gestión S.G.I.I.C., S.A.U. (hereinafter, Azora Management) belonging to the Azora Group, which is under the ultimate control of Mr Fernando Gumuzio Iñiguez de Onzoño and Ms María Concepción Osácar Garaicoechea.

In order to ensure the alignment of Lazora with shareholders, Azora holds 2% of the shares of this Company.

The remaining 98% is owned by CBRE Global Investors, Madison International Realty (28%), an international institution and minority investors.

Lazora owns all of the legal and financial property for all of the assets in its portfolio.

The administration and management of Lazora’s assets is undertaken by Azzam Vivienda, S.L. (hereinafter, Azzam), a company belonging to the Azora Group.

*Legal structure*



*Functional structure*



## COMPANY PROFILE

### Lazora's Values and Commitments

Lazora's main objective is to generate value for society and its shareholders, through a its portfolio of quality residential assets, at an affordable price with a high potential to increase in value. For the development of its activity and to achieve its main objective, the Company bases itself on some very clear values and commitments:

	Environment	Society	Governance
Values	<ul style="list-style-type: none"> <li>• Inclusion of environmental criteria in its investment activities and management.</li> <li>• Promotion of responsible use of natural resources and of the best practices in the field of sustainability.</li> <li>• Increased efforts to improve the energy efficiency of its equipment and facilities and reduce pollution caused through Lazora's activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusion of aspects related to the respect for human rights in all of the Company's activities.</li> <li>• Commitment to the health and safety of tenants and employees involved in Lazora's activities.</li> <li>• Promotion of a free market and rejection of any conduct which is considered unethical.</li> <li>• Contribution to the development of the local communities in which the Company is present.</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of sustainable value for all of the Company's stakeholders.</li> <li>• Compliance with legal and tax obligations as well as collaboration with public authorities.</li> <li>• Promotion of transparent communication with all of the stakeholders.</li> </ul>
Commitments	<ul style="list-style-type: none"> <li>• To implement measures such as installing solar panels in our buildings to generate solar thermal and photovoltaic energy.</li> <li>• To invest in technologies that enhance the energy efficiency of the equipment and facilities present in its assets, as well as reducing water consumption in the communal areas of the buildings.</li> <li>• To encourage the use of recycled materials and implement circular economy measures.</li> </ul>	<ul style="list-style-type: none"> <li>• To optimise working conditions, including personal development plans.</li> <li>• To develop social housing schemes with the purpose of helping families at risk of poverty or social exclusion.</li> <li>• To foster relationships with the community with the aim of achieving its social and economic development.</li> <li>• To promote gender equality at work.</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure compliance with legal and tax obligations.</li> <li>• To develop a code of conduct to be applied by all employees.</li> <li>• To manage risk in all of the operations carried out by the Company.</li> <li>• To carry out internal audits of the financial information to ensure its accuracy and transparency.</li> <li>• To develop channels of communication with investors.</li> </ul>

## RESPONSIBLE MANAGEMENT

Lazora has its own governance structure made up of the Annual General Shareholders' Meeting, which is responsible for its management and representation, having complete authority to decide on company matters; along with a Board of Directors consisting of representatives of all of its shareholders. This Board of Directors is characterised by the diversity of its members, with 60% being foreign nationals, selected on the basis of their abilities and experience.

Additionally, Lazora's Board of Directors has the support of the governing bodies of Azora Management, as Lazora's management company.

The remuneration of the Board of Directors of Azora Management is based on specific principles contained in its Remuneration Policy:

- in relation with effective dedication,
- linked with responsibility and the performance of their duties as members,
- there are no variable remuneration components, in the interest of their total independence, and
- being incentive in nature, without the amount conditioning their independence.

### Lazora's Board of Directors



**80%** of proprietary members

**60%** of directors are foreign nationals

### Good Governance

Lazora's corporate governance is based on seven general principles of good governance supported in the compliance with the regulations and, specifically, with commercial and corporate law, as well as the publications by the National Securities Market Commission (CNMV in its Spanish initials) on the internal control of management companies for collective investment institutions and investment companies. These principles are: to preserve the interests of the investors and shareholders, integrity, transparency, separation of duties, evaluation and continuous improvement, prudent risk management and internal control.

These principles are reflected in the Company's Corporate Governance Policy, whose objective is to ensure Lazora's correct operation, its sustainability and its general competitiveness.

In all of its activities, Lazora is further supported by the codes and policies established by its management company.

## RESPONSIBLE MANAGEMENT

### Ethics and Integrity

The Azora Group ensures the integrity of its professionals in the performance of its activity, in compliance with the applicable regulations and internal procedures. Since its foundation, the group has considered the implementation of the recommendations and requirements on internal control and compliance with the regulatory requirements which are applicable to the Group to be a priority. It has therefore developed the necessary tools, codes, policies and procedures with the objective of promoting the responsible conduct of the Group in all of its activities, doing so through the Regulatory Compliance and Internal Audit departments.

In its commitment to responsible conduct and best practices in corporate governance, in 2018 the Azora Group approved a new Code of Conduct, applicable to all of the companies belonging to the Group, reinforcing the ESG issues and the management of criminal risks. This document is available on Azora's corporate website.

The purpose of this Code of Conduct is to establish the basic principles and rules of conduct that must govern the actions of directors, executives, employees and third parties with whom a significant business or professional relationship with the Azora Group has been established.

Among others, the Code addresses issues concerning asset protection, corruption and bribery, conflicts of interest, intellectual property and the processing of personal information.

The Group has developed a Complaints Channel to facilitate the communication of any breach of the Code that might be detected. The management procedure for this type of communication guarantees the confidentiality of the person reporting the breach as well as its content. In 2018, no complaints were received through this channel.

### Risk Management

The Azora Group has a Risk Management and Control Policy which is applied to Lazora. A Risk Management System (RMS) for the Group is defined in the said policy; this affects all levels of the Organisation and is implemented by all of its staff. Lazora's Risk Management System is aligned with the framework of international standards on the subject of risk management (COSO II).

The implementation of the RMS is based on the classification and description of the risk, the identification of the risk owner, the risk assessment (analysing its likelihood and impact), the associated controls, the procedures to mitigate the risk and the effectiveness of the control/procedure in place.

The result of the process is embodied in a risk map in which the priority risks for the Company are identified.

This system is assessed on an annual basis and environmental, social and governance risks were included in 2018.

In accordance with the latest assessment, a total of 34 risks were analysed, which were classified into 5 different categories: investment / disinvestment risks, financial risks, legal risks, risks related to regulatory compliance and technical risks. Of all these, 11 key risks were identified, based on their likelihood and impact.

#### *Investment / Disinvestment*

- Non-compliance with the Social Housing regulations.
- Inappropriate planning and/or approval of investments / disinvestments.
- Inappropriate execution of investments / disinvestment alternatives.

#### *Regulatory Compliance*

- Inappropriate reporting to regulatory bodies.
- Non-compliance with the Property Investment regime regulations.
- Inappropriate management of criminal risks.

#### *Financial*

- Failure to comply with financing conditions.
- Inappropriate planning and/or approval of investments / disinvestments.
- Interest rate risks.
- Inappropriate management of the Corporate Management insurance policies.

#### *Legal*

- Use of contracts which have not been approved by the Legal department.

#### *Technical*

- Inappropriate management of licenses.

In its commitment to integrating the ESG issues into the Company, Lazora has included risks associated with inappropriate monitoring of the CSR practices, non-compliance with the GDPR regulations, non-compliance with the Code of Conduct and non-compliance with the regulation on anti-money laundering and the financing of terrorism.

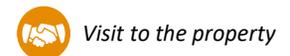
The Regulatory Compliance department is responsible for the operation and updating of the Risk Management System and is in permanent contact with the departments which identify and annually analyse the potential risks to which the Company could be exposed and that could compromise its business objectives and its compliance with the obligations to which it has committed.

## CREATING SHARED VALUE

### Main progress in 2018

Throughout 2018, Lazora continued to make progress in strengthening its relationship with its stakeholders. The main progress made in this regard is outlined below along with the future goals the Company has established to continue to strengthen these relationships and the main relationship channels used.

Stakeholders	Main progress made throughout 2018	Future goals	Communication channels
<b>Employees</b>	<ul style="list-style-type: none"> <li>Strengthening of the HR management team.</li> </ul>	<ul style="list-style-type: none"> <li>Increase the hours of training given on ESG.</li> </ul>	  
<b>Investors</b>	<ul style="list-style-type: none"> <li>Change in the shareholder structure with the addition of four major foreign investors.</li> <li>Participation in the GRESB index.</li> <li>Development of ESG values and commitments.</li> <li>Creation of an action plan to improve the Company's ESG performance.</li> </ul>	<ul style="list-style-type: none"> <li>Improvement in the Company's ESG performance, achieving an increase in the GRESB index.</li> </ul>	   
<b>Tenants</b>	<ul style="list-style-type: none"> <li>The company achieved a rating of 4.3 out of 5 in the potential tenant satisfaction survey.</li> <li>Development of a new pricing and discount strategy.</li> <li>Progress towards the digitalisation of the customer relationships.</li> <li>Development of a 10-point code of good practices in ESG issues for tenants.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain or increase the level of customer satisfaction in visits to the property.</li> <li>Continue to develop the Company's digital platforms to continue to progress in the digitalisation process.</li> </ul>	    
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Increase in the ESG requirements expected from suppliers and their monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>Improve the selection process for suppliers on the basis of ESG criteria.</li> <li>Work closely with suppliers to improve the integration of sustainability in the assets.</li> </ul>	  



## CREATING SHARED VALUE

### Investors

Lazora investors, as it is a Property Investment Company, have a key role in the Company's strategy. Lazora's commitment to them is based on the aim to maximise their returns while maintaining a transparent relationship with them, inspiring trust.

In 2018, Lazora underwent a change in its shareholders: the majority of its shareholders sold their shares in the Company to four large foreign institutional investors and in doing so the concerns and expectations on environmental, social and governance issues grew, resulting in the development of an action plan to improve the Company's performance in these matters.

In response to the new demands of these shareholders, in that same year, the Company started participating in the Global Real Estate Sustainability Benchmark (GRESB) index, whose aim is to compare and improve the ESG performance of Companies in the sector and in their asset portfolios.

Based on the results obtained in this first year, Lazora approved an action plan to improve its environmental, social and governance performance and improve its position in this index.

In addition, the entry of these investors meant a change in strategy for the Company, going from a divestment process to an investment one involving the injection of 250 million euros for new acquisitions.

The most important channel of communication with the investors is the Annual General Shareholders' Meeting, held on a quarterly basis, in which the most significant matters are explained in detail. In order to guarantee that all communication with shareholders is consistent, transparent and effective, Lazora has developed a Communication Policy with investors in which it establishes the general principles of this relationship as well as the informative documents that must be published.

Among the main documents which must be disseminated to the investor is Lazora's information brochure and the annual, half-yearly and quarterly reports, which include fundamental data on Lazora's performance.

### Human Capital

According to the applicable guidelines set by the Collective Investment Institutions, Lazora does not generate direct employment and therefore does not have human capital of its own. For this purpose, it maintains management contracts with Azora Management and Azzam, through which the professionals from both entities provide a service to Lazora.

Currently, there are 13 employees from Azora Management providing a service to Lazora, of which 77% are in Group I / Level 1 of the *Convenio Colectivo de Oficinas y despachos* (Collective Agreement for Offices).

	Men	Women
<i>Group I - Level 1</i>	7	3
<i>Group III - Level 1</i>	0	0
<i>Group V - Level 5</i>	1	2
<i>Total</i>	8	5

100% of these employees are on permanent contract.

Additionally, Azzam provides a service to Lazora's property management, undertaking the management of their assets, covering the following main duties: the technical assessments of the buildings, maintaining the relationship with tenants, arranging visits to the property and maintaining the commercial relationship with suppliers. In the case of Azzam, there are no resources provided exclusively to Lazora's activities, but rather the Azzam professional staff provide an across-the-board service to the various portfolios under their management. Azzam's workforce is composed as follows:

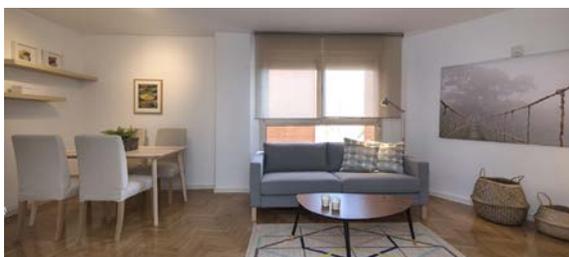
	Men	Women
<i>Management and Leadership</i>	3	2
<i>Technical</i>	16	23
<i>Sales</i>	15	20
<i>Administrative</i>	14	62
<i>Total</i>	48	107

## CREATING SHARED VALUE

	Azora Management	Azzam
Employees with a permanent contract	13	145
Employees with a temporary contract	0	10
% permanent employees	100%	94%

Thanks to this organisation of employees, Lazora gains greater agility, which focuses its efforts on the generation of value through its operations, as well as great flexibility to respond to specific circumstances of the business that require first-class professionals who are experts in the property sector.

All of its employees, both through Azora Management as well as Azzam, are subject to a collective agreement. In the first case, the employees come under the Collective Agreement for Offices, and those of Azzam under the *Convenio Colectivo de Gestión y mediación inmobiliaria* (Collective Agreement for Property Management and Brokerage). It is worth noting that the majority of employees receive a higher salary than that stipulated by the Agreement.



### Training and Development

The Azora Group considers the training of its employees to be one of the key factors for its development and that of the Company. In 2017, a Training Policy was drawn up, which sets out the general principles and applicable criteria in the Group and the companies it manages, with regard to training and attendance of various kinds of courses. In 2018, the year after it was approved, **more than 1,000 hours were dedicated to training** Azora Management and Azzam, representing an **increase of 35%** in comparison with 2017.

The development of professionals does not focus on pre-established or global development plans set for the whole group, but rather the Group is committed to making the most of each employee's potential, pursuing a personalised development plan that responds to their real needs and that of the Group at any given time. In this regard, the employees of Azora Management and Azzam, have together received a total of 6 hours training per employee, representing a **14% increase** in comparison with 2017.

In Azzam in particular, various courses relating to the use of SAP and Excel have been delivered, as these are two tools which are used a great deal in the employees' day to day work, and they are aligned with the Group's commitment to the automation and digitalisation of its services.

### Recruiting and the retention of talent

Professionals who are actively seeking employment are no longer just looking for a well-paid job, rather they are looking for a Company which motivates them, that presents them with challenges, that allows them to develop both personally and professionally and to feel part of a project in which all the professionals share a common goal. In this regard, the Azora Group offers its employees a series of social benefits such as the opportunity to participate in specialist training courses, medical insurance and benefits for the workers' children.

Thanks to the Group's efforts to recruit and retain talent, in 2018, 5 employees were hired in Azora Management (-8% in comparison with 2017) and 40 employees in Azzam (+88% compared with 2017), with only 5 and 18 employees respectively leaving the companies.

	Azora Management	Azzam
New hires	5	40
Recruitment rate	38%	26%
Employees leaving	5	18
Staff turnover	38%	12%

The low staff turnover at Azzam demonstrates that the Group is aware of the concerns and needs of its professionals, and it makes the required tools available and provides the environment necessary to meet these needs.

\*In the case of Azora Management, the staff turnover rates are so high due to the small number of workers in Lazora.

## CREATING SHARED VALUE

### Communication with our employees

The Azora Group fosters its relationship and direct communication with its employees through various channels. In addition to the usual relationship channels, in its corporate building Azzam has a Company Committee constituted in 2018 at the request of the workers.

This Company Committee is the intermediary between the workers it represents and the Company and is responsible for reaching agreements with the Group on decisions (regarding holidays, reviews of professional categories, etc.) that best suit the needs of workers.

### Employees' health and safety

The Azora Group works to ensure their employees have a healthy and safe working environment.

This commitment is contained in the Occupational Risk Prevention (ORP) Policy and the ORP Manual of the Group, which contain the main risk factors which have been identified and the preventive measures implemented to mitigate the said risks.

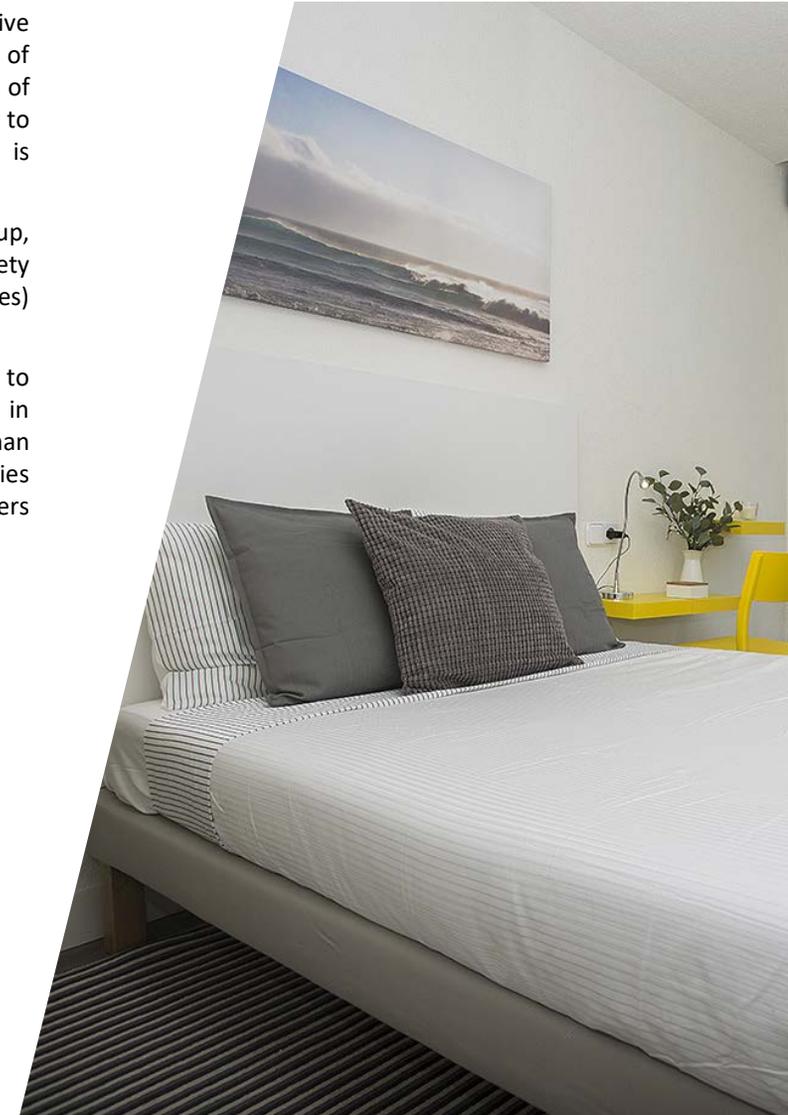
Similarly, the Azora Group has a Prevention Plan and a Health and Safety Manual in its offices.

In order to fulfil the provisions contained in these documents, the Company offers an annual medical check-up to all employees and provides training in occupational health and safety to new employees.

Additionally, the employees of the Group receive training on ORP in compliance with the provisions of Article 19 of the ORP Act. Training on prevention of general and specific risks, as well as rules on how to act in an emergency, first-aid and road safety is provided in these courses.

Thanks to these initiatives carried out by the Group, both Azora Gestión and Azzam's health and safety rates (frequency, severity and absenteeism rates) have reached minimum values.

However, the Group does not limit itself to managing the health and safety of its employees in the working environment, through its Human Resources department, it also promotes activities that encourage a healthy lifestyle for its workers such as through participating in sporting events.



## CREATING SHARED VALUE

### Tenants

In its more than 6,000 properties spread out across the whole of Spain, Lazora offers customised and innovative solutions to meet the needs of its tenants, as well as a specialised comprehensive management service, supported by a team of highly qualified professionals with more than 15 years of experience in the field of property management.

The principles that must govern the relationship with tenants are set forth in Lazora's Customer Service Policy, as well as in Azora's Customer Protection Regulations which regulate the structure, action procedures and rules pertaining to the Customer Service Department.

The Company is committed to maximising the value and experience of the tenants, creating long-term relationships of trust. To ensure this, Lazora is continuously developing innovative products and services that respond to the real needs of their tenants. The Company is currently working on the development of a new pricing and discounting strategy for the customer which includes, among other features, the temporary discount of community charges or the negotiation of reduced electricity rates and home insurance.

Similarly, Lazora focuses on meeting all the demands of its tenants, offering a personalised and easy-to-use service for its users, through an online private area, where they can conveniently and quickly manage any process related to their property.

In this regard, Lazora is committed to reinforcing and extending the services and transactions offered through this private area, with the aim of optimising its customers experience and offering them a simple, quick and flexible service, minimising the interaction with them and the need to visit physical offices.

Tenant's queries are first addressed through the online private area and, in the event they cannot be resolved, are sent to the Customer Service or corresponding department.

In 2018, 3,600 queries were recorded, mainly related to administrative matters and individual technical incidences.

### Suppliers

In its desire to offer a quality service to its customers, Lazora pursues quality in its supply chain. For this reason, the Company does not limit its commitment to responsible management to its internal processes, but rather seeks to extend this philosophy to all the suppliers with whom it collaborates.

With this aim in mind, the Azora Group has updated its Code of Conduct, establishing the obligation of all of its suppliers to adhere to the Code of Conduct when they sign a service provision contract with the Group. In this way, the Company is able to minimise the cost of its procurement with the added value of those stable relationships with suppliers that seek to continuously improve and provide mutual benefit.

Prior to entering into a contract with any supplier, Lazora carries out an evaluation to ensure compliance with all the requirements included in the Contracting Procedure for corporate suppliers and the authorisation of invoices, checking their financial solvency, the quality of their service through certificates and their prior experience with customers in the sector.

Lazora's main supplier is Azzam, which is in charge of the technical management of buildings and with whom it works to ensure the quality levels in the management and maintenance of the assets.

### Public Authorities

Due to its offer of social housing, the Company has a relationship with the Public Authorities, and in particular with the Social Services departments of the local councils.

This relationship is maintained primarily through attendance at meetings in which both parties present their interest in endeavouring to maximise the benefit to society.



## COMMITMENT TO THE ENVIRONMENT

As explained in its CSR Policy, Lazora is well aware of the environmental impacts generated by its activity in the communities in which it operates. In order to mitigate these effects, it has set up measures which contribute to the sustainable development of its activities, improving the efficiency of the facilities and equipment it owns.

In the remodelling of its residential assets, maximum efficiency criteria, both with regard to energy and water consumption, are followed in all of its installed equipment and systems.

Among the main measures carried out to minimise energy and water consumption the following can be highlighted:

- Installation of solar panels for the on-site generation of thermal and photovoltaic energy.
- Development of a renewal plan for more efficient boilers to be installed.
- Improving the insulation of floors and windows with the aim of reducing heat loss.
- The installation of motion detectors to limit electricity consumption in areas that are not occupied.
- On-site treatment of greywater to be reused.
- Installation of water meters to monitor its consumption.
- Installation of automatic watering and planting of native species of plants which are resistant to drought.

Through these actions, the Company is able to reduce the main environmental impacts arising from its activity: energy and water consumption as well as greenhouse gas emissions associated with energy consumption in properties.

In addition, as a result of the energy certificates obtained by its properties, the Company initiated an energy audit plan for its buildings to identify points of greater consumption and implement actions for their improvement, maximising the energy efficiency of the asset.

Moreover, in order to align with the trends in construction and both external expectations from tenants as well as those of investors, Lazora is studying the feasibility of certifying under the sustainable building standards, having already started the implementation process in its most recent project: Cañaverall.

### Environmental Performance

Lazora monitors the environmental performance, including energy, water and emissions, of the common areas of all of its property assets, including those directly managed by the Company as well as those it manages indirectly (when it is managed through a community of owners and Lazora does not own 100% of the property). In 2018, the environmental performance of its portfolio was as follows:

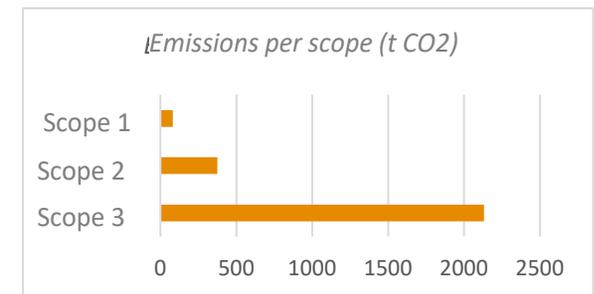
Resource consumption	
<b>Electricity consumption</b>	3,453 MWh
<b>Fuel consumption</b>	405,36 MWh
<b>Water consumption</b>	53,252 m <sup>3</sup>



### The Cañaverall Development

The Cañaverall development is the Company's latest development. This residential complex is composed of the Stone and Discovery projects for a total of 735 properties.

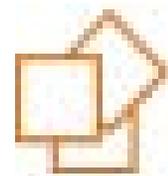
The Discovery project is expected to be the first of the Company's assets to obtain the LEED certification.



*Scope 1: emissions associated with fuel consumption for Lazora*

*Scope 2: emissions associated with electricity consumption for Lazora*

*Scope 3: emissions associated with tenants' electricity consumption*



**Lazora** VIVIENDAS