Axiare Patrimonio Socimi, S.A and subsidiaries companies

Audit Report
Consolidated Annual Accounts and
Consolidated Management' Report
at 31 December 2017

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation"

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Axiare Patrimonio Socimi, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Axiare Patrimonio Socimi, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and related consolidated notes for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

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

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Key audit matters	How KAM were addressed in the audit
Valuation of Investment Property Investment properties represent 89% of the Group's assets. As described in Note 2.6), the Group applies the fair value model in accordance with IAS 40, recording changes in fair value of €208 million in the consolidated income statement for 2017 (Note 6). Investment properties recognised in non-current assets on the consolidated balance sheet amounts to €1,722 million at 31 December 2017. The Group recognises the market value of investment properties based on the valuations performed by independent experts, mainly CB Richard Ellis (CBRE). Valuations are performed in accordance with the Appraisal and Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain, and in accordance with the International Valuation Standards (IVS) published by the International Standards Valuation Committee, whose methodology have been described in notes 2.3 and 6 to the accompanying consolidated annual accounts. The valuers take specific variables into account such as the lease contracts signed. They also adopt certain assumptions with respect to variables such as discount rates, estimated market rent and comparable transactions in arriving at a final valuation. The significance of the estimates and judgements that these valuations entail, together with the fact that a small percentage difference in the valuation of a property could result in a material figure, means that the valuation of investment properties is considered a key audit matter. The direct implication that valuations have for the incentive plan is also taken into account since they are the basic input for its arithmetic calculation (notes 2.18).	We obtained the valuation of investment properties carried out by independent experts on which we performed the following procedures, among others: - Assessment of the competence, capacity and independence of the expert, by obtaining confirmation and evidence of its recognised market reputation - Verification that the valuations were performed according to the methodology accepted. - Discussion of the key valuation assumptions through meetings with the expert valuers. - Performance of selective tests to check the accuracy of the most relevant data provided by Management to the valuers and used by them in the valuations. - Verification for a sample of properties the main assumptions used taking into account existing market conditions and comparables, with the involvement of our property valuation experts. - Verification that the second valuation performed by another independent expert for some investments is consistent with CBRE's valuation. The competence, capacity and independence of that expert were also verified. Additionally, we assessed the sufficiency of the information disclosed in the consolidated annual accounts. As a result of the procedures performed, we identified no incidents.

Key audit matters	How KAM were addressed in the audit
Revenue recognition	
The Group provides property rental services. Property rental income is recognised on a straight-line basis over the lease period, recording an amount of €69 million in the consolidated income statement as of December 2017. When the Group offers tenants incentives, the effect is recognised as a decrease in rental income over the lease term and on a straight-line basis. The costs related to each lease fee are recognised as an expense. (Note 2.20) The revenue recognition process is subjected to particular scrutiny during the audit to ensure that the group's consolidated revenue is properly supported. Because of the inherent risk of fraud, we consider it a key audit matter that revenues are recognised as a result of transactions effectively performed within the audited period.	We gained an understanding of the internal control procedures that the Group has in place in the revenue recognition and rental treatment processes, including, among others, the procedures for approving lease contracts and changes in the terms thereof. Additionally, an understanding was obtained of the controls over the invoicing process. For a sample of lease contracts we verified that revenues are prperly recognised in accordance with the contract terms and that any lease incentives are recognised on a straight-line basis in accordance with SIC 15 "Operating leases-Incentives", and we corroborated the arithmetic accuracy of the calculation and the impact recognised on revenues from services provided. For a sample, we carried out procedures requesting customer confirmation of the amount invoiced during the year and carried out substantive tests on collections received as an alternative means. We carried out procedures on the financial capacity of customers with outstanding balances and assessed their recoverability. With the collaboration of our IT systems specialists, we carried out a test of computer assisted audit techniques (CAAT) aimed at detecting unusual items. For each category of unusual items, we got an understanding and assessed the reasonableness of the entry by carrying out substantive tests. As a result of the aforementioned tests, we identified no incidents.

Key audit matters	How KAM were addressed in the audit
Significant transactions During the year, several significant transactions were completed which required additional analysis due to their size and the potential complexity of the underlying contractual terms. The key transactions with Group companies have been as follows: - Acquisition of the subsidiary Cedro (Chameleón) S.L.U. for €43.5 million. This was classified, for accounting purposes, as an acquisition of assets. (Note 6) - Acquisitions of properties amounting to €139 million and advance payments amounting to €14 million. (Note 6) - Sale of investment properties amounting to €30 million. (Note 6) - Capital increase in February 2017 amounting to €93 million through the issuance of 7,187,498 new shares with a par value of €10 each and at a premium of €3. (Note 10)	For each transaction we gained an understanding of its nature and accounting treatment in light of the Group's accounting policies and applicable International Financial Reporting Standards adopted by the European Union. For all acquisitions and sales, we verified the key supporting documentation, such as contracts and purchase-sale deeds, asset valuations at the time of purchase, due diligence reports and other relevant documents. Additionally, we carried out audit procedures over cash movements and bank statements supporting the transaction and deferred payments to the sellers and the costs associated with the transaction in order to obtain sufficient audit evidence of the amounts of the acquisition. Specifically for the acquisition of the company Cedro, management's analysis was assessed as regards this acquisition being an asset purchase as it does not meet the definition of a business acquisition contained in IFRS 3. With respect to the capital increase, we obtained the Company's capital increase deeds and the independent expert report and analysed them at meetings with Management. Additionally, we carried out audit tests on a sample of invoices and documentation associated with that increase and verified its correct recognition. As a result of the procedures performed, we identified no incidents.

Other information: Consolidated management report

Other information refers exclusively to the consolidated Directors' Report for 2017, the preparation of which is the responsibility of the parent company's directors, and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Directors' Report. Our responsibility for the information contained in the consolidated directors' report is defined in auditing regulations which establishes two distinct levels in this regard:

a) A specific level which is applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of the Audit Law, that consists of verifying solely that that information has been provided in the consolidated directors' report and if not, reporting this fact.

b) A general level applicable to other information included in the consolidated directors' report that consists of assessing and reporting on the consistency of that information and the consolidated annual accounts, based on the understanding of the Group obtained in the performance of the audit of those accounts and without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated directors' report are in conformity with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report this fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´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 Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such 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 the consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, 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 Group´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.
- Conclude on the appropriateness of the Parent company´s directors´ use 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 Group´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 consolidated annual accounts 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´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 Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts 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.

Report on other legal and regulatory requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 14 February 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on 20 June 2017 appointed us as auditors of the Group for a period of three years: 2017, 2018 y 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended 31 December 2014

Services rendered

The services, other than the audit of the accounts, rendered by the audit company to the audited Group, Axiare Patrimonio Socimi, S.A. and subsidiary companies have been disclosed in the note 22 to the consolidated annual accounts and consist on the half-year limited review of the condensed interim consolidated financial statements of the period ended at June 30, 2017 and agreed-upon procedures reports.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Rafael Pérez Guerra (20738)

16 February 2018

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

Consolidated Annual Accounts at 31 December 2017
and Consolidated Management Report for the year 2017

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
(Thousand euros)

	Notes	At 31 December 2017	At 31 December 2016
Assets			
Non-current assets			
Intangible assets	5	1,783	235
Property, plant and equipment		663	475
Investment property	6	1,722,655	1,310,867
Loans to third parties	7	9,728	4,626
Financial derivatives	7, 13	232	47
Long-term financial investments	7	11,956	7,782
Deferred tax assets	15	7,528	7,457
Long-term accruals		470	-
		1,755,015	**1,331,489**
Current assets			
Trade receivables for sales and services	7	5,274	2,464
Sundry receivables	7	3,132	5,383
Other credits held with Public Authorities	7, 15	7,282	10,038
Other assets		2,929	1,038
Cash and cash equivalents	9	167,979	145,421
		186,596	**164,344**
Total assets		**1,941,611**	**1,495,833**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
(Thousand euros)

	Notes	At 31 December 2017	At 31 December 2016
Equity and liabilities			
Equity			
Equity attributable to the owners of the parent company			
Share capital	10	790,625	718,750
Share premium	10	57,431	35,869
Reserves	11	(35,296)	(31,141)
Treasury shares	10,11	(6,919)	(18,678)
Retained earnings	11	454,174	248,385
Interim dividend	11	(10,946)	-
Hedging transactions	11	(6,825)	(9,436)
		1,242,244	**943,749**
Liabilities			
Non-current liabilities			
Financial debt	7, 12	629,299	516,852
Financial derivatives	7, 13	7,056	9,483
Long-term financial creditors	7	59	-
Other non-current financial liabilities	7, 12	11,388	9,188
		647,802	**535,523**
Current liabilities			
Financial debt	7, 12	37,711	2,888
Trade and other payables	12	12,708	12,970
Other liabilities		1,146	703
Total liabilities		**51,565**	**16,561**
Total equity and liabilities		**1,941,611**	**1,495,833**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENT
(Thousand euros)

	Note	Annual period ended 31 December 2017	Annual period ended 31 December 2016
Continued operations			
Provision of services	**14 a)**	69,670	51,011
Changes in fair value of investment properties	**6**	208,355	129,354
Personnel expenses	**14 b)**	(23,683)	(16,276)
Other operating expenses	**14 c)**	(22,940)	(14,886)
Amortisation/depreciation		(141)	(57)
Income from disposals	**6**	1,068	-
Other results		17	1
OPERATING RESULTS		**232,346**	**149,147**
Financial income		262	423
Financial expenses		(12,997)	(7,777)
FINANCIAL RESULT	**16**	**(12,735)**	**(7,354)**
PRE-TAX RESULT		**219,611**	**141,793**
Income tax	**15**	**(1,373)**	**6,833**
RESULTS FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY'S OWNERS		**218,238**	**148,626**
EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT COMPANY'S OWNERS			
Basic and diluted profit per share	**10**	**2.86**	**2.09**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Thousand euros)

		Thousand euros	
	Note	**2017**	**2016**
Profit (loss) for the year		**218,238**	**148,626**
Other comprehensive income			
Items that may subsequently be reclassified to profit (loss)			
Other profit (loss)		193	574
Entries that will not be reclassified to profit (loss)			
Cash flow hedges	**13**	2,611	(8,862)
Entries that will not be reclassified as profit (loss)			
Share capital increase costs / IPO	**11**	(3,095)	-
Other comprehensive income for the financial year, after tax		**(291)**	**(8,288)**
Total comprehensive income for the year		**217,947**	**140,338**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Thousand euros)

	Capital Note 10	Share premium Note 10	Reserves Note 11	Treasury shares Note 10	Accumulated earnings Note 11	(Interim Dividend) Note 11	Other equity instruments	Hedging transactions Note 13	TOTAL
BALANCE AT 31 DECEMBER 2015	**718,750**	**35,869**	**(31,384)**	**(4,631)**	**102,742**	**-**	**6,470**	**(574)**	**827,242**
Profit (loss) for the year	-	-	-	-	148,626	-	-	-	148,626
Other comprehensive income for the year	-	-	574	-	-	-	-	(8,862)	(8,288)
Total comprehensive income for the year	**-**	**-**	**574**	**-**	**148,626**	**-**	**-**	**(8,862)**	**140,338**
Distribution of dividends (Note 9)	-	-	-	-	(2,983)	-	-	-	(2,983)
Share incentive plan (Note 11)	-	-	(331)	3	-	-	(6,470)	-	(6,798)
Treasury stock transactions (Note 8)	-	-	-	(14,050)	-	-	-	-	(14,050)
Other results from treasury stock transactions	-	-	-	-	-	-	-	-	-
Total transactions with owners, recognised directly in equity	**-**	**-**	**(331)**	**(14,047)**	**(2,983)**	**-**	**(6,470)**	**-**	**(23,831)**
BALANCE AT 31 DECEMBER 2016	**718,750**	**35,869**	**(31,141)**	**(18,678)**	**248,385**	**-**	**-**	**(9,436)**	**943,749**
Profit (loss) for the year	-	-	-	-	218,238	-	-	-	218,238
Other comprehensive income for the year	-	-	(2,866)	-	(36)	-	-	2,611	(291)
Total comprehensive income for the year	**-**	**-**	**(2,866)**	**-**	**218,202**	**-**	**-**	**2,611**	**217,947**
Share capital increase (Note 10)	71,875	21,562	-	-	-	-	-	-	93,437
Distribution of dividends (Note 11)	-	-	-	-	(12,413)	(10,946)	-	-	(23,359)
Share incentive plan (Note 19)	-	-	(1,289)	12,489	-	-	-	-	11,200
Treasury stock transactions (Note 10)	-	-	-	(730)	-	-	-	-	(730)
Total transactions with owners, recognised directly in equity	**71,875**	**21,562**	**(1,289)**	**11,759**	**(12,413)**	**(10,946)**	**-**	**-**	**80,548**
BALANCE AT 31 DECEMBER 2017	**790,625**	**57,431**	**(35,296)**	**(6,919)**	**454,174**	**(10,946)**	**-**	**(6,825)**	**1,242,244**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED CASH FLOW STATEMENT
(Thousand euros)

	Note	Annual period ended 31 December 2017	2016
A) CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax result for the year		**219,611**	**141,793**
Adjustments to profit/loss		**(178,947)**	**(110,272)**
Amortisation of fixed assets		141	57
Changes in fair value of investment properties	6	(209,423)	(129,354)
Change in provisions	8	56	460
Financial income	16	(262)	(423)
Financial expenses	16	12,997	7,777
Other income and expenses	14	17,544	11,211
Changes in working capital		**(8,567)**	**(8,013)**
Debtors and other receivables		4,606	15
Other current liabilities		(1,738)	(853)
Creditors and other payables		(9,420)	(3,571)
Other current liabilities		429	588
Other non-current assets and liabilities		(2,444)	(4,192)
Other cash flows from operations		**(848)**	**-**
Income tax payments		(848)	-
Cash flow from operating activities		**31,249**	**23,508**
B) CASH FLOW FROM INVESTMENT ACTIVITIES			
Payments on investments		**(216,746)**	**(343,951)**
Intangible assets		(1,609)	(235)
Property, plant and equipment		(196)	(21)
Investment property	6	(209,639)	(343,695)
Other financial assets		(5,302)	-
Receivables from divestments		**30,000**	**-**
Investment property		30,000	-
Cash flow from investment activities		**(186,746)**	**(343,951)**
C) CASH FLOW FROM FINANCING ACTIVITIES			
Receivables and payments on equity instruments		**87,660**	**(13,769)**
Issue of equity instruments	10	90,342	-
Acquisition of equity instruments	10	(2,958)	(14,050)
Disposal of equity instruments		229	281
Other receivables		47	-
Receivables and payments on financial liabilities	12	**113,754**	**232,777**
Receivables on financial borrowings		138,649	239,927
Repayment of financial borrowings		(13,977)	(591)
Interest received		262	379
Interest paid		(11,689)	(6,938)
Other borrowings		509	-
Dividends paid and payment with other equity instruments:		**(23,359)**	**(21,953)**
Dividends	11	(23,359)	(2,983)
Payment with other equity instruments		-	(18,970)
Cash flow from financing activities		**178,055**	**197,055**
NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS	9	**22,558**	**(123,388)**

Notes 1 to 23 to the annual accounts form an integral part of the consolidated annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

1. BUSINESS ACTIVITIES AND GENERAL INFORMATION

Axiare Patrimonio Socimi, S.A. (hereinafter, the "Company" was incorporated in Spain on 19 March 2014 under the Spanish Capital Companies Act. Originally called Axia Real Estate Socimi, S.A., its name was changed to the current one on 7 May 2015. Its registered office is at Calle José Ortega y Gasset 29, 28006 Madrid.

Its corporate purpose is described in Article 2 of its articles of association and consists of:

- The acquisition and development of urban properties intended for lease.
- The ownership of interests in the share capital of other Spanish Real Estate Investment Trusts (*Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario*, "SOCIMI") or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution.
- The ownership of interests in the share capital of other companies that are both resident and non-resident in Spain, whose corporate purpose is the acquisition of urban properties for lease, and which are governed by the same rules that govern SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, and which meet the investment requirements set out in Article 3 of the Spanish SOCIMI Act.
- The ownership of shares or holdings in Collective Investment Institutions governed by Spanish Collective Investment Institutions Act 35 of 4 November 2003.

The Company may also engage in other ancillary activities, this being understood to mean activities that generate income accounting for less than 20% of the Company's total income over a single tax period.

Any activity that must by law meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially engaged in indirectly by the Company through the ownership of interests in another company or companies with a similar corporate purpose.

a) Regulatory regime

The Company is regulated under the Spanish Capital Companies Act.

In addition, on 12 June 2014 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs), and is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company, namely:

i) They must have invested at least 80% of the value of their assets in urban properties intended for lease, or in land for the development of properties that are to be used for the same purpose, provided that development begins within three years following its acquisition, or in equity investments in other companies, as set out in Article 2 section 1 of the aforementioned Act.

ii) At least 80% of the income from the tax period corresponding to each year, excluding the income deriving from the transfer of ownership interests and real estate properties used by the Company to comply with its main corporate purpose, once the retention period referred to in the following paragraph has elapsed, must come from the lease of properties and from dividends or shares in profits associated with the aforementioned investments.

iii) The real estate properties that make up the Company's assets must remain leased for at least three years. Calculation of this term will include the time that the properties have been offered for lease, up to a maximum of one year.

The First Transitional Provision of the SOCIMI Act allows for application of the SOCIMI tax rules under the terms set out in Article 8 of the SOCIMI Act, even when the requirements it contains are not met on the date of incorporation, on the condition that these requirements are met during the two years following the date on which it is decided to opt for application of the said tax rules.

The Company has been listed on the Spanish Stock Market since 9 July 2014.

b) Initial Public Offering

On 13 November 2017, the company Inmobiliaria Colonial, SOCIMI S.A., (hereinafter, "Colonial") submitted Prior Notice of an Offer to the National Securities Markets Commission (CNMV), as required under Article 16 of the Royal Decree on Takeover Bids, and on 24 November 2017, Colonial submitted an application to the CNMV for authorisation of its Offer, pursuant to the terms set out in Article 17 of the Royal Decree on Takeover Bids. This application was accepted on 7 December 2017.

On 28 December 2017, the National Securities Markets Commission authorised the Takeover Bid for shares in Inmobiliaria Colonial, SOCIMI S.A. on all the shares held by Axiare Patrimonio Socimi, S.A., at a price of €18.36 per share.

The Offering will be governed by the contents of the consolidated text of the Spanish Stock Market Act approved by Royal Legislative Decree 4 of 23 October 2015, as well as by Royal Decree 1066 of 27 July 2007, on the rules governing initial public share offerings, and by any other applicable legislation.

c) Subsidiary companies

As at 31 December 2017, Axiare Patrimonio Socimi, S.A. is the parent company of a Group of companies which is comprised of the following subsidiaries:

(Thousand euros)

Name	Address	Activity	Shareholding %
Axiare Investments, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100
Axiare Properties, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100
Axiare Investigación, Desarrollo e Innovación, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Industrial property and real estate activity	100
Venusaur, S.L.U.	Calle Rosselló 258, principal, 1ª planta, 08037 Barcelona	Real estate activity	100
Chameleon (Cedro), S.L.U	Calle Rosselló 258, principal, 1ª planta, 08037 Barcelona	Real estate activity	100

On 6 February 2015, the Company acquired 100% of the shares in Acotango Spain, S.L., the name of which was subsequently changed, on 24 October 2016, to Axiare Investments, S.L.U. No goodwill was generated in this acquisition, as it was acquired for the value of its shareholder equity.

The companies Axiare Properties, S.L.U. and Axiare Investigación, Desarrollo e Innovación, S.L.U. were respectively incorporated on 14 November 2016 and 12 December 2016. Both companies are in the initial stages of their business activity.

On 2 December 2016, the Company acquired 100% of the shares in Venusaur, S.L.U., a real estate investment Company, like the parent Company. This company owns an office building, located at Calle Almagro 9, Madrid.

This transaction is considered and defined as a property investment, as it does not conform to the business definition established in IFRS 3.

On 1 February 2017, the Company acquired 100% of the shares in Chamaleon (Cedro), S.L.U., a real estate investment Company, like the parent Company. This company owns an office building, located at Calle Anabel Segura 1, Madrid. IFRS 3 has not been applied as this is a property that is not managed and that cannot generate value without being managed by the acquirer. The business definition set out in the guidelines for the application of IFRS 3, paragraph B7, is not therefore applicable.

2. BASES FOR THE PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The main accounting policies adopted in the preparation of these consolidated annual accounts are described below. These policies have been applied consistently to all the periods shown, unless otherwise stated.

AXIARE PATRIMONIO

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

2.1 Bases for presentation

For the periods shown in these consolidated annual accounts, the Group has prepared the accounts for the individual companies, in accordance with current Spanish Company Law and the Spanish Chart of Accounts approved by Royal Decree 1514/2007, as amended by Royal Decrees 1159/2010 and 602/2016, for the purposes of providing a true and fair picture of the equity, the financial situation and the results of each of the companies that form part of the Group.

These consolidated annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC) adopted by the European Union (jointly, IFRS-EU), pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council and its successive amendments.

The preparation of these consolidated annual accounts in accordance with IFRS-EU requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group's accounting policies. Note 2.3 explains the areas that require a higher level of judgement or complexity and the areas in which assumptions and estimates have a significant effect on the consolidated annual accounts.

Unless otherwise stated, the figures contained in these consolidated annual accounts are expressed in thousands of euros.

These consolidated annual accounts have been prepared by the parent company's Board of Directors on 14 February 2018.

2.2 New IFRS-EU standards, amendments and IFRIC interpretations issued

The following compulsory regulations and interpretations adopted by the European Union came into force during the 2017 financial year and, where applicable, they were used by the Group when preparing the attached information up to 31 December 2017:

2.2.1 New compulsory rules, amendments and interpretations that have become applicable during the financial year

Not approved for use within the European Union.		**Must be applied to financial years beginning from:**
Amendments to IAS 7 (published in January 2016)	Aims to help people who are using financial statements to assess any changes to liabilities that may have resulted from financing activities.	1 January 2017
Amendments to IAS 12 (published in January 2016)	Clarifies the recognition of deferred tax assets for unrealised losses.	1 January 2017

[1]The foregoing rules have not had a significant impact on the consolidated annual accounts at 31 December 2017.

(Thousand euros)

2.2.2 New compulsory rules, amendments and interpretations that become applicable in calendar years following the year beginning 1 January 2017

On the date on which these consolidated annual accounts were prepared, the following rules and interpretations had been published by the IASB but they had not yet come into force, either because they were due to come into effect after the date of the consolidated interim financial statements or because they had not yet been adopted by the European Union:

Approved for use within the European Union		**Must be applied to financial years beginning from:**
IFRS 15 Revenue from Contracts with Customers (published in May 2014)	New rule for entering income (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	Years beginning from 1 January 2018 onwards
IFRS 9 Financial Instruments (final phase published in July 2014).	Replaces the requirements for classification, valuation, recognition and removal in respect of financial asset and liability entries, accounting for hedging instruments and impairment under IAS 39.	1 January 2018

As of the present date, the Group has made a preliminary assessment of the impacts of the accounting rules that are to come into force from 2018, particularly IFRS 15 and IFRS 9. The Group shall apply these rules prospectively. As regards the impact that the future application of these rules could have on the consolidated accounts once they come into force, it has been concluded that this impact will not be significant.

2.2.3. Standards, amendments and interpretations of existing rules that cannot be adopted early or have not been adopted by the European Union.

On the date on which these consolidated annual accounts were prepared, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations that are outlined below, and which are pending adoption by the European Union.

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sales or contributions of assets between an investor and its associates/joint ventures”.
- IFRS 2 (Amendment) “Classification and Measurement of Share-based Payment Transactions”.
- IFRS 4 (Amendment) Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”

Annual Improvements to IFRSs. 2014 – 2016 Cycle: The amendments affect IFRS 1, IFRS 12 and IAS 28, and they apply to annual periods beginning from 1 January 2018 onwards in the case of amendments to IFRS 1 and IFRS 28 and 1 January 2017 for those corresponding to IFRS 12, all of which are subject to adoption by the EU. The main amendments relate to the following:

- IFRS 1, “First-time Adoption of International Financial Reporting Standards”: Deletion of short-term exemptions for first-time adopters.
- IFRS 12, “Disclosure of Interests in Other Entities”: Clarification of the scope of the Standard.
- IAS 28, “Investments in Associates and Joint Ventures”: Valuation of an investment in an associate or joint venture at fair value
- IAS 40 (Amendment) “Transfers of Investment Property”
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
- IFRS 17 “Insurance Contracts”
- IFRIC 23, “Uncertainty over Income Tax Treatments”

In addition, the Group has assessed the impact that the application of IFRS 16 would have on its annual accounts, though this is not significant as it does not incur substantial costs on its operational leases.

2.3 Use of estimates

Estimates and judgements are continually reassessed and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances. The Group makes estimates and judgements concerning the future. The resulting accounting estimates, by definition, will rarely match actual results. The adjustments that arise after estimates are regularised will be prospective. The estimates and judgements that entail a significant risk of giving rise to a substantial adjustment to the book values of assets and liabilities during the next financial year are discussed below.

- Fair value of investment properties

The Group obtains independent valuations of its investment properties every six months. In their end-of-year reports for each financial year, the Directors make a valuation of each property at its fair value, taking account of the most recent independent valuations. The Directors determine the value of a property within a range of reasonably acceptable estimated values.

The best evidence of the fair value of investment properties in an active market is the price of similar assets. When making such judgements, the Group uses a series of sources, including:

i. The current prices in an active marketplace of different kinds of properties in varying states of repair and different locations, adjusted to reflect differences with the Company’s own assets.
ii. The recent prices paid for properties in other, less active marketplaces, adjusted to reflect changes in economic conditions since the transaction date.
iii. The discounting of cash flows based on estimates resulting from the terms and conditions contained in current lease contracts and, where possible, evidence of the market prices of similar properties in the same location, through the use of discount rates that reflect the uncertainty of the time factor.

- Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, off-exchange derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and develop hypotheses that are based on current market conditions at each balance sheet date. The Group has used discounted cash flow analyses for various interest rate contracts that are not traded on active markets.

- Income Tax

The parent company applies the system provided for in Act 11 of 26 October 2009, which governs Spanish Real Estate Investment Trusts (SOCIMIs), which in practice means that, provided that it meets certain requirements, the Parent Company is subject to a Corporate Income Tax rate of 0% (Note 1).

The Directors monitor compliance with the requirements set out in the relevant legislation in order to secure the tax advantages offered.

In this regard, the Directors consider that the necessary requirements will be met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

Notwithstanding the fact that the criteria for making estimates are based on reasonable assessments and objective methods of analysis, it is possible that events may arise in the future that make it necessary to modify such estimates (upwards or downwards) during future periods; the method applied, when necessary and pursuant to IAS 8, is to enter the amended estimate prospectively in the income statement.

2.4 Consolidation

(a) Subsidiaries

Subsidiaries are all the companies (including structured institutions) over which the Group has control. The Group controls a company or institutions when it obtains, or has the right to obtain, variable returns as the result of its involvement in the subsidiary and also has the ability to use its power over the company in question in order to influence these returns. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated on the date on which such control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts presented by subsidiaries have been adjusted to bring them into line with the Group's accounting policies.

(b) Changes to shareholdings held in subsidiaries without any change of control

Transactions involving non-controlling shareholdings that do not result in a loss of control are entered as equity transactions, i.e. as transactions with the owners in their capacity as such. The difference between the fair value of the consideration paid and the corresponding proportion of the book value of the subsidiary's net assets is entered under equity. Any gains or losses resulting from the disposal of non-controlling shareholdings are entered under equity.

(c) Disposal of subsidiary companies

When the Group ceases to have control, any shareholding retained in the company is remeasured at its fair value on the date on which control is lost, and the change is entered in the book value in the income statement. Fair value is the initial book value for the purposes of the subsequent entry of the shareholding maintained as an associate, joint venture or financial asset. In addition, any amount previously entered in respect of the company in question under other comprehensive income is accounted for as if the Group had directly sold the related assets and liabilities. This could mean that the amounts previously entered under other comprehensive income are moved to the income statement.

2.5 Financial information by segment

Information on business segments is reported on the basis of the internal information supplied to the body with ultimate authority to make decisions. The investments committee has been identified as the body with ultimate authority to make decisions, since it is responsible for allocating resources and assessing the performance of operating segments, as well as being in charge of strategic decision-making, with final approval from the Board of Directors.

2.6 Investment properties

Property that is held in order to obtain long-term rent or capital gains or both and is not occupied by Group companies is classified as investment property. Investment properties include office buildings, logistics warehouses and other items owned by the Group. Investment property also includes property that is under construction or being developed for future use as investment property.

Investment properties are initially valued at cost, including related transaction costs and financing costs, if applicable. Following their initial entry, investment properties are accounted for at fair value.

The fair value of investment property reflects, inter alia, income from leasing and other assumptions that market players would take into account when valuing the property under current market conditions. Calculation of the fair value of such items is described in Note 6.

Subsequent expenses are capitalised at the asset’s book value only when it is likely that future profits associated with these expenses will flow to the Group and the item's cost may be reliably measured. Any remaining costs are entered in the income statement when they are incurred. When part of an investment property is replaced, the book value of the replaced part is written down.

Any changes to fair value are entered in the income statement. When the Group disposes of a property at fair value in an arm’s-length transaction, the book value immediately prior to the sale is adjusted to the transaction price and the adjustment is entered in the income statement as part of the net gain from the adjustment to the fair value of investment properties.

If an investment property becomes an owner-occupied property, it is reclassified as property, plant and equipment. Its fair value on the date on which it is reclassified becomes its cost for subsequent accounting purposes.

If an owner-occupied property becomes an investment property, due to a change of use, the resulting difference between the book value and fair value of that asset on the transfer date is treated in the same way as a restatement under IAS 16. Any resulting increase in the book value of the property is entered in the income statement, insofar as it reverses a previous loss due to impairment. Any remaining increase is entered under other comprehensive income, directly increasing equity in the revaluation reserve. Any resulting fall in the book value of the property is initially entered under other comprehensive income against any previously entered restatement reserve, and any remaining fall in value is entered in the income statement.

When an investment property is subject to a change of use, as demonstrated by the beginning of development work with a view to its sale, the property is transferred to stocks. The cost allocated to property for subsequent entry under stocks is its reasonable value on the date on which the change of use occurs.

2.7 Intangible Assets

IT applications

The IT programme licences acquired by third parties are capitalised applying the costs incurred when purchasing and preparing them to use the specific programmes. These costs will be amortised over their estimated useful lives.

Costs related to IT programme maintenance are accounted for as costs once they have been incurred. Costs that are directly related to the production of unique and identifiable IT programmes controlled by the Group, and which are likely to generate profits for more than one year, are accounted for as intangible assets. Direct costs include personnel costs for developing IT programmes and a suitable percentage of general costs.

2.8 Property, plant and equipment

Property, plant and equipment items are entered at their acquisition price or production cost, minus accumulated depreciation and the accumulated value of any recognised losses. Subsequent expenses are capitalised at the asset’s book value only when it is likely that future profits associated with these expenses will flow to the Group and the item's cost may be reliably measured. Maintenance and repair expenses are charged to the income statement when they are incurred.

The depreciation of property, plant and equipment (except for land, which is not depreciated) is systematically calculated by the straight-line method according to its estimated useful life, taking account of the actual depreciation caused by its operation, use and benefit. Estimated useful life figures are as follows:

	Depreciation rate (%)
Other Facilities	10%
Furnishings	10%
Data processing equipment	25%
Transport items	25%
Other fixed assets	10%

The useful life of all property, plant and equipment is reviewed and, where applicable, adjusted on the date of each balance sheet.

When the book value of a fixed asset is higher than its estimated recoverable value, its book value is immediately reduced to its recoverable value.

2.9 Losses due to the value impairment of non-financial assets

Assets subject to depreciation are subjected to impairment reviews whenever some event or a change in circumstances indicates that the book value may not be recoverable. An impairment loss is entered in the amount by which the asset's book value exceeds its recoverable value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In order to assess impairment losses, assets are grouped at the lowest level for which there are generally independent identifiable cash flows (cash generating units). Previous impairment losses on non-financial assets are reviewed for their possible reversal on each financial reporting date. The value of non-financial assets subject to amortisation is not significant.

2.10 Stocks

Stocks arise when there is a change in the use of investment properties, as demonstrated by the beginning of development work with a view to its sale, and the properties are reclassified as stock at attributed cost, which is the fair value on the date on which they are reclassified. These are subsequently valued at either cost price or net realisable value, whichever is the lower. The realisable value is the estimated sale price in the normal course of business, minus the costs incurred in completing the development and sale costs. At the close of this year, the Group did not have any stock.

2.11 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included under current assets unless they mature more than 12 months after the balance sheet date, in which case they are entered under non-current assets. Loans and receivables are entered on the balance sheet under "Trade and other receivables".

These financial assets are initially valued at fair value, including directly attributable transaction costs, and are subsequently valued at amortised cost. Accrued interest is entered at the effective interest rate, this being understood to be the updated rate that brings the instrument's book value into line with all estimated cash flows through to maturity. Notwithstanding, trade receivables that are due within less than one year are valued at their par value, both when initially entered and on subsequent valuation, provided that the effect of not updating flows is not significant.

At least at the end of each financial year, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

Losses due to impairment are calculated as the difference between book value of the asset in question and the current value of estimated future cash flows, discounted at the effective interest rate at the time of initial entry. Value adjustments, as well as any applicable reversions, are accounted for in the income statement.

2.12 Financial derivatives and hedge accounting

Financial derivatives are measured at fair value both on initial entry and on subsequent measurement. The method used to enter any resulting gains or losses depends on whether the derivative is designated as a hedging instrument or not and, if so, the type of hedging applied.

Hedging instruments are valued and entered according to their characteristics, insofar as they do not provide, or cease to provide, effective coverage.

In the case of derivatives that do not qualify for hedge accounting, gains or losses in their fair value are immediately entered in the income statement.

The Group designates certain derivatives as hedges for a specific risk associated with a recognised asset or liability or with a highly probable forecast transaction (cash flow hedges).

Upon initiating the transaction, the Group documents the relationship between the hedging instruments and hedged items and its risk management objectives and strategy for arranging various hedging transactions. The Group also documents its evaluation, both at the outset and continuously thereafter, as to whether the derivatives being used in the hedging transactions are expected to be highly effective in order to offset changes in fair value or in cash flows from hedged items.

The total fair value of a hedging derivative is entered under non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and under current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months. Derivatives held for trading are entered under current assets or liabilities.

Cash flow hedges

The effective portion of changes in the fair value of a derivative designated as a cash flow hedge is entered under other comprehensive income. The profit or loss on the ineffective portion is entered immediately in the income statement under “other (losses)/gains - net”.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). Gains or losses on the effective part of interest rate swaps used to hedge loans at variable rates are entered in the income statement under “financial income/expenses”. However, when the forecast transaction that is being hedged results in the entry of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial valuation of the cost of the asset. The deferred amounts are definitively entered as the cost of the assets sold, in the case of stocks, or as depreciation in the case of property, plant and equipment.

When a hedging instrument matures or is sold or when the requirements for the application of hedge accounting cease to be met, any gains or losses accumulated in equity to that date will remain in equity and will be entered when the forecast transaction is finally entered in the income statement. When it is expected that the scheduled transaction is not going to take place after all, the profit or loss accumulated in the equity is immediately transferred to the income statement under the heading "other net (losses)/profits".

2.13 Financial liabilities

Debts and payables

This category includes trade and non-trade payables. These third-party resources are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

These payables are initially entered at their fair value, adjusted for directly attributable transaction costs, including any related financing fees, and subsequently entered at amortised cost using the effective interest rate method. The effective interest rate is the updated rate which brings the instrument's book value into line with expected future payment flows until maturity of the liability.

Nonetheless, trade receivables that are due within less than one year and do not have a contractually agreed interest rate are valued at their par value, both when initially entered and on subsequent valuation, provided that the effect of not updating cash flows is not significant.

Financial borrowings

Financial borrowings are initially entered at their fair value, minus any transaction costs incurred. Subsequently, financial borrowings are valued at amortised cost: any difference between the proceeds obtained (net of the costs required to obtain them) and the redemption value is entered in the income statement over the life of the borrowings using the effective interest rate method.

2.14 Offsetting financial instruments

Financial assets and financial liabilities are offset and are shown in the net amount on the balance sheet when there is a legally enforceable right to offset the amounts recognised and the Group intends to settle them for the net amount or realise the asset or cancel the liability simultaneously. The legally enforceable right should not be contingent on future events and should be enforceable in the normal course of business and in the event of a breach or the insolvency or bankruptcy of the company or counterparty.

2.15 Share capital

The share capital is made up of ordinary shares.

The costs of issuing new shares or options are entered directly in equity as a reduction in reserves.

In the event that the Company acquires treasury shares, the consideration paid including any incremental cost that is directly attributable, is deducted from equity until the shares are redeemed, issued again or otherwise disposed of. When treasury shares are subsequently sold or reissued, any amount received is moved to equity, net of any directly attributable incremental costs.

Basic earnings per share are calculated by dividing the profit attributable to the company's owners, excluding the cost of servicing equity other than ordinary shares, among the weighted average number of ordinary shares in circulation during the year, adjusted for incentives in ordinary shares issued during the year and excluding treasury shares.

For diluted earnings per share, the figures used in determining basic earnings per share are adjusted, taking account of the effect after income tax of interest and other financial costs associated with potential ordinary shares with dilutive effects and the weighted average number of additional ordinary shares that would have been in circulation, assuming the conversion of all potential ordinary shares with dilutive effects.

2.16 Current and deferred income tax

In accordance with the SOCIMI tax rules, the parent Company is subject to a Corporate Income Tax rate of 0%.

As established in Article 9.2 of Act 11 of 26 October 2009, with the amendments incorporated via Act 16 of 27 December 2012, the Company shall be subject to a special rate of 19% on the overall sum of the dividends or profit distributions received by shareholders whose stake in the share capital of the Company is equal to or greater than 5%, when those dividends, in the possession of its shareholders, are exempt from or have a tax rate of less than 10% (to this effect, the tax due will be taken into consideration under the Non-Resident Income Tax Act).

However, that special rate will not apply when the dividends or profit shares are received by entities whose purpose is the ownership of interests in the share capital of other SOCIMIs or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, with respect to companies that have a share that is equal to or greater than 5% of the share capital of the SOCIMIs and that pay tax on those dividends or profit shares at a rate of at least 10%.

For each Company in the Group that does not form part of the aforementioned tax rules, the income tax expense (income) is the sum that, for this concept, accrues in the financial year and comprises the expense (income) related to both current tax and deferred tax.

Both the current tax expense and deferred tax expense (income) is entered in the income statement. However, the tax effect related to entries that are directly registered in the equity have been entered in equity.
The assets and liabilities related to current tax will be valued at the amounts expected to be paid or recovered from the tax authorities, in line with the legislation in force or approved and pending publication at the end of the financial year.

Deferred taxes are calculated, in accordance with the liability method, on the time-period differences arising between the tax bases for assets and liabilities and their book values.

However, the deferred taxes will not be entered if they arise from the initial entry of an asset or liability in a transaction that is not a combination of businesses which, at the time of transaction, does not affect the accounting result or the tax base. The deferred tax is determined by applying the regulation and tax rates approved or about to be approved at the date of the balance sheet, and that are expected to be applied when the relevant deferred tax asset is realised or the deferred tax liability is paid.

As regards assets due to deferred taxes, these are only recognised to the extent that it is probable that the company will earn future taxable profits that will allow these time-period differences to be offset.

2.17 Leases

a) When the Group is the lessee - Operating lease

Leases in which the lessor maintains a significant part of the risks and benefits arising from ownership are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are charged to the income statement for the year in which they accrue on a straight-line basis over the lease period.

b) When the Group is the lessor

Properties let out under operating lease are included with investment property on the balance sheet. Income earned from the leasing of property is entered on a straight-line basis over the lease period.

2.18 Share-based payments

On 7 May 2015, the Annual General Shareholders Meeting approved a new remuneration plan based on the Company's own shares, granted to the Axiare Patrimonio team. That plan will be in effect for 7 years and the right to receive shares as an incentive will accrue when the conditions set out in the plan are met for each calculation period (a period of one year, between July and June of the following year).

These conditions principally require the total return for shareholders to be in excess of a specific percentage. This return is measured as the sum of the total dividends distributed plus revaluation of the Net Asset Value, excluding any share capital increase that may have occurred during the calculation period. This payment is therefore focused on the return generated for the shareholder through active management of the portfolio, and not on the size of the portfolio.

In order for this incentive to take effect, shareholders must obtain a return in excess of a threshold of 10%. When the return exceeds this threshold, the incentive corresponds to 20% of any amount by which the threshold is exceeded. This plan does not include any "catch-up" or "promote equalization" mechanism, meaning that this is the only percentage that will be applied when making this calculation.

This incentive accrues and is calculated annually (between July and June of the following year), and it is settled with an award of company shares. The team may not dispose of these shares for a period of one year following their handover, except in the case of liquidation or a takeover bid.

2.19 Provisions

Provisions are set aside: when the Group has a present legal or implied obligation as a result of past events; when it is likely that an outflow of resources will be required to settle the obligation; and when the amount has been reliably estimated. No provisions are set aside for future operating losses.

Provisions are valued at the current value of the payments that are expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to provisions as the result of their restatement are entered as a financial expense as they accrue.

Provisions that mature in one year or less and have non-significant financial effects are not discounted. When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party, this reimbursement is entered as an independent asset, provided that its receipt is practically certain.

The Company has signed employment contracts with its Managers (not including Chief Executive Officer) that provide for the possibility that, in certain cases (including a change in control over the Company's shares), they may terminate their contracts with the right to receive either the compensation set out in law or two years' salary at the total amount received, whichever of these amounts is higher. After the analysis of the work made by different independent consultants, these contracts were signed to be consistent with reasonable market practices, in May 2017. At the time at which these accounts are being prepared, it is not possible to make a reliable estimate of the potential employment liability that could arise as a result of the circumstances of the Takeover Bid and the change of control described in Note 24 regarding subsequent events.

2.20 Entering income

Income is stated at the fair value of the consideration to be received and it represents the amounts to be collected for the services rendered during the ordinary course of the Group's activities, minus returns, discounts, rebates and VAT.

<u>Provision of services</u>

The Group provides leasing services. The income received from the leasing of property is entered as it accrues, and profits are distributed on a straight-line basis with regard to incentives and initial lease agreement costs. When the Group offers incentives to its tenants, the cost of the incentive is entered during the lease period on a linear basis, as a reduction in rental income. The costs associated with each rental payment are entered as an expense.

<u>Interest income</u>

Interest income is entered using the effective interest method. When the value of a receivable is impaired, the Group reduces the book amount to its recoverable amount, which is calculated as the estimated future cash flow discounted at the original effective interest rate of the instrument, and the receivable is continuously updated as interest income.

2.21 Dividend distribution

The payment of dividends to the Company's shareholders is entered as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

The parent company falls into the special category of SOCIMI (Spanish Real Estate Investment Trust), and is thus governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.

b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.

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

The dividend must be paid within one month of the distribution agreement.
When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

2.21 Cash and cash equivalents

Cash and cash equivalents includes cash holdings, instantly accessible deposits with credit institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to various financial risks: market risk (interest rate risk), credit risk and liquidity risk. The Group's risk management programme focuses on uncertainty in financial markets and seeks to minimise any potential adverse impact on its financial profitability.

Risk management is overseen by the Group's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides policies for overall risk management and policies covering specific areas such as interest rate risk, liquidity risk, the use of derivatives and non-derivatives and investing excess liquidity.

3.1 Financial risk management

a) Market risk

The Group's interest rate risk originates from its financial borrowings. Borrowings issued at floating rates expose the Group to interest rate risk on cash flow. 31 December 2017 circa 86% (89% in 2016) of its financing was linked to a floating rate. The Group's borrowings at variable interest rates are denominated in euros.

The Group analyses its exposure to interest rate risk dynamically. Several scenarios are generated, taking account of financing and hedging alternatives. Based on these scenarios, the Group estimates the impact of a certain interest rate change on the result (scenarios are only used for liabilities that represent the most significant positions affected by interest rates). These analyses take the following into account:

- The economic environment in which it conducts its business: the design of different economic scenarios, modifying the key variables that may affect the group (interest rates, share price, percentage of ownership of property investments, etc.). The identification of interdependent variables and the degree to which they are connected.
- The timeframe within which the evaluation is being made: the timeframe for the analysis and any potential divergence will be taken into account.

Based on the simulations carried out, the maximum recalculated impact that a 1% interest-rate variation would have on profit after tax would be a €6.264 thousand increase or a €6,257 thousand reduction. Simulations are performed regularly to ensure that the potential maximum loss remains within the limits established by Management.

On the basis of these different scenarios, the Group manages the cash flow interest rate risk through variable to fixed interest rate swaps. These interest rate swaps have the economic effect of converting variable interest borrowings to fixed interest borrowings. In general, the Group obtains long-term borrowings at variable interest rates and swaps them for borrowings at fixed interest rates lower than those which would be available if the Group obtained borrowings directly at fixed interest rates. Under interest rate swaps, the Group undertakes with third parties to exchange on a regular basis the difference between fixed and variable interest, calculated on the basis of the notional principal amount contracted. Fixed interest rates vary between 2 % and 1.50 % and floating interest rates vary between 2 % and 1.07 %.

b) Credit risk

Credit risk is managed at Group level. The Group defines its policy for managing and analysing the credit risk of its new customers before offering them normal terms and conditions. Credit risk mainly arises from deposits made with the relevant organisations, financial derivatives and receivables for sales and services rendered, as well as sundry receivables.

(Thousand euros)

The Group's credit risk controls set out the credit quality that must be displayed by customers, taking account of their financial situation, past experience and other factors. Individual credit limits are established on the basis of internal and external ratings, in accordance with the limits established by the Board of Directors. The use of credit limits is regularly reviewed.

The Group believes that it does not have any significant concentrations of credit risk, this being understood to refer to the possible impact that a default on receivables could have on the income statement.
The Group's maximum exposure to credit risk by type of financial asset (excluding financial derivatives and deposits) is as follows:

	Thousand euros	
	31.12.2017	31.12.2016
Non-current assets net of impairment provisions		
Credits with third parties (Note 8)	9,728	4,626
Current assets net of impairment provisions		
Trade and other receivables (Note 7)	8,406	7,847
Short-term financial investments (Note 7)	192	39
Cash and cash equivalents (Note 8)	167,979	145,421
	186,305	**157,933**

The fair value of cash and cash equivalents is close to the book value shown in the above table.

c) Liquidity risk

Cash flow predictions are carried out by the Group's Finance Department. This Department monitors the Group's liquidity requirements in order to ensure that it has sufficient cash to meet its operational needs while maintaining sufficient available liquidity at all times to ensure that the Group does not breach its financial obligations. These forecasts take account of the Group's financing plans, ratio compliance, compliance with internal objectives and, where applicable, any regulatory or legal requirements.

The periods over which bank borrowing matures in nominal terms are shown in the following table:

	Thousand euros						
	2018	2019	2020	2021	2022	Subsequent years	Total
Debts:							
- Bank loans and credits	36,787	10,066	38,172	79,005	210,611	301,825	**676,466**

(Thousand euros)

The cash surplus maintained by the Group is deposited in current accounts that attract interest at a specific rate or in term deposits, with maturity dates or levels of liquidity that are sufficient to offer the appropriate flexibility in light of the forecasts mentioned above. On the date of this balance sheet, the Group has other cash assets totalling €167,979 thousand (€145,421 thousand in 2016) which are expected to generate cash inflows.

d) Tax risk

As mentioned in Note 1, the Parent Company has applied the special tax regime for Spanish Listed Real Estate Investment Trusts (SOCIMIs). Pursuant to the contents of Article 6 of Law 11 of 26 October 2009, as amended by SOCIMI Act 16 of 27 December 2012, companies that have applied this regime are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end and paid within one month of the date of the distribution agreement (Note 11).

If the General Shareholders Meeting of such companies does not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of the said Act, they will be in breach of the Act and will therefore be taxed under the general tax rules, rather than the rules that apply to SOCIMIs.

3.2 Capital management

The Group's main capital management objectives are to ensure long- and short-term financial stability, the positive performance of Axiare Patrimonio SOCIMI, S.A.'s shares, the appropriate financing of investments and a reduction in debt levels. Financial leveraging ratios, calculated as (Financial borrowings) / (Financial borrowings + Equity) at December 2017 and 31 December 2016 were as follows:

	31.12.17	31.12.2016
Financial borrowings (Note 12)	667,010	519,740
Equity		
attributable to the Parent company	1,242,244	943,749
Leveraging	35%	23%
(Financial borrowings / (Financial borrowings + Equity))		

The Management believes that the Group's level of indebtedness is low.

Leveraging ratios on investment properties, calculated as financial debt at amortised cost between the fair value of investment properties at 31 December 2017 and 31 December 2016 was 39% and 40% respectively, and the Group's aim is to keep these ratios at between 50% and 60%.

(Thousand euros)

3.3 Estimation of fair value of financial instruments and investment property

In accordance with the new IFRS rules, the level at which an asset or a liability is classified in its entirety (Level 1, Level 2 or Level 3) is determined on the basis of the relevant data used to enter it at its lowest value, within the fair value band. In the event that the input data used to measure the fair value of an asset or liability may be classified in two different levels, the fair value is classified in its entirety at the same level as the lowest value regarded as significant when calculating its value.

- Level 1: Quoted prices (non-adjusted) in active markets for identical assets and liabilities that are accessible to the company on the valuation date.
- Level 2: Inputs that differ from the quoted price included in Level 1, that are observable for the asset or liability, either directly or indirectly, using valuation techniques that use observable market data.
- Level 3: Input data that is not observable in the market for the asset or liability.

The following table shows the Group's financial assets and liabilities at fair value. See Note 5, which reports on the fair value of the investment properties.

31 December 2017

Assets	Level 1	Level 2	Level 3	Total
Long-term financial investments				
- Interest rate hedging derivatives	-	232	-	232
- Investment properties	-	1,722,655	-	1,722,655
Total assets	**-**	**1,722,887**	**-**	**1,722,887**
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debts				
- Interest rate hedging derivatives	-	7,056	-	7,056
Total liabilities	**-**	**7,056**	**-**	**7,056**

(Thousand euros)

31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Long-term financial investments				
- Interest rate hedging derivatives	-	47	-	47
- Investment properties	-	1,310,867	-	1,310,867
Total assets	**-**	**1,310,914**	**-**	**1,310,914**
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Long-term debts				
- Interest rate hedging derivatives	-	9,483	-	9,483
Total liabilities	**-**	**9,483**	**-**	**9,483**

The fair value of interest rate swaps is calculated as the current value of estimated future cash-flows, based on the estimated interest rate curve.

The fair value of investment properties is calculated in accordance with the criteria established by the Royal Institute of Chartered Surveyors (RICS). See Note 6.

3.4 Offsetting financial assets and liabilities

The Group's only financial assets and liabilities are, respectively, deposits made with official bodies and deposits to be returned to tenants. It is the Group's intention that if these amounts are repaid they will be settled on a gross basis, meaning they have not, therefore, been offset.

4. FINANCIAL INFORMATION BY SEGMENT

The Investments Committee acting together with the Board of Directors represent the Group’s highest decision-making authority. Management has defined operating segments, based on information which is reviewed by these bodies for the purposes of allocating resources and evaluating the Group’s performance. Management identifies three reporting segments: offices, logistics and other.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

31 December 2017

					Thousand euros
	Offices	Logistics	Others	Corporate	Total
Provision of services	48,237	11,917	9,516	-	69,670
Changes in fair value of investment properties	138,295	65,471	4,589	-	208,355
Operating Costs	(13,259)	(1,817)	(1,905)	(29,766)	(46,747)
Income from disposals	1,068	-	-	-	1,068
Operating income	**174,341**	**75.571**	**12,200**	**(29,766)**	**232,346**
Financial income	17	-	15	230	262
Financial expenses	(9,150)	(2,091)	(1,260)	(496)	(12,997)
Financial result	**(9,133)**	**(2,091)**	**(1,245)**	**(266)**	**(12,735)**
Pre-tax result	**165,208**	**73,480**	**10,955**	**(30,032)**	**219,611**
Income tax	(1,373)	-	-	-	(1,373)
Profit (loss) for the period	**163,835**	**73,480**	**10,955**	**(30,032)**	**218,238**

31 December 2016

					Thousand euros
	Offices	Logistics	Others	Corporate	Total
Rendering of services	32,510	9,754	8,747	-	51,011
Changes in fair value of investment properties	93,673	26,356	9,325	-	129,354
Operating Costs	(8,766)	(1,813)	(2,222)	(18,417)	(31,218)
Operating income	**117,417**	**34,297**	**15,850**	**(18,417)**	**149,147**
Financial income	263	-	-	160	423
Financial expenses	(4,433)	(2,629)	(707)	(8)	(7,777)
Financial result	**(4,170)**	**(2,629)**	**(707)**	**152**	**(7,354)**
Pre-tax result	**113,247**	**31,668**	**15,143**	**(18,265)**	**141,793**
Income tax	6,833	-	-	-	6,833
Profit (loss) for the year	**120,080**	**31,668**	**15,143**	**(18,265)**	**148,626**

The amounts provided to the Investments Committee and the Board of Directors in respect of total assets and liabilities are valued in accordance with the same criteria as those applied in the financial statements. These assets and liabilities are assigned on the basis of segment activities.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

31 December 2017

	Thousand euros				
	Offices	Logistics	Others	Corporate	Total
Non-current assets					
Investment property	1,294,550	283,755	144,350	-	1,722,655
Other non-current assets	16,884	1,759	1,520	12,197	32,360
	1,311,434	**285,514**	**145,870**	**12,197**	**1,755,015**
Current assets					
Commercial debtors and other receivables	6,492	1,171	607	7,418	15,688
Other current liabilities	51,984	4,237	17,609	97,078	170,908
	58,476	**5,408**	**18,216**	**104,496**	**186,596**
Non-current liabilities					
Financial debt	(490,863)	(78,713)	(59,723)	-	(629,299)
Other non-current liabilities	(13,167)	(2,922)	(2,005)	(2,263)	(20,357)
	(504,030)	**(81,635)**	**(61,728)**	**(2,263)**	**(649,656)**
Current liabilities	**(38,474)**	**(1,893)**	**(8,133)**	**(1,211)**	**(49,711)**

31 December 2016

	Thousand euros				
	Offices	Logistics	Others	Corporate	Total
Non-current assets					
Investment property	980,909	190,758	139,200	-	1,310,867
Other non-current assets	12,346	1,857	1,007	5,412	20,622
	993,255	**192,615**	**140,207**	**5,412**	**1,331,489**
Current assets					
Commercial debtors and other receivables	5,274	1,803	620	10,188	17,885
Other current liabilities	62,657	1,485	7,233	75,084	146,459
	67,931	**3,288**	**7,853**	**85,272**	**164,344**
Non-current liabilities					
Financial debt	(383,245)	(79,242)	(54,367)	-	(516,854)
Other non-current liabilities	(12,844)	(3,279)	(1,893)	(655)	(18,671)
	(396,089)	**(82,521)**	**(56,260)**	**(655)**	**(535,525)**
Current liabilities	**(10,157)**	**(905)**	**(3,204)**	**(2,295)**	**(16,561)**

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

5. INTANGIBLE ASSETS

The following table contains a breakdown of the entries shown for “Intangible assets” and the relevant movements:

		Thousand euros
	IT applications	Total
Balance at 31-12-2016	**235**	**235**
Cost	235	235
Accumulated amortisation	-	-
Book value	**235**	**235**
Items added	1,609	1,609
Allocation to depreciation	(61)	(61)
Balance at 31-12-2017	**1,783**	**1,783**
Cost	1,844	1,844
Accumulated amortisation	(61)	(61)
Book value	**1,783**	**1,783**

a) Losses due to impairment

During both 2017 and 2016, no entries were made or reversed in respect of value correction for impairment in relation to any intangible asset item.

b) Fully written down assets

No items had been fully written down at 31 December 2017 or 31 December 2016.

6. INVESTMENT PROPERTY

Investment properties include office buildings, logistics warehouses and other items owned by the Group that are held to obtain long-term rental income and are not occupied by the Group.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

The following table contains a breakdown of the entries shown for investment properties and the movements in these figures:

	Thousand euros
	Investment properties
Balance at 31-12-2015	**841,865**
Acquisitions	311,020
Subsequent capitalised disbursements	28,628
Profit (loss) net of adjustments at fair value	129,354
Balance at 31-12-2016	**1,310,867**
Acquisitions	207,054
Items removed	(28,589)
Subsequent capitalised disbursements	24,968
Profit (loss) net of adjustments at fair value	208,335
Balance at 31-12-2017	**1,722,655**

During 2017, the Group principally acquired five assets for a total of €177,400 thousand (not including acquisition costs): an office building located at Calle Miguel Ángel 23, in Madrid for €53,400 thousand (€3,500 thousand of which had already been paid in advance at 31 December 2016); an office building located at Calle Puerto de Somport 8, in Madrid, for €41,500 thousand (€4,150 thousand of which had already been paid in advance at 31 December 2016); an office building located at Sant Cugat del Vallés, in Barcelona, for €19,500 thousand; 77% of an office building located at Calle Sagasta 27, in Madrid, for €19,500 thousand, and an office building located at Calle Anabel Segura, 14 in Madrid for €43,500 thousandb.

Agreements have also been signed for the acquisition of two turn-key projects: an office building at Calle Josefa Valcárcel 40 in Madrid, at a cost of €29,700 thousand, delivery of which is expected in 2018, and Phase 2 of the logistical platforms in San Fernando de Henares (Madrid), at a cost of €38,000 thousand, delivery of which is expected in January 2019. A total of €12,000 thousand was paid out in respect of these two projects during 2017.

The Company also continued with the development of Phase 1 of the turn-key logistics platform project in San Fernando de Henares, (Madrid), which was started in 2016 at a total cost of €45,000 thousand, of which €29,000 thousand had been paid out as of 31 December 2017 (€17,000 thousand as of 31 December 2016).

On 14 December, the Company sold the office building located at Calle Fernando el Santo 15, in Madrid, at a price of €30,000 thousand. The book value of the asset was €28,589 thousand.

At 31 December 2017, mortgages had been taken out on certain properties with a total market value of €1,577,055 thousand (€1,154,100 thousand at 31 December 2016), to guarantee compliance with the obligations assumed in connection with the financing obtained by the Company. At 31 December 2017, the nominal value of this financing amounted to €676,466 thousand (€528,294 thousand at 31 December 2016) (Note 12).

(Thousand euros)

a) Income and expenses on investment properties

The following income and expenses on investment properties have been detailed in the income statement:

	Thousand euros	
	2017	2016
Rental income (Note 14)	69,670	51,011
Expenses for the operations resulting from investment properties that generate rental income (Note 14)	(16,766)	(12,406)
Expenses for the operations resulting from investment properties that do not generate rental income (Note 14)	(215)	(198)
	52,689	**38,407**

The operating costs that result from investment properties include External Services (Note 14) and other taxes (mainly, the Spanish Property Tax, "IBI").

b) Operating leases

The total amount of future minimum receivables from non-cancellable operating leases is as follows:

	Thousand euros	
	31.12.2017	31.12.2016
Less than one year	59,337	36,053
Between one and five years	109,737	78,189
More than five years	42,560	7,960
	211,634	**122,202**

c) Insurance

The Group maintains a policy of taking out all the insurance policies necessary to cover any possible risk that might affect any aspect of its investment properties. The coverage in these policies is deemed to be sufficient.

d) Obligations

At the close of the financial year, the Group did not have any contractual obligations to acquire, construct or develop real estate holdings or to repair or maintain or take out any additional insurance over the investments included in the report.

(Thousand euros)

e) Valuation process

The cost and fair value of the investment properties at 31 December 2017 and 31 December 2016 are detailed below:

	31.12.17		31.12.2016	
	Net cost value	Fair value	Net cost value	Fair value
Investment properties	1,319,338	1,722,655	1,103,957	1,310,867

Their valuation was made using “market value” hypotheses, in accordance with the Property Appraisal and Valuation method and the Guidance Notes published by the Royal Institution of Chartered Surveyors of Great Britain (RICS), Valuation Standards, 8th edition. The market value of the Group's properties has been determined on the basis of a valuation carried out by independent expert valuers (CBRE Valuation Advisory, S.A.).

In addition to this valuation from the principal valuer, which provides a certified valuation of the portfolio as a whole, the Management of the Group also commissioned leading valuers to give separate valuations of certain specific assets as an alternative monitoring method. These valuations, though not significantly different, are higher overall than the valuations made by the portfolio valuers, thus confirming the values entered in the financial statements.

“Market Value” is defined as the estimated amount at which a property should exchange on the valuation date, between a willing seller and a willing buyer and after a reasonable sales marketing period, during which both parties have acted knowledgeably, prudently and without compulsion.

The valuation methodology adopted by the independent valuers in order to determine fair value was primarily the discounted cash flow method at 10 years and the income capitalisation method (reflecting net rent, capitalised expenses, etc.), in addition to verifying the information against comparables. The residual amount at the end of year 10 is calculated by applying a rate of return (“Exit yield” or “cap rate”) to projections for net income during year 11. Cash flows are discounted at an internal rate of return in order to give the current net value. This internal rate of return is adjusted to reflect the risk associated with the investment and the assumptions adopted. Key variables are therefore income, exit yield and internal rate of return.

The income capitalisation method consists of capitalising estimated net income from each property, based on the length of the lease and reversion. This involves the capitalisation of current income over the entire period, together with the valuation of probable subsequent rentals following rent reviews or the arrangement of new rentals in each of the forecast periods, always taking current value as a basis. The yield applied to the different income categories reflects all forecasts and risks associated with cash flows and the investment. Therefore, the key variables involved in the capitalisation method are the determination of net income, the period over which it is discounted, the approximate value at which it is realised at the end of each period and the target internal rate of return used to discount cash flows.

(Thousand euros)

The estimated yields depend on the type and age of the properties and their location. The properties have been valued individually, via calculations based on the lease agreements in place at the end of the financial year and, if applicable, the forecast value based on current market rents for the different areas, as well as comparables and completed transactions.

The group has signed various turn-key agreements with their corresponding advance payments, in order to value these, the valuer assumes the market value based on the assumption of the completed property, minus the estimated costs to complete the property and a risk premium.

On the basis of the simulations performed, the recalculated impact that a variation of 0.25% in the yield would have on the fair value of the property, would be as follows:

31 December 2017

	Thousand euros	
	THEORETICAL RESULT YIELD VARIANCE	
	(0.25%)	**0.25%**
Offices	51,233	(45,943)
Logistics	12,939	(11,467)
Retail	4,425	(4,150)
Hotels	900	(700)
Land	2,400	(2,150)
	71,897	**(64,410)**

YIELDS	PRIME	DECENTRALISED
Offices	3.75% - 4.13%	4.5% - 5.20%
Logistics	6.33%	6.33% - 6.90%
Retail	-	6.00% - 8.50%
Hotels	-	7.00%

	DISCOUNT RATES
Offices	5.8% - 8.5%
Logistics	7.5% - 9.5%
Retail	7.5% - 11%
Others	8%

(Thousand euros)

31 December 2016

Thousand euros		
	THEORETICAL RESULT	
	YIELD VARIANCE	
	(0.25%)	**0.25%**
Offices	32,943	(30,070)
Logistics	6,410	(5,990)
Retail	4,695	(4,100)
Hotels	400	(400)
Land	2,800	(2,500)
	47,248	**(43,060)**

YIELDS	PRIME	DECENTRALISED
Offices	4% - 6%	6.5% - 8.5%
Logistics	5.75% - 7.75%	9%-9.5%
Retail	4.5% - 7.5%	7.5% - 11%
Hotels	6.75%	10%

	DISCOUNT RATES
Offices	6.25% - 8.5%
Logistics	6.9% - 7.3%
Others	7.8% - 11.8%

The effect of a 10% variation in the rental increases considered will have a significant impact on consolidated assets and on the consolidated income statement as regards investment properties:

	2017		2016	
	Asset	Net consolidated income	Asset	Net consolidated income
Increase of 10% in market rents	154.673	154.673	120.736	120.736
Decrease of 10% in market rents	(168.644)	(168.644)	(116.543)	(116.543)

The valuation of investment properties is classified under level 2, according to the definition in Note 3.3 above. The fair value of investment properties has been calculated by independent expert valuers using valuation techniques involving observable and available market data, based, to a lesser extent, on specific estimates by the organisations.

During the year ending on 31 December 2017, no transfers between levels occurred.

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The total fees, including the fee for this assignment, earned by CBRE Valuation Advisory S.L. (or other companies forming part of the same group of companies in Spain) from the Addressee (or other companies forming part of the same group of companies) are less than 5.0% of the total revenues of the company.

7. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

The book value of each of the categories of financial instruments established in the regulations on the recording and valuation of "financial instruments" is as follows:

	Thousand euros			
	Long-term financial assets			
	Debt values		**Credits Derivatives Others**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Loans and receivables (Note 8)	-	-	21,916	12,455
	-	**-**	**21,916**	**12,455**
	Short-term financial assets			
	Debt values		**Credits Derivatives Others**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Loans and receivables (Note 8)	-	-	8,598	7,886
	-	**-**	**8,598**	**7,886**
Total financial assets	**-**	**-**	**30,514**	**20,341**

Under "Long-term financial investments" the Group enters the guarantee amounts deposited with the different public bodies in connection with leases.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

	Thousand euros					
	Long-term financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debts and payables (Note 12)	629,299	516,852	-	-	18,503	18,671
	629,299	**516,852**	-	-	**18,503**	**18,671**
	Short-term financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debts and payables (Note 12)	37,711	2,888	-	-	10,772	11,907
	37,711	**2,888**	-	-	**10,772**	**11,907**
Total financial liabilities	**667,010**	**519,740**	-	-	**29,275**	**30,578**

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

b) Analysis by maturity date

At 31 December 2017 and 31 December 2016, the value of financial instruments with a specific maturity date or with a maturity date falling within a specific year was as follows:

At 31 December 2017

	Thousand euros						
	Financial assets						
	2018	**2019**	**2020**	**2021**	**2022**	**Subsequent years**	**Total**
Other financial investments:							
- Derivatives	-	-	232	-	-	-	**232**
- Long-term guarantees put in place	-	2,633	2,268	2,238	1,112	3,705	**11,956**
Trade receivables:							
- Trade receivables	8.276	-	-	-	-	-	**8,276**
- Loans to third parties	-	-	-	-	-	9,728	**9,728**
- Other financial assets	322	-	-	-	-	-	**322**
	8,598	**2,633**	**2,500**	**2,238**	**1,112**	**13,433**	**30,514**

	Financial liabilities						
	2018	**2019**	**2020**	**2021**	**2022**	**Subsequent years**	**Total**
Debts:							
- Derivatives	-	-	-	95	2,584	4,377	**7,056**
- Long-term guarantees received	-	2,508	2,160	2,132	1,059	3,529	**11,388**
- Bank loans and credits	37,711	10,578	38,708	79,664	208,741	291,667	**667,069**
Trade payables:							
- Creditors and other payables	10,772	-	-	-	-	-	**10,772**
	48,483	**13,086**	**40,868**	**81,891**	**212,384**	**299,573**	**696,285**

(Thousand euros)

At 31 December 2016

	Thousand euros						
	Financial assets						
	2017	2018	2019	2020	2021	Subsequent years	Total
Other financial investments:							
- Derivatives	-	-	-	-	-	47	**47**
- Long-term guarantees put in place	-	3,118	1,336	1,225	1,090	1,013	**7,782**
Trade receivables:							
- Trade receivables	7,717	-	-	-	-	-	**7,717**
- Loans to third parties	-	-	-	-	-	4,626	**4,626**
- Other financial assets	169	-	-	-	-	-	**169**
	7,886	**3,118**	**1,336**	**1,225**	**1,090**	**5,686**	**20,341**

	Financial liabilities						
	2017	2018	2019	2020	2021	Subsequent years	Total
Debts:							
- Derivatives	-	-	-	-	509	8,974	**9,483**
- Long-term guarantees received	-	3,600	1,610	1,476	1,314	1,188	**9,188**
- Bank loans and credits	2,888	13,243	10,304	37,580	78,572	377,153	**519,740**
Trade payables:							
- Creditors and other payables	11,907	-	-	-	-	-	**11,907**
	14,795	**16,843**	**11,914**	**39,056**	**80,395**	**387,315**	**550,318**

8. LOANS AND RECEIVABLES

	Thousand euros	
	31.12.2017	31.12.2016
Long-term loans and receivables (Note 7):		
- Loans to third parties	9,728	4,626
- Derivatives (Note 13)	232	47
- Other financial assets	11,956	7,782
	21,916	**12,455**
Short-term loans and receivables (Note 7):		
- Trade receivables for sales and services	5,274	2,464
- Sundry receivables	3,002	5,253
- Personnel	130	130
- Other financial assets	192	39
	8,598	**7,886**
	30,514	**20,341**

(Thousand euros)

The book amounts of loans and receivables, both long and short-term, approximate their fair values, since the effect of discounting is not significant.

Long-term loans to third parties mainly refers to the loans granted to members of the Board of Directors (Note 20), which accrue interest at market rates.

The entry "Other long-term financial assets" includes the amounts deposited with the corresponding organisations.

Of the total amount shown for short-term loans and other receivables, a total of €843 thousand had become due in respect of customer accounts receivable and sundry receivables as of 31 December 2017 (€355 thousand at 31 December 2016), of which €55 thousand has been set aside in allowance provision (€0 in 2016), in accordance with established policy relating to pending customer balances and an assessment made in this regard by the Company. Furthermore, at 31 December 2017 there were no losses resulting from non-performing loans (€827 thousand at 31 December 2016).

The entry "Customers for sales and services" mainly includes the effect resulting from the linearization of rent incentives in the amount of €4,367 thousand (€2,109 thousand at 31 December 2016).

"Sundry receivables" mainly includes a provision of funds for the Company's regular operations with notaries and registries amounting to €2,941 thousand (€2,318 thousand at 31 December 2016).

The following table contains a breakdown of the age of receivables for sales and services:

		Thousand euros
	2017	**2016**
Up to 3 months	736	244
Between 3 and 6 months	31	94
More than 6 months	76	17
	843	**355**

The book value of loans and receivables is denominated in euros.

Movements in the provision for insolvencies over the period were as follows:

		Thousand euros
	2017	**2016**
Opening balance	-	(367)
Allocation	(128)	(460)
Reversion	73	-
Application	-	827
Closing balance	**55**	**-**

(Thousand euros)

9. CASH AND CASH EQUIVALENTS

	Thousand euros	
	31.12.2017	**31.12.2016**
Cash and banks	167,979	145,421
	167,979	**145,421**

The current accounts accrue a market interest rate.

10. SHARE CAPITAL AND SHARE PREMIUM

a) Share capital

The Parent Company was incorporated on 19 March 2014 with the issue of 10,000 registered shares, each with a par value of €6. On the date of its incorporation, Rodex Asset Management, S.L. held 9,999 ordinary shares representing 99.99% of the Company's issued share capital, and Inmodesarrollos Integrados, S.L. held 1 ordinary share representing 0.01% of the Company's issued share capital.

At an Extraordinary General Shareholders Meeting held on 10 June 2014, it was agreed to increase the share capital by 36,000,000 shares with a par value of €10, by means of an offer to subscribe shares in the Company, and the shareholders waived their preferential subscription right.

A share capital increase was agreed at the General Shareholders Meeting on 7 May 2015. On 13 May 2015 the Board of Directors approved the agreements relating to the share capital increase. This was entered at the Madrid Company Registry on 10 June 2015 and 35,868,988 new shares were listed, each with a par value of €10 and a premium of €1.

On 7 March 2017 the Board of Directors approved the agreements relating to the share capital increase that the Company carried out during this financial year. This was entered at the Madrid Company Registry on 9 March 2017 and 7,187,498 new shares were listed, each with a par value of €10 and a premium of €3.

Following this share capital increase, subscribed share capital stood at 79,062,486 ordinary fully paid-up shares with a par value of €10 per share.

As of 31 December 2017 and 31 December 2016, the breakdown of share capital is as follows:

		Thousand euros
	31.12.2017	**31.12.2016**
Subscribed share capital	790,625	718,750
Non-paid-up capital	-	-
	790,625	**718,750**

(Thousand euros)

At 31 December 2017, the companies that held a share of 3% or more in the share capital were as follows:

Company	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Citigroup Global Markets Limited	4.906%	0.011%	**4.917%**
Inmobiliaria Colonial, S.A.	28.790%	0.000%	**28.790%**
T. Rowe Price Associates, Inc	5.557%	0.000%	**5.557%**
The Goldman Sachs Group, INC.	0.076%	3.168%	**3.244%**
Sand Grove Capital Management LLP	0.000%	6.738%	**6.738%**

b) Share premium

This reserve is freely available.

c) Treasury stock

Movements in treasury stock over the period have been as follows:

	2017		2016	
	Number of treasury shares	Thousand euros	Number of treasury shares	Thousand euros
Opening balance	1,536,266	18,678	416,928	4,631
Increases / Purchases	547,445	8,284	2,797,932	33,694
Reductions	(1,540,876)	(20,043)	(1,678,594)	(19,647)
Closing balance	**542,835**	**6,919**	**1,536,266**	**18,678**

On 7 July 2017 Axiare Patrimonio Socimi S.A. entered into a liquidity contract with JB Capital Markets, S.V., S.A.U. with the aim of increasing liquidity and promoting stability in the listing of the Company's shares. Said contract became valid as of 11 July 2017, replacing the prior contract signed with the same company on 31 October 2014.

The General Shareholders Meeting held on 7 May 2015 agreed to implement a management incentive plan consisting of the award of shares or cash, at the Company’s discretion (Note 19).

As a consequence of the Inmobiliaria Colonial Takeover Bid described in Note 1, the Company’s liquidity agreements and share repurchase agreements were cancelled on the date on which these annual accounts were prepared.

Shares owned by the Company itself at 31 December 2017 represented 0.68% of the Company’s share capital (2.11% at 31 December 2016) and totalled 542,835 shares (1,536,266 shares at 31 December 2016). The average acquisition price was €15.1319 per share (€12.3428 per share at 31 December 2016).

These shares are registered, thus reducing the value of the Company's equity on 31 December 2017 to €6,919 thousand (€18,678 thousand on 31 December 2016).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares in the Company.

d) Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) attributable to the parent Company's owners for the period by the weighted average number of ordinary shares in circulation during the period, excluding the weighted average number of treasury shares held over the period.

Diluted earnings per share are calculated by dividing the net profit (loss) attributable to the parent Company's owners for the period by the weighted average number of ordinary shares in circulation during the period, plus the weighted average number of ordinary shares that would be issued during the conversion of all potentially dilutive instruments. As shown in Note 19, the Group currently has a remuneration (incentive) plan in force based on the award of a number of shares. The Group's directors have evaluated the dilutive effect of these plans and calculated the impact of earnings per share, concluding that this effect is not significant and therefore making no distinction between them.

The following table shows the income figures and information on the number of shares used to calculate basic and diluted earnings per share:

Calculation of basic and diluted earnings

	2017	**2016**
Net profit (thousand euros)	218,238	148,626
Weighted average number of shares issued (shares)	77,709,545	71,874,988
Average number of treasury shares held in the company's own portfolio (shares)	1,287,812	849,559
Basic earnings per share (euros)	2.86	2.09
Diluted earnings per share (euros)	2.86	2.09

With regard to the calculation of earnings per share, there were no transactions involving ordinary shares or potential ordinary shares between the closing date for the consolidated annual accounts and the preparation of the accounts statements that were not taken into account when calculating such earnings for the annual period ended 31 December 2017.

(Thousand euros)

11. RESERVES AND RETAINED EARNINGS

Reserves

At 31 December 2017, the total balance shown, amounting to €1,911 thousand, was held in the Legal Reserve. This reserve has been set aside under the terms of Article 274 of the Spanish Capital Companies Act, which establishes that companies must in all cases allocate an amount equal to 10% of their profits for the year to this reserve, until the total reaches at least 20% of the share capital figure. It cannot be distributed, and if it is used to offset losses when the other available reserves are not sufficient for this purpose, it must be replenished with future profits.

		Thousand euros
	31.12.17	**31.12.2016**
Legal reserve	1,911	532
Hedging reserve	(6,825)	(9,436)
Treasury shares	(6,919)	(18,678)
Others	(37,207)	(31,673)
Total Reserves	**(49,040)**	**(59,255)**
Accumulated earnings		
Accumulated profit (loss)	466,587	251,368
Distribution of dividends	(12,413)	(2,983)
Total accumulated earnings	**454,174**	**248,385**

The Others entry mainly registers the expenses associated with issuing shares and with the two share capital increases completed. Said expenses totalled €34,095 thousand and are mainly attributable to banks and advisors.

Distribution of the profit

The proposed distribution for the profit obtained by the parent Company and the reserve amount to be submitted to the General Shareholders Meeting, is as follows:

	Thousand euros
	2017
Base for distribution	
Profit and loss	17,615
Application	
Legal reserve	1,762
Interim dividend	10,946
Dividends	4,907
	17,615

(Thousand euros)

On 14 November 2017, the Board of Directors approved the payment of a dividend of €0.14 per share on account against the profit (loss) for 2017, in accordance with an undertaking made with the shareholders when the 2016 accounts were submitted in February 2017. To this end, the following cash flow forecast was drawn up:

	Thousand euros
Net profits obtained from the 2017 financial year	17,656
Minus legal reserve to be set aside	(1,766)
Dividends distributed previously	-
Dividends for distribution against the profit (loss) from the 2017 financial year	15,890
Interim dividend for distribution	**10,946**
Cash liquidity	164,437
Short-term debts	(35,811)
Net cash position	**128,626**

Distribution of the profit for the 2016 financial year, which was approved by the General Shareholders Meeting held on 20 June 2017 and settled in the following month, was carried out as follows:

	Thousand euros
	2016
Base for distribution	
Profit and loss	13,792
Application	
Legal reserve	1,379
Dividends	12,413
	13,792

(Thousand euros)

12. DEBTS AND PAYABLES

	Thousand euros	
	31.12.17	**31.12.2016**
Long-term debts and payables (Note 7):		
- Bank loans and credits	629,299	516,852
- Other financial liabilities	11,388	9,188
- Derivatives (Note 13)	7,056	9,483
- Financial lease creditors	59	-
	647,802	**535,523**
Short-term debts and payables (Note 7):		
- Bank loans and credits	37,189	2,888
- Financial lease creditors	13	-
- Other financial liabilities	509	-
- Creditors and other payables	10.772	11,907
	48,483	**14,795**
	696,285	**550,318**

The book amounts of debts and payables, both long and short-term, approximate their fair values, since the effect of discounting is not significant. In the case of debts with financial institutions, these are entered at their amortised cost.

The guarantee deposits received from tenants as per the lease agreements signed are registered as other long-term financial liabilities.

Creditors and other payables mainly includes provisioned amounts relating to the Group's property acquisitions, financing obtained during the current financial year, as well as balances payable relating to investments currently under construction.

The book value of loans and receivables to be paid by the Company is denominated in euros.

Bank loans and credits includes the balance of 24 loans granted to the Company. The maturities of these bank loans and credits are detailed below by par value:

	2017		2016	
Maturity year	**Non-Current**	**Current**	**Non-Current**	**Current**
2018	-	30,419	7,000	-
2019	-	-	-	-
2020	24,100	-	24,100	-
2021	62,200	-	62,200	-
> 2022	553,379	6,368	432,992	2,001
Total	**639,679**	**36,787**	**526,292**	**2,001**

The company recorded an amount of €10,420 thousand in minor debts on its balance sheet (€9,420 thousand at 31 December 2016) due to the way debt costs are formalised, based on the amortized cost valuation method. As of 31 December 2017, accrued financial interest not paid stood at €442 thousand (€867 thousand at 31 December 2016). The financial expenses accrued during the period stand at €12,997 thousand (€7,777 thousand in 2016) (Note 15).

During the period the Company has signed financing agreements to the value of €163,201 thousand (€203,582 thousand in 2016).

These loans are granted subject to compliance with certain financial ratios, which is standard practice in the sector in which the Group operates, with the ratio being calculated annually at the end of each financial year. At 31 December 2017, the Group was in compliance with all of these ratios except for the ratios relating to the financing of properties under refurbishment during the period, for which the financial institutions have granted temporary exemption from compliance.

The investment properties, land and buildings offered as security for the loans mentioned, in the form of mortgage guarantees, have a market value of €1,577,055 thousand (€1,154,100 thousand at 31 December 2016). The following table shows a breakdown of the nominal value of these loans:

(Thousand euros)

Subject property	Outstanding nominal value 31/12/2017	Outstanding nominal value 31/12/2016	Maturity
Francisca Delgado 11	13,000	13,000	2030
Fernando El Santo 15	-	12,000	2030
Avenida de la Vega 15	27,667	27,913	2029
Cabanillas 1	2,494	2,530	2022
Cabanillas 2	3,698	3,698	2022
Cabanillas 3	2,866	2,909	2022
Azuqueca	9,143	9,143	2022
Guadalix	4,349	4,349	2022
Rivas Vaciamadrid	9,112	9,193	2029
Camarma	19,881	19,881	2022
Manuel de Falla 7	24,000	24,000	2021
Valls	4,954	4,954	2022
Dos Hermanas	5,398	5,446	2029
Diagonal 197	28,839	29,096	2029
Les Gavarres	14,460	14,673	2022
Ribera del Loira 28	24,100	24,100	2020
Cristalia 2 & 3	29,024	29,451	2022
Cristalia 5 & 6	27,500	27,500	2022
Luca de Tena 14	10,475	10,850	2028
Velázquez	53,488	45,688	2022
Tucumán	10,562	10,562	2022
Hotel Rafael Madrid Norte	7,000	7,000	2018
Ramírez Arellano	8,500	7,437	2028
Don Ramón de la Cruz	20,856	21,000	2025
Constantí	11,015	11,015	2022
Avenida de Bruselas, 38	14,301	14,400	2025
Alcalá 506	7,335	7,335	2021
Luca de Tena 6	4,469	4,500	2025
Las Mercedes Open Park	23,865	23,865	2021
Josefa Valcárcel 24	7,000	7,000	2021
Viapark	11,500	10,063	2028
Azuqueca 2	4,778	4,778	2022
Alcalá de Henares	3,264	3,265	2022
Almagro	75,700	75,700	2023
Sagasta 31-33	26,400	-	2024
Cedro	23,419	-	2018
Luca de Tena 7	19,000	-	2029
Sant Cugat	14,500	-	2022
Miguel Ángel	32,014	-	2026
Peugeot	24,900	-	2026
Planetocio	11,640	-	2024
	676,466	**528,294**	

Deferred payments to suppliers

The following table shows a breakdown of the payments that are due for commercial operations completed during the year and that remained pending on the date on which the balance sheet was closed, with reference to the maximum payment deadlines provided for under Act 15/2010 and subsequently modified under Act 31/2014:

	2017	2016
	Days	Days
Average payment period to suppliers	26	35
Ratio of transactions paid	26	36
Ratio of transactions pending payment	27	20
	Amount (Thousand euros)	Amount (Thousand euros)
Total payments made	222,448	221,378
Total payments pending	3,880	4,436

13. FINANCIAL DERIVATIVES

			Thousand euros			
			2017			
			Non-Current		Current	
	Principal amount covered	Maturity	Asset	Liability	Asset	Liability
Interest rate swap	22,000	Up to 2022	-	361	-	-
Interest rate swap	38,115	Up to 2022	-	1,187	-	-
Interest rate swap	14,900	Up to 2022	-	42	-	-
Interest rate swap	20,520	Up to 2022	-	67	-	-
Interest rate swap	18,000	Up to 2028	-	72	-	-
Interest rate swap	18,650	Up to 2024	-	670	-	-
Interest rate swap	42,610	Up to 2025	-	945	-	-
Interest rate swap	9,350	Up to 2023	-	150	-	-
Interest rate swap	25,000	Up to 2021	-	1,399	-	-
Interest rate swap	20,817	Up to 2025	-	47	-	-
Interest rate swap	17,000	Up to 2022	-	40	-	-
Interest rate swap	39,900	Up to 2022	-	1,414	-	-
Interest rate swap	21,763	Up to 2021	-	138	-	-
Interest rate swap	18,650	Up to 2021	-	114	-	-
Interest rate swap	57,000	Up to 2021	-	355	-	-
Interest rate swap	31,200	Up to 2021	178	-	-	-
Interest rate swap	7,000	Up to 2021	-	55	-	-
Interest rate swap	24,000	Up to 2021	54	-	-	-
			232	**7,056**		

(Thousand euros)

			Thousand euros			
			2016			
			Non-Current		Current	
	Principal amount covered	**Maturity**	**Asset**	**Liability**	**Asset**	**Liability**
Interest rate swap	22,000	Up to 2022	-	595	-	-
Interest rate swap	25,410	Up to 2022	-	1,672	-	-
Interest rate swap	14,900	Up to 2022	-	106	-	-
Interest rate swap	18,650	Up to 2022	-	1,003	-	-
Interest rate swap	43,152	Up to 2028	-	1,557	-	-
Interest rate swap	9,350	Up to 2024	-	273	-	-
Interest rate swap	30,000	Up to 2025	-	1,687	-	-
Interest rate swap	20,817	Up to 2023	-	145	-	-
Interest rate swap	17,000	Up to 2021	-	97	-	-
Interest rate swap	39,900	Up to 2025	-	1,767	-	-
Interest rate swap	21,763	Up to 2022	-	226	-	-
Interest rate swap	18,650	Up to 2022	-	186	-	-
Interest rate swap	31,200	Up to 2021	14	-	-	-
Interest rate swap	7,000	Up to 2021	33	-	-	-
Interest rate swap	24,000	Up to 2021	-	169	-	-
			47	**9,483**		

The total fair value of a hedging derivative is entered under non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and under current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months.

Using interest rate swaps (financial swaps) to provide cash flow hedges allows one to change floating rate debt to fixed rate debt, where the future cash flows being hedged are the future interest payments on the loans taken out (Note 12). The changes to the fair value of derivatives are shown in the entry “Adjustments due to changes in value”, under equity.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

14. INCOME AND EXPENSES

a) Net turnover figure

The net turnover figure corresponding to the Company's ordinary business activities broke down in geographical terms as follows:

		2017
Market	**Percentage**	**Thousand euros**
Domestic	100%	69,670
	100%	**69,670**

		2016
Market	**Percentage**	**Thousand euros**
Domestic	100%	51,011
	100%	**51,011**

The net turnover figure breaks down as follows:

		Thousand euros
	31.12.17	**31.12.16**
Revenue		
Rents	60,380	43,851
Reinvoicing of costs	9,290	7,160
	69,670	**51,011**

The lease agreements signed by the companies in the Group contain the usual market terms and conditions with regard to duration, early termination and rent.

b) Personnel expenses

		Thousand euros
	2017	**2016**
Wages, salaries and associated costs	23,367	15,996
Welfare charges:		
- Other welfare charges	316	280
	23,683	**16,276**

The entry for wages, salaries and associated costs at 31 December does not include compensation for dismissals (€7 thousand at 31 December 2016).

(Thousand euros)

The average number of employees during the period, shown by professional grade, was as follows:

	Total	
Grade	**2017**	**2016**
Directors	8	8
Employees with degrees	9	8
Administrative personnel and others	4	4
	21	**20**

In addition, at 31 December 2017 and 31 December 2016, Company personnel details broken down by gender were as follows:

			2017
Grade	**Men**	**Women**	**Total**
Directors	5	3	8
Employees with degrees	7	2	9
Administrative personnel and others	-	4	4
	12	**9**	**21**

			2016
Grade	**Men**	**Women**	**Total**
Directors	5	3	8
Employees with degrees	6	2	8
Administrative personnel and others	-	4	4
	11	**9**	**20**

The Group did not have any employees classified as 33% disabled or more (or the local equivalent) at 31 December 2017 or 31 December 2016

c) Other operating expenses

The following table gives a breakdown of the other operating expenses:

	Thousand euros	
	2017	**2016**
External services attributable directly to investment properties	16,981	12,801
Other external services	5,959	2,085
	22,940	**14,886**

(Thousand euros)

15. INCOME TAX AND TAX SITUATION

Reconciliation of the net income and expenses figure for the year with the tax base for Income Tax is as follows:

	Thousand euros					
	Income statement			Income and expenses attributed directly to equity		
	Increases	Reductions	Total	Increases	Reductions	Total
Income and expenses balance for the year	218,238	-	**218,238**	-	(255)	**(255)**
Corporate Income Tax	1,373	-	**1,373**	-	-	**-**
Permanent differences	91	(507)	**(416)**	-	-	**-**
Temporary differences:						
- Originating during this year	2,080	(462)	**1,618**	-	-	-
Taxable base			**220,813**			**(255)**

Pursuant to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed, the current Company Tax amount is calculated by applying a tax rate of 0% to the tax base. The tax amount applied in the 2017 financial year did not include any deductions, and withholdings and amounts paid in on account totalled €224 thousand (€350 thousand in 2016).

Permanent differences mainly refer to costs incurred due to the reversal of non-deductible impairment.

Temporary differences relate mainly to the cap on the deduction of financial expenses incurred in the year.

Income tax expense is analysed below:

	Thousand euros					
	2017			2016		
	Current Tax	Change in deferred taxes	Total	Current Tax	Change in deferred taxes	Total
Attributed to profit and loss:						
- Continuous operations	1,444	(71)	1,373	624	(7,457)	(6,833)
- Non-continuous operations	-	-	-	-	-	-
	1,444	**(71)**	**(1,373)**	**624**	**(7,457)**	**(6,833)**
Attributed to equity:						
- Due to valuation of financial instruments	-	-	-	-	-	-
- Due to cash flow hedging	-	-	-	-	-	-
- Due to reserves	-	-	-	-	-	-
	-	-	-	-	-	-

(Thousand euros)

The deferred taxes can be broken down as follows:

	Thousand euros	
	2017	**2016**
Deferred tax assets:		
- Temporary differences	2,641	-
- Credits resulting from negative tax bases	4,887	7,457
- Other tax credits	-	-
	7,528	**7,457**
Deferred tax liabilities:		
- Temporary differences	-	-
	-	**-**
Deferred tax	**7,528**	**7,457**

Changes to deferred tax assets during 2017 were as follows:

				Thousand euros
	Change to deferred tax assets		Change to deferred tax liabilities	
2017	**Temporary differences**	**Tax credits resulting from negative tax bases**	**Temporary differences**	**Total**
Attributed to profit and loss:				
- Continuous operations	2,641	(2,520)	-	**71**
- Non-continuous operations	-	-	-	-
	2,641	**(2,520)**	-	**71**

The group company Venusaur, S.A. is not included under the SOCIMI rules and therefore has an effect on company tax expenses. On 22 December 2016, the company's asset situation was re-established and its debt restructured, and as a consequence it proceeded with the activation of its tax credits. During the 2017 financial year, the company activated the time period differences generated in previous financial years in the amount of €2,641 thousand. The amount activated represents the maximum deductible financial expense and the maximum depreciation allowed, which respectively amounted to €2,338 thousand and €303 thousand.

Tax inspections

Under current law, taxes cannot be understood to have been effectively settled until the tax authorities have reviewed the tax returns submitted or until the time-bar period of four years has elapsed.

(Thousand euros)

On 27 September 2016, the Company received notification from the Spanish Tax Authorities that it was initiating a review and inspection of the group company, Venusaur, S.L. The scope of this inspection was limited to verifying the impairment and depreciation of the company's fixed assets and financial expenses for the financial years from 2012 to 2014, and the effects of the impairment of BINs from 2010 and 2011. An agreement was signed with the Spanish tax authorities on 15 December 2017 that resulted in a reduction of active tax bases in the amount of €408 thousand in tax payments.

At 31 December 2017 and 31 December 2016, the amounts receivable and the amounts payable by the Company in respect of the Public Authorities broke down as follows:

		Thousand euros
	31.12.2017	**31.12.2016**
Accounts receivable		
Deferred tax assets	7,528	7,457
Receivables from Spanish Tax Authorities (VAT)	7,042	9,679
Receivables from Spanish Tax Authorities (withholdings and payments on account)	240	359
	14,810	**17,495**
Accounts payable		
Payables to Spanish Tax Authorities (withholdings collected)	(161)	(773)
Payables to Spanish Tax Authorities (Corporation Tax collected)	(1,442)	-
Payables to Spanish Tax Authorities (VAT collected)	(272)	(262)
Payables to Social Security Bodies	(61)	(28)
	(1,936)	**(1,063)**

The deferred tax assets primarily relate to the capitalisation of tax credits from accumulated losses suffered by group company Venusaur, S.L.U. in previous financial years.

At 31 December 2017 the negative tax bases pending offset were as follows:

Year generated	**Thousand euros**
2012	19,547
	19,547

The other balances held with the Public Authorities as of 31 December 2017 refer mainly to the VAT paid on the purchase of buildings, which is to be refunded by the Public Authorities.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

16. FINANCIAL RESULT

	Thousand euros	
	2017	**2016**
Financial income		
- From negotiable securities and other third-party financial instruments	262	423
	262	**423**
Financial expenses		
- For debts with third parties (Note 12)	(12,997)	(7,777)
	(12,997)	**(7,777)**
	(12,735)	**(7,354)**

17. PROVISIONS AND CONTINGENCIES

Contingent liabilities

At 31 December 2017 and 31 December 2016, the Company had put guarantee bonds in place in a total amount of €5,986 thousand.

18. COMMITMENTS

Operational leasing commitments

The Company leases its offices under a non-cancellable operational lease agreement. This agreement has a term of six years and may be renewed under market conditions upon its expiry.

Minimum total future payments for non-cancellable operational leases are as follows:

	Thousand euros
	2017
Less than one year	177
Between one and five years	355
More than five years	-
	532

19. BOARD OF DIRECTORS AND OTHER PAYMENTS

Shareholdings, positions and activities of the members of the Board of Directors

Article 229 of the Spanish Capital Companies Act, which was approved by Royal Legislative Decree 1 of 2 July 2010, requires Directors to notify the Board of Directors (or, in the absence of such a body, the other Directors or the General Shareholders Meeting) of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, Directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the Company's corporate purpose. They must also disclose the positions they hold or duties they perform at such companies. In this regard, Appendix I sets out the information provided by Directors who have declared that they hold positions and perform duties in companies with an identical, similar or complementary kind of activity.

Remuneration of members of the Board of Directors

During 2017, payments to members of the Board of Directors totalled €1,307 thousand (€1,243 thousand at 31 December 2017), of which the executive member received a total of €929 thousand (€900 thousand at 31 December 2016). This person has signed a commercial senior executive agreement with the Company.

In addition, under the share award plan approved by the General Shareholders Meeting on 7 May 2015 (Note 2.18), during the 2016-2017 period, the executive member accrued 667,000 shares which have been handed over in their entirety (472,000 shares during the 2015-2016 period).

The Company has authorised loans amounting to €8,622 thousand (€3,850 thousand on 31 December 2016). These loans have been cancelled at the date of the preparations of these consolidated annual accounts. On the other hand, it does not hold pension funds or any other similar liabilities to the benefit of its Directors.

Axiare Patrimonio Team

In accordance with the plan mentioned above for the 2016-2017 period and given compliance with the conditions required in this regard, the rest of the Axiare Patrimonio team has accrued a total of 887 thousand shares, which they received during the 2017 financial year (588 thousand shares accrued during 2015-2016).

The average cost of acquiring the shares accrued under the 2016-2017 plan is €12.28 per share. The cost associated with this plan is entered under the heading “Personnel expenses” in the income statement.

20. OTHER RELATED-PARTY TRANSACTIONS

There were no balances or transactions with related parties in 2017 or in 2016.

21. INFORMATION REQUIREMENTS RESULTING FROM SOCIMI STATUS, ACT 11/2009, AS AMENDED BY ACT 16/2012

a) Reserves from financial years prior to the application of the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012.

Not applicable.

b) Reserves from financial years in which the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012, have been applied.

Not applicable.

c) Dividends distributed against profits each year in which the tax rules contained in this Act applied, with differentiation between the portion originating from income subject to tax at a rate of 0% or 19%, and the portion originating from income subject to tax at the general rate.

The total dividend distributed comes from income subject to tax at 0%.

d) In the case of distribution against reserves, identifying the year from which the reserves applied originate, and whether they were taxed at 0%, 19% or the general rate.

No dividends were distributed against reserves (Note 11).

e) Date of the agreement for the distribution of dividends referred to in c) and d) above.

On 20 June 2017, the General Shareholders Meeting approved the payment of the dividend for 2016, and on 14 November 2017 the Board of Directors approved the payment of an interim dividend against the profits for 2017.

f) Date of acquisition of properties intended for rent and interests in the share capital of companies referred to in Article 2.1 of this Act.

The parent company has holdings in the share capital of companies, referred to in Article 2.1 of the Spanish SOCIMI Act. This holding refers to the group company Venusaur, S.L.U., which was acquired on 2 December 2016, and to the company Chameleon (CEDRO), S.L.U., acquired on 31 January 2017.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

	Property	Location	Date acquired
1	F. Delgado	Plot TN-5B, Sole Sector, Calle Francisca Delgado, 11, Alcobendas (Madrid)	28 July 2014
2	Cabanillas	Plot 2.4, Warehouses 1, 2 and 3, P-5 Industrial Estate, Cabanillas del Campo (Guadalajara)	29 July 2014
3	Miralcampo	Logistics warehouse, Avda. de la Construction, 9 - 11, Miralcampo Industrial Estate, Azuqueca de Henares (Guadalajara)	30 July 2014
4	Dos Hermanas	Plots 47 to 50, "La Isla" Industrial Estate, Dos Hermanas (Seville)	30 July 2014
5	F. Santo	Calle Fernando el Santo 15, 28010 Madrid	24 September 2014
6	Av. Vega	Avda. Arroyo de la Vega, nº 15, Arroyo de la Vega, Alcobendas (Madrid)	24 September 2014
7	Rivas	Plots 18-14 and 19-13, Calle Mariano Benlliure, Rivas-Vaciamadrid (Madrid)	24 September 2014
8	Planetocio	Avenida Juan Carlos I 46, Collado Villalba (Madrid)	24 September 2014
9	Valls	Logistics warehouse, Avenida del Polígono 5. Valls Industrial Estate, Valls (Tarragona)	9 October 2014
10	Guadalix	Department number 3, property forming part of U.A.-47, and building "B", San Agustín de Guadalix (Madrid)	9 October 2014
11	Camarma	Logistics warehouse, sector S1-4 "La Raya Industrial", Camarma de Esteruelas (Madrid)	9 October 2014
12	Manuel de Falla	Building undergoing refurbishment works on Calle Manuel de Falla (Madrid)	6 November 2014
13	Diagonal	Edificio Diagonal. Avenida Diagonal 197, 08018 Barcelona	4 December 2014
14	Rib. Loira	Edificio Ribera del Loira. Calle Ribera del Loira 28, 28042 Madrid	4 December 2014
15	Cristalia 2&3	Buildings 2 and 3, Cristalia Business Park. Calle Vía de los Poblados s/n (Madrid)	4 December 2014
16	Bauhaus	Edificio Tarragona, property number two, sub-zone PP-9, Les Gavarres Industrial Estate (Tarragona)	4 December 2014

(Thousand euros)

	Property	Location	Date acquired
17	Hotel	Building intended for hotel use. Omega Business Park. Carretera de Alcobendas a Barajas, km 1,100. Alcobendas (Madrid)	20 February 2015
18	Luca de Tena 14	Calle Juan Ignacio Luca de Tena, 14, 28027 Madrid	30 March 2015
19	Tucumán	Tucumán property. Glorieta del Mar Caribe 1, Madrid	30 March 2015
20	Cristalia 5&6	Buildings 5 and 6, Cristalia Business Park. Calle Vía de los Poblados s/n (Madrid)	22 May 2015
21	Velázquez	Retail unit housed in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	22 May 2015
		Twenty registered properties located in a building at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	15 June 2015
		Retail unit housed in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	29 July 2015
		Parking spaces located in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	5 August 2015
22	R. Arellano	Building located at Calle Ramírez de Arellano 15, Madrid	21 July 2015
23	Constantí	Industrial plot located in the Constantí Industrial Estate, Constantí (Tarragona)	30 July 2015
24	Luca de Tena 6	Building located at Juan Ignacio Luca de Tena 6, 28027 Madrid	23 September 2015
25	Alcalá	Building located at Calle Alcalá 506, 28027 Madrid	23 September 2015
26	Av. Bruselas	Building located at Avenida de Bruselas 38, 28108 Alcobendas (Madrid)	23 September 2015
27	Las Mercedes	Retail Park at Calle Campezo 12, 28022, Madrid.	23 September 2015

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR 2017 (Thousand euros)

	Property	Location	Date acquired
28	D. Ramón Cruz	Building located at Calle Don Ramón de la Cruz no. 84, 28006 Madrid	8 October 2015
29	Josefa Valcárcel 24	Building located at Calle Josefa Valcárcel no. 24, 28027 Madrid	26 January 2016
30	Viapark	Four retail warehouses located in the town of Vícar, Parajes del Cortijo Blanco, Cerrillo de los Vaqueros and Cerro de los Lobos (Almería)	14 April 2016
31	San Fernando *	Industrial warehouse under construction located in sector SUP I-1, in San Fernando de Henares (Madrid)	28 April 2016
32	Sagasta	Building located at Calle Sagasta 31 and 33, 28004 Madrid	17 November 2016
33	Alcalá de Henares	Industrial warehouse located in Alcalá de Henares (Madrid)	25 November 2016
34	Azuqueca de Henares	Industrial warehouse located in Azuqueca de Henares (Guadalajara)	25 November 2016
35	Luca de Tena 7	Building located at Calle Juan Ignacio Luca de Tena 7, 28027 Madrid	23 December 2016
36	Miguel Ángel 23	Building located at Calle Miguel Ángel, 23, Madrid	16 January 2017
37	Puerto de Somport, 8	Building located at Calle Puerto de Somport 8, Madrid	20 January 2017
38	Cedro	Building located at Calle Anabel Segura 14, Madrid	1 February 2017
39	Sant Cugat	Building located at Avenida Can Fatjó dels Aurons 9, Sant Cugat del Vallés, Barcelona	16 March 2017
40	Sagasta 27	Several floors of the building located at Calle Sagasta 27, 28004, Madrid	4 April 2017
41	San Fernando 2 *	Industrial warehouse under construction located in sector SUP I-1, in San Fernando de Henares (Madrid)	28 June 2017
42	Josefa Valcárcel 40 *	Building located at Calle Josefa Valcárcel no. 40, 28027, Madrid	16 November 2017

* These assets are currently under construction. They are scheduled for completion in August 2018, January 2019 and October 2018 respectively.

g) Identification of assets taken into account when calculating the 80% referred to in Article 3.1 of this Act.

   The assets taken into account when calculating the 80% referred to in Article 3.1 of the SOCIMI Act are the ones listed in the above table.

h) Reserves from years in which the tax system provided for under the Act was applicable and which have been made use of (not for distribution or offsetting losses) during the tax period, with identification of the year from which the reserves originate.

   Not applicable.

22. AUDITORS' FEES

The fees accrued by PricewaterhouseCoopers Auditores, S.L. during the financial year beginning on 1 January 2017 and ending on 31 December 2017 for auditing the Company's Annual Accounts totalled €405 thousand (€120 thousand in 2016), and fees for other auditing services totalled €81 thousand (€47 thousand at 31 December 2016).

At 31 December 2017, the fees accrued by other companies in the PwC network totalled €119 thousand (€164 thousand at 31 December 2016).

23. SUBSEQUENT EVENTS

As a consequence of the Takeover Bid mentioned in Note 1, and pursuant to the incentive plan approved on 7 May 2015 by the General Shareholders Meeting (mentioned in Note 2.18), in the event of any change in control over the company an incentive would accrue for the management team.

In the significant event published the 8th of January of 2018 on the CNMV, the report from the Board of Directors in relation with the voluntary takeover bid launched by Colonial says:

*" **8.4 OPINION OF THE BOARD OF DIRECTORS***

In accordance with article 24 of Royal Decree 1066/2007, the Board of Directors is required to issue a detailed and reasoned report on each and all of the takeover bids for the Company that have been authorized by CNMV.
Based on the considerations and opinions expressed herein, as well as on the information contained in the Prospectus, the Board of Directors, in view of all the terms and characteristics of the Bid and its effect on the Company's interests, assesses the Bid Price positively, thus, it expresses a favourable opinion regarding the Bid; however, it believes that the consideration offered does not fully reflect the intrinsic value of Axiare's shares in the context of the Bid and, therefore, considers that there is potential for its improvement.

[…]

9. INTENTION TO ACCEPT THE BID IN CONNECTION TO THE OWN SHARES WHICH AXIARE HOLDS IN TREASURY

With regard to the own shares that the Company holds in treasury, which as of the date of this report amount to 542,835 shares representing 0.687% of its share capital (as communicated by Axiare to the market by relevant fact on 20 November 2017, register number 258,726), the Board of Directors declares its intention to accept the Bid, in line with the opinion expressed by the Board of Directors."

On 2 February 2018, Inmobiliaria Colonial gave notice that, following settlement of the Takeover Bid, its shareholding had risen to 86.86%. This means that the amount accruing under the said plan totals €36,000 thousand in 2018.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

Appendix I – Detail of positions and ownership interests held by the Directors in companies with a similar company object

Luis Alfonso López de Herrera-Oria

Company	Position or duties	% Share
Rodex Asset Management, S.L.	Sole Director	100
Agrodesarrollos Integrados, S. L.	Sole Director	100
Inmodesarrollos Integrados, S.L.	Representative of the sole director	100
Puerto Feliz, S.A.	Representative of the sole director	78.88
Heracles Proyectos y Promociones Inmobiliaras, S.A.	Sole Director	100

Luis María Arredondo Malo

Company	Position or duties	% Share
Nieve de Andalucía, S.A.	Chairman	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	Board Member	18.01
Aljaral, S.A.	Chairman	100.00

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2017

1. ORGANISATIONAL STRUCTURE AND OPERATION

Axiare Patrimonio Socimi, S.A. (Axiare Patrimonio) was incorporated in Spain on 19 March 2014, in accordance with the Spanish Capital Companies Act, through the issue of 10,000 registered shares, each with a par value of €6. At a General Shareholders Meeting held on 10 June 2014, it was agreed to increase the share capital by means of an offer to subscribe shares in the Company, and the shareholders waived their preferential subscription right.

On 12 June 2014 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs).

On 9 July 2014, Axiare Patrimonio went public and made a share capital increase of €360,000 thousand through the issue of 36,000,000 ordinary shares, each with a par value of €10.

Axiare Patrimonio was a new company that was created without assets, classified as a "blind pool", which would allow it to take advantage of the opportunities available in the Spanish real estate sector. As of 31 December 2014, the Company had invested 1.2 times the capital raised during its Takeover Bid, with a total investment of €424,000 thousand. The market value of this investment amounted on 31 December 2014 to €439,000 thousand (including Manuel de Falla).

In order to raise the necessary funds to continue with its investment plan, the Company initiated a share capital increase in May 2015. It was seeking to raise €395,000 thousand, all of which it successfully covered. In total 35,868,988 new shares were subscribed, worth €394,558,868, doubling the Company's capitalization to more than €800,000 thousand. One of the peculiarities of this operation was that it was performed without underwriting or guarantees from the banks. The new shares were acquired at a price of €11 per share, which represents a premium of 10 percent over the price set when the Company's shares were first listed for trading.

During March 2017, the Parent Company carried out a further share capital increase, listing 7,187,498 new shares, each with a par value of €10 and an issue premium of €3. Following this share capital increase, the subscribed share capital stands at 79,062,486 fully paid-up ordinary shares. The Company's shareholders include large well-renowned international funds, who are extremely interested in the Spanish real estate market.

Axiare Patrimonio's business strategy focuses on investment in high-quality rental assets with strong growth potential. Its commercial policy is based mainly on exploiting offices in the financial centres of Madrid and Barcelona, as well as in other prime locations outside the city centre, logistics properties in the most important distribution centres in Spain and other commercial properties, mainly retail.

Axiare's Board of Directors conducts its business in accordance with the rules of good corporate governance set out primarily in the Company's Articles of Association, the Rules of the General Shareholders Meeting and the Board of Directors' Regulations.

The Board of Directors is the body that is responsible for overseeing and controlling the Company's business, with jurisdiction over matters such as the adoption of the Company's general policies and strategies, corporate governance and corporate social responsibility, and risk management and monitoring. It is at all times responsible for compliance with the requirements necessary to maintain the Company's status as a SOCIMI.

The Board of Directors has two committees, an Audit and Monitoring Committee and an Appointments and Remuneration Committee, whose essential purpose is to provide the Board of Directors with support in the performance of its duties relating to the supervision and control of the Company's day-to-day business.

2. BUSINESS PERFORMANCE AND PROFIT (LOSS)

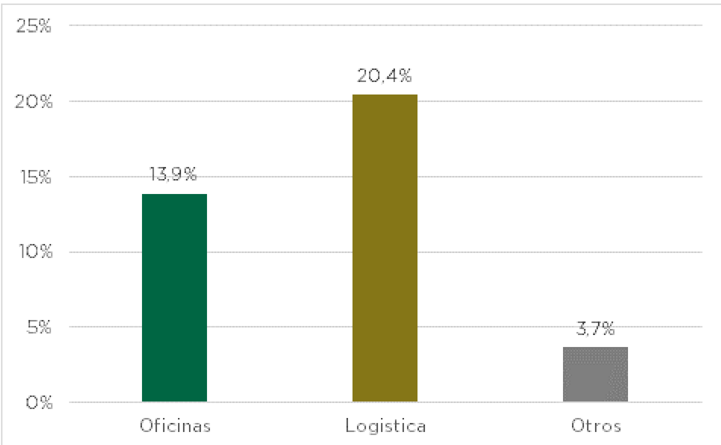
Since it was listed on the stock market in 2014, the Company has engaged in several transactions for the acquisition of real estate assets which have led to positive earnings amounting to €218,238 thousand in 2017, and €148,626 thousand in 2016 when calculated on a consolidated basis.

The "net business turnover" figure from letting the acquired properties has reached €69,670 thousand (€51,011 thousand in 2016).

EBITDA stood at €24,901 thousand in 2017 (€19,850 thousand in 2016). (EBITDA: Earnings before interest, taxes, depreciation and amortisation).

The market value of the Company's assets at 31 December 2017 stood at €1,797,000 thousand, equating to a 37.7% increase on the purchase price and 13.9% on the portfolio in like-for-like terms[1] at 31 December 2016.

The following figure gives a breakdown by segment of the increase in the portfolio's valuation over 12 months, on a like-for-like basis[1]:



The main reasons for the increased valuation of the portfolio over the last year are as follows:

- Active management: some of the growth potential displayed by the portfolio results from the active management of assets. The company's leasing business, combined with rent reviews and the renewal of lease agreements over the period have covered 194,000 sqm, ensuring annual rental income of €18,000 thousand.
- Assets being restructured: The valuation of assets being restructured increased by 18.4% in 2017.
- Growth in turnover: since the beginning of the financial year, turnover from the lease of real estate assets has grown by 36.6% on the previous twelve months. The quality of our portfolio has continued to benefit from the changing trend among tenants towards Grade A real estate assets.

[1] Comparing the same assets included in the portfolio as of 31 December 2017.

- Investor appetite: yields fell over this period, due to increased demand for assets in the Spanish market.

The following tables show a breakdown of the market valuation of our portfolio at 31 December 2017, as determined by CBRE Valuation Advisory, S.A. (RICS):

	GAV 31/12/2017	Acquisition Price	Weighting %	12 months LfL 2017	12 months LfL 2016	Var. %
Offices	**1.324,550**	**992,837**	**73,7%**	**1.076,800**	**945,700**	**13,9%**
Madrid	**1.230,550**	**920,337**	**68,5%**	**1.002,800**	**878,700**	**14,1%**
CBD	537,030	398,772	29,9%	442,280	374,500	18,1%
BD	693,520	521,565	38,6%	560,520	504,200	11,2%
Barcelona	**94,000**	**72,500**	**5,2%**	**74,000**	**67,000**	**10,4%**
Logistics	**328,055**	**201,270**	**18,3%**	**277,655**	**230,600**	**20,4%**
Madrid	274,355	173,850	15,3%	223,955	184,600	21,3%
Barcelona	31,500	18,000	1,8%	31,500	29,500	6,8%
Other	22,200	9,420	1,2%	22,200	16,500	34,5%
Others	**144,350**	**110,500**	**8,0%**	**144,350**	**139,200**	**3,7%**
Total	**1.796,955**	**1.304,607**	**100,0%**	**1.498,805**	**1.315,500**	**13,9%**

3. EPRA INFORMATION

The ratios defined in the EPRA's recommended best practices are as follows:

EPRA indicators	(Thousand euros)	
	2017	**2016**
Adjusted EPRA earnings	30,210	24,036
Adjusted EPRA earnings per share	0.40	0.34
EPRA earnings	9,883	19,272
EPRA earnings per share	0.13	0.27
EPRA NAV	1,244,667	967,817
EPRA NAV per share	15.9	13.8
EPRA NNNAV	1,234,950	956,417
EPRA NNNAV per share	15.7	13.6
EPRA Net Initial Yield (NIY)	3.9%	4.1%
EPRA "Topped-up" NIY	4.1%	4.4%
EPRA vacancy rate	10.5%	14.1%

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR 2017

EPRA Earnings and Earnings Per Share		(Thousand euros)
	2017	2016
Earnings per IFRS income statement	**218,238**	**148,626**
Adjustments to calculate EPRA, exclude:		
(i) Changes in value of investment properties	(208,355)	(129,354)
EPRA earnings	**9,883**	**19,272**
EPRA earnings per share	**0.13**	**0.27**
Company specific adjustments:		
Company specific adjustments:	20,327	4,764
Adjusted earnings	**30,210**	**24,036**
Adjusted earnings per share	**0.40**	**0.34**
Average no. of shares (excluding treasury shares)	76,421,733	56,109,538

EPRA Net Asset Value (NAV)		(Thousand euros)
	31/12/2017	31/12/2016
NAV per the financial statements (*)	**1,245,370**	**965,838**
Effect of exercise of options, convertibles and other equity interests	-	-
Diluted NAV	**1,245,370**	**965,838**
Exclude:	-	-
(iv) Fair value of financial instruments	6,825	9,436
(v.a) Deferred tax assets	(7,528)	(7,457)
EPRA NAV	**1,244,667**	**967,817**
EPRA NAV per share (in euros)	**15.9**	**13.8**

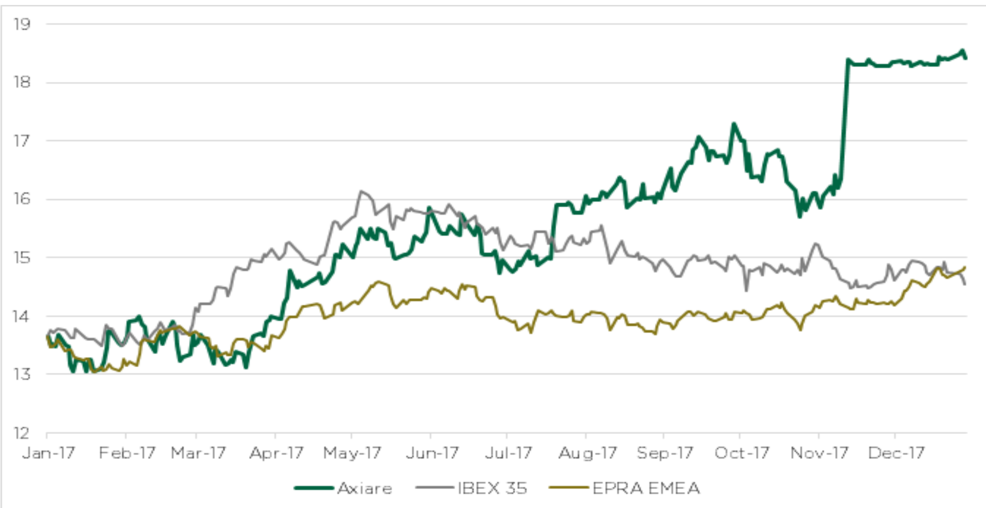
(*) Includes capital gains on San Fernando, Miguel Angel and Peugeot

Triple NAV (NNNAV)		(Thousand euros)
	31/12/2017	31/12/2016
EPRA NAV	**1,244,667**	**967,817**
Include:		
(i) Fair value of financial instruments	(6,825)	(9,436)
(ii) Fair value of debt	(10,420)	(9,421)
(iii) Deferred tax	7,528	7,457
EPRA NNNAV	**1,234,950**	**956,417**
EPRA NNNAV per share	**15,7**	**13.6**

EPRA YIELDS				(Thousand euros)
	Offices	Logistics	Others	Total
Investment property	1,324,550	328,055	144,350	1,796,955
Minus assets under refurbishment	(204,830)	(116,400)	-	(321,230)
Investment property completed	**1,119,720**	**211,655**	**144,350**	**1,475,725**
Estimated real estate asset transaction costs	17,356	2,937	2,237	22,530
Total completed property portfolio valuation (B)	**1,137,076**	**214,936**	**146,587**	**1,498,599**
Annual return on real estate investments	42,719	11,568	8,783	63,070
Operating costs associated with non-recoverable assets	(3,245)	(696)	(753)	(4,694)
Annualised net rents (A)	**39,474**	**10,872**	**8,030**	**58,376**
Temporary rental discounts or rent-free periods	1,850	498	109	2,457
Maximum net return on real estate investments (c)	**41,324**	**11,370**	**8,139**	**60,833**
EPRA NIY (A/B)	**3.5%**	**5.1%**	**5.5%**	**3.9%**
EPRA "Topped-up" NIY (C/B)	**3.6%**	**5.3%**	**5.6%**	**4.1%**

VACANCY RATE				(Thousand euros)
	Offices	Logistics	Others	Total
ERV of available spaces	7,096	913	214	8,223
Total ERV	53,909	13,566	10,790	78,265
EPRA Vacancy rate	**13,2 %**	**6.7%**	**2.0%**	**10.5%**

4. PERFORMANCE OF THE COMPANY'S SHARES



The graph shows the share price performance in 2017, starting from a listed price of €13.65/share on the first trading day of the year and reaching €18.42/share at 31 December 2017.

5. TREASURY STOCK

Movements in treasury stock over the period have been as follows:

	2017		2016	
	Number of treasury shares	**Thousand euros**	**Number of treasury shares**	**Thousand euros**
Opening balance	1,536,266	18,678	416,928	4,631
Additions/purchases	547,445	8,284	2,797,932	33,693
Reductions	(1,540,876)	(20,043)	(1,678,594)	(19,646)
Closing balance	**542,835**	**6,919**	**1,536,266**	**18,678**

Shares owned by the Company itself at 31 December 2017 represented 0.68% of the Company's share capital (2.11% at 31 December 2016) and totalled 542,835 shares (1,536,266 shares at 31 December 2016). The average cost of the Company's own shares was €12.746 per share (€12.158 per share at 31 December 2016).

These shares are registered, thus reducing the value of the Company's equity on 31 December 2017 to €6,919 thousand (€18,678 thousand on 31 December 2016).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares in the Company.

6. DIVIDEND POLICY

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs (Spanish Real Estate Investment Trusts) are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.

b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.

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

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

When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

The dividend to be distributed by the Axiare Group is determined on the basis of its profits for the year, calculated under the Spanish GAAP. The following table outlines the difference between the IFRS result and the Spanish Gaap result, which was the basis for the calculation of the dividend distribution:

Reconciliation of Spanish GAAP to IFRS		(Thousand euros)
	2017	2016
Profit (loss) for the year under the Spanish GAAP	**17,615**	**13,792**
Adjustments:		
(i) Consolidation	(23,784)	(7,849)
(ii) Amortisation of investment properties	16,072	13,329
(iii) Changes in value of investment properties	208,335	129,354
Earnings per IFRS income statement	**218,238**	**148,626**

The following table shows the calculation of the dividend according to SOCIMI rules:

PROPOSAL FOR DISTRIBUTION OF THE PROFITS		(Thousand euros)
		2017
Profit (loss) for the year		
Profits		17,615
Distribution		
Legal reserve	10% of Profits	1,762
Interim dividend	62% of Profits may be distributed	10,946
Dividend	38% of Profits may be distributed	4,907

7. RISK MANAGEMENT

Axiare Patrimonio has a risk monitoring system in place that covers its operations and suitably matches its risk profile. Risk management policies are monitored by the Board of Directors.

The main risk to attaining the Company's objectives concerns compliance with the necessary legislative requirements to ensure it retains its SOCIMI status.

The risk monitoring system also includes the management of financial risk. The policies applied in order to hedge against each type of risk are detailed in the accompanying Notes.

Note 3 of the notes to the annual accounts gives details of the Group's risk management activities.

8. AVERAGE PAYMENT PERIOD TO SUPPLIERS

The following table shows a breakdown of the payments that are due for commercial operations completed during the year and that remained pending on the date on which the balance sheet was closed, with reference to the maximum payment deadlines provided for under Act 15/2010 and subsequently modified under Act 31/2014:

	2017	2016
	Days	Days
Average payment period to suppliers	26	35
Ratio of transactions paid	26	36
Ratio of transactions pending payment	27	20
	Amount (Thousand euros)	Amount (Thousand euros)
Total payments made	222,448	221,378
Total payments pending	3,880	4,436

9. THE TEAM

The team of professionals who make up Axiare Patrimonio is one of the Company's main strengths. Since its incorporation, the Group has selected the necessary personnel to develop its strategy and achieve its objectives.

Axiare Patrimonio is a self-managed real estate investment group whose management team forms an integral part of its organisational structure.

This internal team works exclusively for the company and its shareholders on a full-time basis. The team comprises specialist professionals with extensive experience, a recognised track record in the real estate sector and a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations over short periods of time and complete all aspects of the value creation process; from identifying the investment to actively managing the property and its rotation potential.

The Company is overseen by a Board of Directors, the broad majority of whom are independent directors, who combine skills in the real estate, financial and legal sectors. The Board is advised by an Investments Committee, an Appointments and Remuneration Committee and an Audit and Monitoring Committee that oversee compliance with the investment and profitability requirements established by the Company.

Axiare Patrimonio has assembled a strong team of real estate professionals who together have accumulated more than 100 years' experience and who devote their time exclusively both to the creation of value for the company and the shareholders and to the satisfaction of their customers. Their specialist skills and existing contact network provide the management team with access to unique investment opportunities in the Spanish real estate market.

10. MAJOR EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

On 13 November 2017, the company Inmobiliaria Colonial, SOCIMI S.A. submitted Prior Notice of an Offer to the National Securities Markets Commission (CNMV), as required under Article 16 of the Royal Decree on Takeover Bids, and on 24 November 2017, Colonial submitted an application to the CNMV for authorisation of its Offer, pursuant to the terms set out in Article 17 of the Royal Decree on Takeover Bids. This application was accepted on 7 December 2017.

On 28 December 2017, the National Securities Markets Commission authorised the Takeover Bid for shares in Inmobiliaria Colonial, SOCIMI S.A. on all the shares held by Axiare Patrimonio Socimi, S.A., at a price of €18.36 per share.

The Offering will be governed by the contents of the consolidated text of the Spanish Stock Market Act approved by Royal Legislative Decree 4 of 23 October 2015, as well as by Royal Decree 1066 of 27 July 2007, on the rules governing initial public share offerings, and by any other applicable legislation.

As a consequence of the aforementioned Takeover Bid, and pursuant to the incentive plan approved on 7 May 2015 by the General Shareholders Meeting (mentioned in Note 2.18), in the event of any change in control over the company an incentive would accrue for the management team.

In the significant event published the 8th of January of 2018 on the CNMV, the report from the Board of Directors in relation with the voluntary takeover bid launched by Colonial says:

"***8.4 OPINION OF THE BOARD OF DIRECTORS***

In accordance with article 24 of Royal Decree 1066/2007, the Board of Directors is required to issue a detailed and reasoned report on each and all of the takeover bids for the Company that have been authorized by CNMV.

Based on the considerations and opinions expressed herein, as well as on the information contained in the Prospectus, the Board of Directors, in view of all the terms and characteristics of the Bid and its effect on the Company's interests, assesses the Bid Price positively, thus, it expresses a favourable opinion regarding the Bid; however, it believes that the consideration offered does not fully reflect the intrinsic value of Axiare's shares in the context of the Bid and, therefore, considers that there is potential for its improvement.

[…]

9. INTENTION TO ACCEPT THE BID IN CONNECTION TO THE OWN SHARES WHICH AXIARE HOLDS IN TREASURY

With regard to the own shares that the Company holds in treasury, which as of the date of this report amount to 542,835 shares representing 0.687% of its share capital (as communicated by Axiare to the market by relevant fact on 20 November 2017, register number 258,726), the Board of Directors declares its intention to accept the Bid, in line with the opinion expressed by the Board of Directors."

On 2 February 2018, Inmobiliaria Colonial gave notice that, following settlement of the Takeover Bid, its shareholding had risen to 86.86%. This means that the amount accruing under the said plan totals €36,000 thousand in 2018.

11. COMPANY PERFORMANCE FORECAST

The Axiare Patrimonio Group has investment capacity with regard to its cash flows and it has the capacity to finance the assets that remain pending financing. In 2018 the Group will continue to pursue its investment strategy, which focuses on commercial properties in Spain.

The Group will also continue to actively manage its properties, focusing on improving leases expiring in 2018, as well as occupancy.

Several of the Group's assets are undergoing refurbishments which are scheduled to be completed during the 2018 financial year.

Notwithstanding the foregoing, the way that Grupo Axiare Patrimonio can be expected to perform is closely conditioned by the Takeover Bid mentioned in the previous section.

SCHEDULE: Annual Corporate Governance Report

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR THE YEAR 2017

Pursuant to the requirements set out in Article 253 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, on 14 February 2018 the members of the Board of Directors of Axiare Patrimonio Socimi, S.A. prepared the consolidated annual accounts and the consolidated management report for the financial year ending on 31 December 2017, which comprise the attached documents that precede this written submission.

Luis María Arredondo Malo
Chairman

Luis Alfonso López de Herrera-Oria
Board Member

Fernando Bautista Sagüés
Board Member

David Jiménez-Blanco Carrillo de Albornoz
Board Member

Cato Henning Stonex
Board Member

SCHEDULE 1

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

ISSUER'S IDENTIFICATION DATA

FINANCIAL YEAR CLOSING DATE	31/12/2017
SPANISH TAX ID (C.I.F.)	A86971249

COMPANY NAME
AXIARE PATRIMONIO SOCIMI, S.A.

REGISTERED OFFICE
JOSÉ ORTEGA Y GASSET, 29, 5ª PLANTA, 28006 MADRID

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A OWNER STRUCTURE

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
31/12/2017	790,624,860.00	79,062,486	79,062,486

Indicate whether different types of shares exist with different associated rights:

Yes No ☒

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors:

Shareholder's name or corporate name	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
INMOBILIARIA COLONIAL, S.A.	22,762,089	0	28.79%
CITIGROUP GLOBAL MARKETS LIMITED	3,878,528	8,444	4.92%
T. ROWE PRICE ASSOCIATES, INC	4,393,224	0	5.56%
THE GOLDMAN SACHS GROUP, INC.	60,445	2,504,699	3.24%
SAND GROVE CAPITAL MANAGEMENT LLP	0	5,327,230	6.74%

Name or corporate name of the indirect owner of the stake	Via: Name or corporate name of the direct owner of the stake	Number of voting rights
CITIGROUP GLOBAL MARKETS LIMITED	CITIGROUP GLOBAL MARKETS LIMITED	8,444
THE GOLDMAN SACHS GROUP, INC.	THE GOLDMAN SACHS GROUP, INC.	2,504,699
SAND GROVE CAPITAL MANAGEMENT LLP	SAND GROVE CAPITAL MANAGEMENT LLP	5,327,230

Please indicate the most significant movements in shareholding structure during the year:

Shareholder's name or corporate name	Date of the operation	Description of the operation
INMOBILIARIA COLONIAL, S.A.	12/11/2017	Share capital holding has exceeded 25%
SAND GROVE CAPITAL MANAGEMENT LLP	15/12/2017	Share capital holding has exceeded 5%
DAVID EINHORN	04/04/2017	Share capital holding reduced to below 5%
PELHAM CAPITAL LTD	14/11/2017	Share capital holding reduced to below 5%
DAVID EINHORN	20/07/2017	Share capital holding reduced to below 3%
GIC PRIVATE LIMITED	13/11/2017	Share capital holding reduced to below 3%
J.P. MORGAN SECURITIES PLC	07/06/2017	Share capital holding reduced to below 5%
DEUTSCHE BANK AG	13/11/2017	Share capital holding reduced to below 5%

Shareholder's name or corporate name	Date of the operation	Description of the operation
AMBER GLOBAL OPPORTUNITIES MASTER FUND LTD.	13/11/2017	Share capital holding has exceeded 1% (only tax havens)
CITIGROUP GLOBAL MARKETS LIMITED	20/07/2017	Share capital holding reduced to below 5%
GRUSS CAPITAL MANAGEMENT LLP	16/11/2017	Share capital holding reduced to below 2% (only tax havens)
WELLINGTON MANAGEMENT GROUP LLP	07/12/2017	Share capital holding reduced to below 3%
GAM INTERNATIONAL MANAGEMENT LIMITED	22/02/2017	Share capital holding reduced to below 3%
GAM INTERNATIONAL MANAGEMENT LIMITED	15/02/2017	Share capital holding reduced to below 5%
BANK OF AMERICA CORPORATION	14/11/2017	Share capital holding has exceeded 5%
BANK OF AMERICA CORPORATION	16/11/2017	Share capital holding reduced to below 3%
BANK OF AMERICA CORPORATION	15/11/2017	Share capital holding reduced to below 5%
LANDSDOWNE PARTNERS INTERNATIONAL LIMITED	05/05/2017	Share capital holding reduced to below 2% (only tax havens)
LANDSDOWNE PARTNERS INTERNATIONAL LIMITED	20/07/2017	Share capital holding reduced to below 1% (only tax havens)

A.3 Complete the following tables regarding Company Directors holding voting rights through company shares:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	1,406,653	17,388	1.80%

Name or corporate name of the indirect owner of the stake	Via: Name or corporate name of the direct owner of the stake	Number of voting rights
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	RODEX ASSET MANAGEMENT S.L.	17,388

% of voting rights held by the Board Members	1.80%

Complete the following tables regarding Company Directors holding rights over company shares

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Capital Companies Act. Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes No X

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

There are no concerted actions among the shareholders of the Company.

A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the company pursuant to article 4 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify:

Yes No ☒

Observations

A.8 Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
542,835	0	0.68%

(*) Via:

Give details of any significant changes during the year pursuant to Royal Decree 1362/2007:

Detail the significant variations

In 2017, a total of 1,198,579 of the Company's treasury shares were delivered following the accrual of the share incentive plan.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting to issue, buy back and/or transfer treasury shares.

The Ordinary General Shareholders Meeting held on 20 May 2017 agreed to authorise the derivative acquisition of treasury shares by the Company, or group companies, revoking previous authorisations.

A.9.bis Estimated Floating Capital:

	%
Existing floating capital	50.75

A.10 Give details of any restriction on the transfer of securities and/or any voting rights. Indicate the existence of any restrictions that could complicate the takeover of the company by means of the acquisition of your shares on the market.

Yes No ☒

A.11 Indicate whether the General Shareholders Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

B GENERAL SHAREHOLDERS MEETING

B.1 Indicate, and where applicable detail, if there are differences with the system of minimum quorums established in the Spanish Capital Companies Act (LSC) compared to the quorum for the constitution of the General Shareholders Meeting.

Yes No ☒

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Capital Companies Act (LSC):

Yes No ☒

Describe how they differ from the rules established in the LSC:

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The system of adoption of resolutions stated in the Articles of Association refers to the LSC.

B.4 Indicate the attendance figures for the General Shareholders Meetings held during the year that refer to this report and those of the previous year:

	Attendance data				
Date of General Shareholders Meeting	% of physical presence	% proxy voting	% remote voting		Total
			Electronic vote	Others	
12/05/2016	0.01%	47.94%	0.00%	2.58%	50.53%
20/06/2017	17.85%	43.30%	0.00%	2.77%	63.92%

B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the general shareholders' meeting:

Yes No ☒

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website, as well as other information on General Shareholders Meetings which must be made available to shareholders on the Company website.

The company website is www.axiare.es
In order to obtain information on corporate governance and general shareholders meetings, click on the tab "Investors Area" and then on the tab "Corporate Governance" or "General Shareholders Meeting".

C. COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors included in the Articles of Association:

Maximum number of Directors	7
Minimum number of Directors	5

C.1.2 Complete the following table with board member's details:

Name or corporate name of Director	Representative	Position of the Director	Director position	Date of first appointment	Date of last appointment	Election procedure
LUIS ALFONSO LOPEZ DE HERRERA-ORIA		Executive Director	CHIEF EXECUTIVE OFFICER (CEO)	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
LUIS MARIA ARREDONDO MALO		Independent Director	CHAIRMAN	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
FERNANDO BAUTISTA SAGÜÉS		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
CATO HENNING STONEX		Independent Director	DIRECTOR	20/06/2017	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Total number of Directors	**5**

Indicate any Board Members who left during the period:

C.1.3 Complete the following tables on the members of the board and their specific category:

EXECUTIVE DIRECTORS

Name or corporate name of Director	Position in the company's organisational chart
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	CHIEF EXECUTIVE OFFICER (CEO)

Total number of Executive Directors	1
% of the Board	20.00%

PROPRIETARY EXTERNAL DIRECTORS

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director:

LUIS MARIA ARREDONDO MALO

Profile:

He holds a degree in Civil Engineering, with the Professional Medal of Merit from the Civil Engineering College and graduated from the Senior Management Programme at IESE Business School (Navarre University). From 1969 to 2017, Luis María Arredondo Malo held the following positions: Managing Director of Constructora S.A.C.R.A, which forms part of the Belgian company Grupo C.F.E., Constructor and Toll Road Concessionaire, he held this position up until 1978. Managing Director of Corporación Inmobiliaria Hispamer, Grupo Santander, between 1980-1988, this company develops landmark office properties in Madrid and Barcelona. CEO of Inmobiliaria Zabálburu, S.A. between 1988-1994, a property development company that also owned and managed a prime office rental portfolio in Madrid. CEO and subsequently Chairman of Inmobiliaria Urbis, from 1994-2006. Inmobiliaria Urbis has been one of the largest developers and listed rental portfolio owners on the Madrid Stock Exchange. Chairman of Santander Global Property, (Grupo Santander), between 2006-2013. This company developed large projects in Mexico City, Monterrey, Miami and Madrid. He is currently a Consultant Engineer and freely exercises the profession.

Name or corporate name of Director:

FERNANDO BAUTISTA SAGÜÉS

Profile:

Holds a degree in Law from the Deusto University and a diploma in economic science and business studies from ICADE, and has also been a member of the Madrid Law Society (*Colegio de Abogados de Madrid*) since 1981. Fernando Bautista Sagüés became a partner at the law firm J&A Garrigues in 1989 and after its merger with Arthur Andersen, he became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, Fernando Bautista Sagüés was made a partner of Freshfields. He currently works as an independent legal adviser on matters regarding corporate and finance law, is Director of Abante Asesores S.A., is Secretary of the Corporate Social Responsibility Committee at Iberdrola, S.A.

Name or corporate name of Director:

DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ

Profile:

He holds a degree in Business Economics from CUNEF. David Jiménez-Blanco Carrillo de Albornoz worked in Goldman Sachs International between 1995 and 2006, managing the European Industrial Clients Group and the Investment Banking teams in Spain and Portugal. He was the President of Merrill Lynch Capital Markets España, S.A., Sociedad de Valores, between 2006 and 2009, and held the position of Head of the Investment Banking Operating Committee for EMEA (Europe, Middle East and Africa). Since 2010, he has held positions en BK Partners, a company that directly invests in assets in Mexico, and in World Duty Free SpA, a leading airport retail company. He was an Independent Board Director of Atento Inversiones y Teleservicios, and is currently an Independent Board Director at Gawa Capital Microfinanzas. David Jiménez-Blanco Carrillo de Albornoz is currently Managing Director of Restructuring and Strategy at Abengoa.

Name or corporate name of Director:

CATO HENNING STONEX

Profile:

He studied at London School of Economics and Political Science, where he held positions such as Governor, Member of the Endowment Investments Committee, Emeritus Governor and Member of LSE IDEAS. He began his professional career in London, where he took a work placement at Morgan, Grenfell & Co and was subsequently named as Director's Assisatnt for the “European Bond Trading” Department. He later moved to work for J. Rothschild Administration for seven years, as a Fund Manager. In 1996, he founded, along with other founding partners, the company Taube Hodson Stonex (THS), located in London. THS merged with the company Global Asset Management (GAM) in 2016. Mr Stonex, has just founded the company Partners Investments Company LLP, in London, which is his main business activity.

Total number of Independent Directors	4
% of the Board	80.00%

List any Independent Directors who receive from the company or its own group any amount or payment other than Standard Director remuneration or who maintain, or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, Director or Senior Officer of an entity, which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the Board detailing the reasons why the said Director may carry on their duties as an Independent Director.

OTHER EXTERNAL DIRECTORS

List the reasons why these cannot be considered Proprietary or Independent Directors and detail their relationships with the company, its executives or shareholders:

List any changes in the category of each Director that have occurred during the year:

C.1.4 Complete the following table on the number of female Directors over the past four years and their roles:

	Number of female Directors				**% of total Directors of each type**			
	2017	**2016**	**2015**	**2014**	**2017**	**2016**	**2015**	**2014**
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary Director	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent Director	0	0	0	0	0.00%	0.00%	0.00%	0.00%

	Number of female Directors				% of total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
Other External Members	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	0	0	0	0	0.00%	0.00%	0.00%	0.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there are enough female directors on the board to guarantee an even balance between men and women.

Explain of the measures

Although there are no women on the Board of Directors, the Board is committed to balancing out this situation. To that effect, appropriate internal assessments are being made, although so far with these have not been as successful as hoped.

C.1.6 Explain the measures taken, if applicable, by the Appointment Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explain of the measures

As stated above, the company is making the relevant internal assessments on incorporating women onto the Board of Directors.

When, in spite of any measures taken, there are few or no female directors, please explain why:

Explain of the reasoning

The Company has established a policy of selecting Board Directors based on an analysis of the Company’s needs. Candidates for Board Directors will be persons of renowned prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be professionals whose conduct and professional trajectory are aligned with the mission, vision and values of the Company. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It shall also ensure that candidates for Non-Executive Directors have sufficient time available for the proper performance of the role.

C. 1.6 bis Explain the conclusions of the Appointment Committee regarding the verification of compliance with the Directors' Selection Policy and, in particular, how this policy aims to ensure that the number of female Directors will represent at least 30% of the total members of the Board of Directors in 2020.

Explain of the conclusions

The Company has established a policy of selecting Board Directors based on an analysis of the Company’s needs. Candidates for Board Directors will be persons of renowned prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be professionals whose conduct and professional trajectory are aligned with the mission, vision and values of the Company. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It shall also ensure that candidates for Non-Executive Directors have sufficient time available for the proper performance of the role.

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

During the 2017 trading year there was no Director representing shareholders with significant holdings.

C.1.8 Explain, where applicable, the reasons why Proprietary Directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors. Where applicable, explain the reasons why they were rejected.

Yes No X

C.1.9 Indicate whether any Director has resigned before their term of office has expired, whether that Director has given the Board their reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer/s:

Name or corporate name of Director

LUIS ALFONSO LOPEZ DE HERRERA-ORIA

Brief description:

All of the powers accorded to the Board of Directors which may be subject to delegation under Law, the Articles of Association and the Board Regulations.

C.1.11 List the Directors, if any, who hold office as Directors or Executives in other companies belonging to the listed company's group:

Name or corporate name of Director	Corporate name of the group company	Position	Is this role Executive?
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Venusaur, S.L.U	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Investments, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Properties, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Investigación, Desarrollo e Innovación, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Chameleon (Cedro), S.L.U.	Individual representing the Sole Director	YES

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 in Spain, insofar as these have been disclosed to the company:

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its Directors may sit:

Yes No ☒

Explanation of the rules

In accordance with Article 21, section 2.a of the Board of Directors Regulations, under no circumstances may a Director form part of more than 5 Boards of Directors.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the Board of Directors:

Board remuneration (Thousand euros)	11,911
Amount of total remuneration corresponding to accumulated pension rights (Thousand euros)	0
Amount of total remuneration accumulated by the Former Director in pension rights (Thousand euros)	0

C.1.16 List any members of Senior Management who are not Executive Directors and indicate the total remuneration paid to them during the year:

C.1.17 List, if applicable, the identity of those Directors who are likewise members of the Boards of Directors of companies that own significant holdings and/or group companies:

List, where applicable, any relevant relationships, other than those included under the previous heading, which link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

Yes No ☒

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 procedure.

The policy of selecting candidates for a Director establishes that the selection of candidates for the Company's Board of Directors will ensure the following principles:

1. The aim will be to ensure that the Board of Directors comprises a balanced membership with the majority being Non-Executive Directors and with a reasonable ratio of Proprietary and Independent Directors.

2. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It will also ensure that candidates for Non-Executive Directors have sufficient time available to properly carry out the role.

3. Additionally, in the process of selecting candidates for a Director, that the process will begin with a preliminary analysis of the needs of the Company and its Group. This analysis will be carried out by the Board of Directors of the Company, with the advice and prescriptive prior supporting report of the Appointment and Remuneration Committee.

4. The supporting report of the Appointment and Remuneration Committee shall be published when convening the General Shareholders Meeting, to which the ratification, appointment or re-election of each Director is submitted.

5. The Appointments and Remuneration Committee will annually verify that the company is acting in compliance with the Board Member Selection Policy and will detail its findings in the Annual Corporate Governance Report.

The Board of Directors shall conduct an annual self-assessment of its operation and of its Commissions and Committees, in particular the diversity in the composition and competence of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company and of the different Directors, paying special attention to the heads of the different Board Commissions and Committees and will take the appropriate measures for their improvement.

C.1.20 Explain the extent to which the annual appraisal of the Board has given rise to significant changes in its internal organisation and the procedures applicable to its activities:

Description of the amendments

There have been no changes in the internal organisation of the Board due to its evaluation.

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors, assisted, where appropriate, by an External Consultant, regarding the diversity in their composition and competencies, the functioning and composition of their commissions, the performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company and of the performance and contribution of each Director.

The Board of Directors shall conduct an annual self-assessment of its operations and of its Commissions and Committees, in particular the diversity in the composition and competence of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company and of the different Directors, paying special attention to the heads of the different Board Commissions and Committees and will take the appropriate measures for their improvement.

The result of the evaluation shall be recorded in the minutes of the meeting or incorporated as an annex.

The evaluation of Board Commissions and Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report drafted by the Appointments and Remunerations Committee.

Every three years, the Board of Directors shall be assisted in carrying out the evaluation by an External Consultant, whose independence shall be verified by the Appointment and Remuneration Committee.

The business relationships that the Consultant (or any company of its group) maintains with the Company (or any company within the Company group) must be disaggregated in the Annual Corporate Governance Report. The process and evaluated areas will be described in the aforementioned Annual Corporate Governance Report.

C.1.20. Detail the business relations that the Consultant or any company of its group maintain with the company or any company of its group.

None exist.

C.1.21 Indicate the cases in which Directors must resign.

Article 12 of the Board Regulations regulates the dismissal and removal of Directors:

1. Directors must relinquish their post and formalise their resignation when any of the situations occur of incompatibility or prohibition for holding the post of Director provided for in Law, and also in the following cases:

a) In the case of Directors representing major shareholders, when the shareholder at whose instance he was appointed transfers the entire stake that they had in the Company or reduces it to such a level that demands a reduction in the number of its Proprietary Directors.

b) When the Board itself asks for this by a majority of at least two thirds (2/3) of its members, due to the Director having infringed his/her obligations as such, with a prior proposal or report from the Appointment and Remuneration Committee, or when his/her remaining on the Board could endanger the credit and reputation of the Company.

2. In the event that a private individual representing a legal entity Director were to become bound by any of the situations of incompatibility or prohibition for holding the post of Director provided for in Law, the legal entity Director must immediately replace that person.

3. The Board of Directors may not propose the removal of any Independent Director prior to the end of the statutory period for which he/she was appointed, unless there are fair grounds as assessed by the Board following a report from the Appointment and Remuneration Committee. In particular, it shall be understood that just cause exists when the Director has failed to comply with the duties inherent to his/her post, has failed to comply with any applicable recommendation on the subject of corporate governance or has become bound by any of the circumstances preventing his/her appointment as an Independent Director. Notwithstanding the above, it shall also be possible to propose the removal of Independent Directors resulting from takeover bids, mergers or other similar corporate operations that imply a change in the capital structure of the Company when such changes in the structure of the Board arise from the criterion of proportionality stated in article 9, section 3, above.

4. When a Director leaves his/her post before the end of his/her term, whether by resignation or due to any other cause, he/she shall explain their reasons in a letter sent to all members of the Board, notwithstanding the resignation being notified as a significant event and the reason for the resignation being noted in the Annual Corporate Governance Report. In particular, in the event that the resignation of the Director is due to the Board having adopted significant or repeated resolutions regarding which the Director has set down on record his/her reservations and as a consequence of this has decided to resign, this circumstance shall be expressly stated in his/her resignation letter. This provision also applies to the Secretary of the Board, even if he/she is not a Director.

5. Notwithstanding the above, the removal of Directors may be approved by the General Shareholders Meeting at any moment, even when not provided for in the agenda for the meeting.

C.1.22 Section revoked.

C.1.23 Are enhanced majorities required in any type of decision other than those legally stipulated?:

Yes ☒ No

If applicable, describe the differences.

Description of the differences

Article 30, section 5, of the Board Regulations states that in order to approve the necessary report so that the General Shareholders Meeting can approve the establishment of the system of remunerations for Directors and Managers of the Company consisting of providing them with shares or rights on them, the vote in favour of a qualified majority of Directors shall be required.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman of the Board of Directors.

Yes No ☒

C.1.25 Indicate whether the Chairman has the casting vote:

Yes ☒ No

Matters where the Chairman has the casting vote

In general, Articles 40.4 of the Company Articles of Association and 26 of the Board Regulations state that the Chairman has the casting vote in votes held in meetings both of the Board of Directors and of the Executive Committee (since if this Committee is established, the aforesaid Article 26 of the Regulations states that it shall be chaired by the Chairman of the Board).

C.1.26 Indicate whether the Articles of Association or the Board Regulations set any age limit for Directors:

Yes No ☒

C.1.27 Indicate whether the Articles of Association or the regulations of the Board of Directors set a limited term of office for Independent Directors different from that stated by the regulation:

Yes No X

C.1.28 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a Proxy to the board, the procedures thereof and, in particular, the maximum number of Proxy appointments a Director may hold. Also, indicate whether only one Director of the same category may be appointed as a proxy. Where applicable, detail these briefly.

Article 30.2 of the Board Regulations states that although Directors must attend Board meetings in person, they shall be able to be represented by another Director in accordance with the legislation applicable at each moment. The representation must be made especially for the Board meeting under consideration and may be communicated by means of letter, fax, telegram, email or any other means.

C.1.29 Indicate the number of Board meetings held during the year. Indicate how many times the Board has met without the Chairman in attendance. Attendance will also include Proxies appointed with specific instructions.

Number of Board meetings	9
Number of Board meetings with the Chairman in attendance	0

If the Chairman is an Executive Director, indicate the number of meetings held without an Executive Director present or represented and chaired by the lead Director.

Number of meetings	0

Indicate the number of meetings held of the various Board Committees during the year:

Committe	No. of Meetings
AUDIT COMMITTEE	4
APPOINTMENT AND REMUNERATION COMMITTEE	5
BOARD OF DIRECTORS	9

C.1.30 Indicate the number of Board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

Number of meetings with all Directors in attendance	7
% of attendances of the total votes cast during the year	77.78%

C.1.31 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the board are certified previously:

Yes No X

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual accounts prior to their authorisation for issue by the board:

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being presented before the General Shareholders Meeting with a qualified Audit Report.

Article 39 of the Board Regulations regulates relations with the External Auditors in the following terms:

1. Relations between the Board and the Company's External Auditors shall be channelled via the Audit and Monitoring Committee.

2. The Board of Directors shall abstain from contracting audit firms in which the fees which the company and the companies in its group are expected to pay for all items are greater than five percent of the income of the audit firm in Spain during the immediately preceding fiscal year.

3. The Board of Directors shall aim to formulate the annual accounts definitively in such a way that there are no provisos or reservations in the audit report, and in the exceptional case that these exist, both the Chairman of the Audit and Monitoring Committee and the Auditors shall clearly explain to the shareholders the content and scope of those provisos or reservations.

C.1.33 Is the Secretary of the Board also a Director?

Yes   No ☒

If the Secretary does not have the status of Director, please complete the following table:

Name of individual or corporate name of the Secretary	Representative
IVAN AZINOVIC GAMO	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the Auditor, Financial Analysts, investment banks and rating agencies.

Article 34, section 5, of the Board Regulations states the following duties of the Audit Committee in relation to the External Auditor:

(i) To bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor (having to be international firms of acknowledged standing), along with the terms of their contracting.

(ii) To receive information from the External Auditor on a regular basis regarding the audit plan and the results of its execution, and to check that the top management takes its recommendations into account.

(iii) To ensure the independence of the External Auditor and, for that purpose, to ensure that the Company informs the CNMV (Spanish Securities and Exchange Commission) of the change of Auditor as a significant event enclosing a declaration on the possible existence of disagreements with the outgoing auditor and the content of them if there were any, and, in the event of the External Auditor having resigned, to examine the circumstances that gave rise to this.

The Audit and Monitoring Committee must establish the appropriate relations with the accounts auditors or audit companies in order to receive information on those questions that could endanger their independence so that they can be examined by the Audit and Control Committee, and any other questions related to the process of conducting the accounts audits, as well as those other communications provided for in the legislation on accounts audits and in auditing standards. In all cases, they must receive written confirmation each year from the accounts auditors or the audit companies of their independence regarding the bodies that are directly or indirectly related to them, along with information on additional services of any kind that the said auditors or companies have provided for these entities or which have been provided by related parties in accordance with the provisions of the Spanish Accounts Audit Law 19/1988, of 12 July 1988.

(iv) To aid the Company Auditor so that it can accept responsibility for the audits of the companies making up the group, as the case might be.

(v) To ensure that the Company and its Auditor respect the regulation in force about providing different services from the auditing, the limits about the concentration of services provided and, in general, all the rest of the regulation regarding the independence of the Auditor.

Equally, each year prior to the issuing of the audit report on the accounts, the Audit Committee must produce a report in which it states an opinion on the independence of the accounts auditors or audit companies. This report must, in all cases, make a statement regarding the provision of the additional services referred to in section b), point (iii), above.

C.1.36 Indicate whether the Company has changed its external auditing firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same:

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes ☒ No

	Company	Group	Total
Amount from non-audit work (Thousand euros)	0	169	169
Amount for work other than auditing/total amount invoiced by the audit firm (in %)	0.00%	29.44%	29.44%

C.1.38 Indicate whether the audit report on the previous year's annual accounts is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No ☒

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	4	3
No. of years audited by current audit firm / No. of years the company's annual accounts have been audited (%)	100.00%	100.00%

C.1.40 Indicate, where applicable, if there is a procedure through which Directors may receive external advice:

Yes ☒ No

Details of the procedure

Articles 23 and 24 of the Board Regulations regulate the information for Directors in the following terms:

Article 23. Powers of information and inspection

1. So that they can carry out their duties, all Directors may be informed of any aspect of the Company and of its partly owned companies. For these purposes, they shall be able to examine their books, records, documents and other background information concerning corporate operations, being able to inspect all its facilities and communicate with the Company Managers.

2. In order not to disturb the day-to-day management of the Company, the exercise of the powers of information shall be channelled via the Chairman of the Board of Directors, who shall attend to requests made by the Director, providing him with the information directly or putting him in touch with the appropriate points of contact at a suitable level of the organisation.

Article 24. Help from experts

1. In order to assist them in the performance of their duties, External Directors are entitled to obtain the requisite advice and assistance from the company in order to carry out their duties in an appropriate manner, and the advice and services of the Secretary as and when they are needed and at the Company's expense, legal, accounting, financial and any other type of expert

advice provided that these are needed for specific matters of some significance and complexity that arise in the performance of their duties.

2. The request to contract External Advisors or experts must be made to the Chairman of the Board of Directors and shall be authorised by a full meeting of the Board if, in the opinion of the latter:

a) It is necessary for the proper fulfilment of the duties entrusted to the Directors;

b) Its cost is reasonable, in view of the importance of the problem and of the assets and income of the Company;

c) The technical assistance that is received cannot be adequately provided by the Company's own experts and technical staff;

and d) It does not endanger the confidentiality of the information that has to be provided to the expert.

3. In the event that the request for the help of experts is made by any of the Board Committees, this may not be refused unless a majority of the Board considers that the circumstances provided for in section 2 of this article do not apply.

C.1.41 Indicate, and where applicable detail, whether there is a procedure for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes ☒ No

Details of the procedure

Article 29, section 5, of the of the Board Regulations states as follows:

The summoning of Board meetings shall be done by means of letter, fax, telegram, email or any other means, and shall be authorised with the signature of the chairman, or that of the secretary or vice-secretary, by order of the chairman. The summons shall be sent out sufficiently far in advance so that the directors receive it no later than three days before the date set for the meeting, unless the meeting is urgent. This does not apply to situations in which these regulations require greater notice. The summons shall in all cases include the place, date and time for holding the meeting, and its agenda, and, unless the Board of Directors has been constituted or summoned on an exceptional basis for reasons of urgency, it shall be accompanied by the information regarded as necessary for the discussion and adoption of the resolutions on the matters to be dealt with..

C.1.42 Indicate and, where applicable, give details of whether the company has established regulations obliging Directors to inform the Board of any circumstances that might harm the organisation's name or reputation, resigning as the case may be:

Yes ☒ No

Details of the regulations

Article 21 of the Board Regulations governs the duty of notification on the part of Directors:
1. Directors must notify the Company of any stake holdings held personally by the Director or by any of his or her Related Parties in the share capital of any company with the same, complementary or analogous kind of activity as that making up the Company's corporate purpose, and positions held or functions performed in such companies, as well as the performance of any kind of activity complementary to that making up the Company's corporate purpose, whether on the Director's own account or on behalf of any third party. All such information will be included in the notes to the annual accounts and in the Annual Corporate Governance Report, in accordance with legal requirements.

2. Directors must also notify the Company:

a) Of all the posts held and the activities carried out in other companies or entities, as well as any other professional obligations. In particular, and prior to accepting any appointment as a Director or Executive in another company or entity, Directors must consult the Appointment and Remuneration Committee. No Director may, in any case, form part of more than five (5) Boards.

b) Of any material change in their professional situation affecting the nature or condition by virtue of which they had been appointed as Directors.

c) Of any judicial, administrative or other proceedings they may be involved in and that, due to their characteristics or importance, could have a serious impact on the Company's reputation. In particular, all Directors must inform the Company, through its Chairman, of any cases in which they are arraigned or if a court decides to hold a trial involving them in connection with any of the crimes listed in Article 213 of the Spanish Capital Companies Act (LSC). Should such a circumstance arise, the Board shall examine the matter as promptly as possible and adopt any resolutions it may feel are appropriate for the Company's best interests.

d) Of any direct or indirect stake holdings held personally by the Director or by any of his or her Related Parties in the Company's share capital, and of any change in such stake holdings. Of any transactions engaged in, whether directly or indirectly, by the Director or any Related Parties with or in connection with the Company's share capital. For these purposes, the concept of Related Parties shall be deemed to include any other persons considered to have close ties to Directors pursuant to Article 9 of Royal Decree 1,333 dated 11 November 2005, developing the Securities Market Act (Law 24 dated 28 July 1988) with regard to market abuses.

e) In general, of any fact or situation that may be of relevance for their behaviour as a Director of the Company.

C.1.43 Indicate whether any Director has notified the company that they have been indicted or tried for any of the offences stated in Article 213 of the LSC:

Yes No $\boxed{X}$

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken to the date of this report or to be taken by the Board.

C.1.44 List the significant agreements entered by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Axiare Patrimonio Socimi, S.A. has an incentives scheme for company Directors. This plan was approved at the General Shareholders Meeting of 7 May 2015 and can be found in the information prospectus on the Company capital increase with preferential subscription right, registered with the National Securities Market Commission (CNMV) on 14 May 2015.
According to the terms of section 3.2 of the Prospectus, under the heading "Others", if as a consequence of a public share offering, a change in control is involved in accordance with the terms of Royal Decree 1066/2007 of 27 July on public tenders for acquisition of securities, this event shall be considered as a liquidation event as defined in the Incentive Scheme.
This plan may be settled both in shares and in cash, at the Board of Directors discretion.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its Officers, Executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other form of transaction.

Number of beneficiaries: 1

Type of beneficiary: CHIEF

EXECUTIVE OFFICER (CEO)

Description of the Contract:

The services contract entered into by the company and its CEO, Luis Alfonso López de Herrera-Oria, on 5 June 2014, establishes that if the contract is terminated without just cause (i.e. unfair dismissal as defined by the Statute of Workers), the CEO will be entitled to a compensation in cash equivalent to the fixed remuneration of two years or, if higher, to the compensation for unfair dismissal applicable calculated according to the formula provided by the Statute of Workers in force. The company acknowledges the Chief Executive Officer a tenure of four-years for such purpose.

Furthermore, if the Company decides to terminate the contract and unemployment benefits are not granted by the competent public authorities to Luis Alfonso López de Herrera-Oria, the company shall compensate the CEO with an amount equivalent to the unemployment benefits to which he would be entitled if he were legally unemployed when terminating the mercantile relationship, for a maximum period of two years.

In addition, seven directors of the Company, excluding the CEO, have compensation clauses in relation to the conclusion of the employment contract, either for any other reason different of an appropriate disciplinary dismissal, such as the conclusion of the contract at the request of the Director in cases of change of control (company succession, appointment of a new CEO, modification of the main activity of the company or change of control in the shareholding of the Company as consequence of a takeover bid). These clauses were written after the analysis of the work made by different independent consultants, these contracts were signed to be consistent with reasonable market practices, in May 2017.

Indicate whether these contracts have to be reported to and/or authorised by the governing bodies of the company or its group:

	Board of Directors	General Shareholders Meeting
Body authorising clauses	**Ye**	**No**

	Yes	No
Is the General Shareholders Meeting informed of such clauses?		X

C.2 Board Committees

C.2.1 Give details of all the Board Committees, their members and the proportion of Executive, Proprietary, Independent Directors and other external members that form part of them:

AUDIT COMMITTEE

Name	Position	Category
LUIS MARIA ARREDONDO MALO	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	MEMBER	Independent Director

Name	Position	Category
FERNANDO BAUTISTA SAGÜÉS	CHAIRMAN	Independent Director

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%
% of other externals	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The primary function of the Audit Committee is to support the Board of Directors in its oversight role by regularly reviewing the process of preparing economic and financial information, its internal controls and the independence of the External Auditor.

Identify the member of the Audit Committee who has been appointed bearing in mind their knowledge and experience in accounting, auditing or both, and report on the number of years held by the Chairman of this Committee.

Name of the Board Director with experience	FERNANDO BAUTISTA SAGÜÉS
Number of years of the Chairman in the	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Positio	Category
FERNANDO BAUTISTA SAGÜÉS	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	CHAIRMAN	Independent Director
CATO HENNING STONEX	MEMBER	Independent Director

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%
% of other externals	0.00%

Explain the functions attributed to this Committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The main duty of the Appointments and Remuneration Committee is to provide support and assistance to the Board of Directors on the proposed appointment, re-election, approval and dismissal of board members, the setting up and overseeing of payment policy for Board Members and Directors of the Company, the monitoring of Directors' compliance with their duties, particularly as regards conflicts of interest and related-party transactions, and overseeing compliance with the Internal Code of Conduct and Corporate Governance regulations.

BOARD OF DIRECTORS

Name	Positio	Category
LUIS MARIA ARREDONDO MALO	CHAIRMAN	Independent Director
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	VICE CHAIRMAN	Executive Director
FERNANDO BAUTISTA SAGÜÉS	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	MEMBER	Independent Director
CATO HENNING STONEX	MEMBER	Independent Director

% of Executive Directors	20.00%
% of Proprietary Directors	0.00%
% of Independent Directors	80.00%
% of other externals	0.00%

Explain the functions attributed to this Committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The Board of Directors holds the authority to adopt resolutions for a wide range of issues, so long as they are not legally reserved for the statutes or for the General Shareholders Meeting. It holds executive power to manage, administer and represent the company, in and out of court, without detriment to which its activity will essentially be concerned with approving the corporate strategy and organising how to put this into practice.

C.2.2 Complete the following table on the number of female Directors on the various Board Committees over the past four years:

	Number of female							
	2017		**2016**		**2015**		**2014**	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
APPOINTMENT AND REMUNERATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
BOARD OF DIRECTORS	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked

C.2.4 Section revoked.

C.2.5 Indicate, if appropriate, whether the Board Committees are subject to regulations, the place where they are available for consultation and any amendments made during the trading year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The rules for the organisation and operation of the Board's committees are set out in Articles 33, 34 and 35 of the Board of Directors Regulations. The Board of Directors Regulations are published in the Shareholders and Investors section of the Company's website.

No voluntary annual reports have been drawn up on the activities of each committee.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intra-group transactions:

Procedure for the approval of related-party transactions

Article 22 of the Board of Directors Regulations establishes the following procedure in its sections 3, 4 and 5 for the approval of related-party transactions:

1. Subject to the authorisation of the Board, following a favourable report from the Audit and Monitoring Committee, operations carried out by the Company with Directors, significant shareholders or who are represented on the Board, with Directors or with persons related to any of the aforementioned and including those transactions that could give rise to a conflict of interest and any transaction with third parties pursuant to which any Director, significant shareholder or that is represented on the Board, Manager or related person is entitled to receive any compensation, remuneration or commission.
2. The Audit and Monitoring Committee and the Board of Directors, prior to authorising the execution of such transactions by the Company, will assess the transaction from the standpoint of ensuring equal treatment for all shareholders and market conditions.
3. Should the related-party transaction affect a Director, he or she will not be provided with any additional information about the operation or transaction in question and, should the Directors involved be present at the meeting of the Board of Directors or the Audit and Monitoring Committee, then, in addition to being unable to exercise or delegate their voting rights, they must withdraw from the meeting room during the deliberation and vote, if any, about the transaction(s) at sessions of both the Board and the Audit and Monitoring Committee.
4. The prior authorisation of the Board foreseen in sub-section 1 of this Article shall not be required when the following three conditions are simultaneously met:
a) When the transactions in question are carried out pursuant to standard contracts with pre-established conditions that are applied en masse to many customers;
b) When the transactions in question are carried out at prices or with tariffs established at a general level with the party acting as the supplier of the good or service involved.
c) When the amount of the transactions in question do not exceed 1% of the Company's annual revenue.
5. In the case of transactions within the ordinary course of the Company's business and habitual or recurrent in nature, a generic authorisation from the Board shall suffice.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's Managers or Directors:

D.4 List any relevant 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 subject matter and terms set them apart from the company's ordinary trading activities.

In any case, it will be informed of any intra-group transactions carried out with entities established in countries or territories that have the status of tax haven:

D.5 Indicate the amount from related-party transactions.

0 (Thousand euros)

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, Management or significant shareholders.

Article 17 of the Board Regulations governs conflicts of interest in the following terms:

1. A conflict of interest will be deemed to exist in those situations where the interests of the Company or companies in its business group collide, directly or indirectly, with the personal interests of the Director. Directors will be deemed to have personal interest whenever the matter at hand affects the Director personally or a Related Party (as defined below).

2. For the purposes of the present Regulations, "Related Parties" will be considered:

a) With respect to an individual, the following:

(i) The spouse or a person who is spousal equivalent.

(ii) Forebears, descendants and siblings of the person subject to these Regulations or of the spouse (or other person with an analogous emotional relationship) of the person subject to these Regulations.

(iii) The spouses of all forebears, descendants and siblings of the person subject to these Regulations.

(iv) Companies in which the person subject to these Regulations, in their own name or through an intermediary, holds or may hold control, either directly or indirectly, in accordance with the scenarios contemplated in Article 42 of the Business Code.

b) With respect to a legal entity, the following:

(i) Partners or shareholders who hold or may hold control, albeit directly or indirectly, with respect to the person subject to this Regulation with that person being a body corporate, in accordance with the situations considered in article 42 of the Commercial Code.

(ii) Companies which form part of the same business group, as defined in Article 42 of the Business Code, and the partners or shareholders in the same.

(iii) The representative natural person, the managers, de jure and de facto, the liquidators, and the attorneys in fact with general powers to act on behalf of the legal entity subject to this Regulation.

(iv) The persons who, with respect to the representative of the legal person subject to this Regulation are deemed to be connected persons, in accordance with the terms of the previous section for Directors who are natural persons.

3. All conflict of interest situations will be governed by the following rules:

a) Notification: Directors must inform the Board, through its Chairman or Secretary, of any situation affecting them that entails a conflict of interest.

b) Abstention: Directors must refrain from attending and participating in any deliberation and votes on those matters in which a conflict of interest may exist and, in consequence, their presence will not be taken into account in such cases for the calculation of the quorum. In the case of Proprietary Directors, these must refrain from participating in any voting on matters which might imply a conflict of interest between the shareholders who have proposed their appointment and the Company.

c) Transparency: the Company's Annual Corporate Governance Report will inform on any conflict of interest situation involving Directors known to the Company through notification by the person concerned or by any other means.

4. The provisions contained in the present Article may be developed further through the corresponding rules issued by the Company's Board of Directors, including an Internal Code of Conduct.

D.7 Is more than one group company listed in Spain?

Yes No ☒

Identify the listed subsidiaries in Spain:

Listed subsidiary

Indicate whether they have publicly provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Define the possible business relationship between the listed subsidiary company and the other companies in the Group

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms in place to resolve eventual conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the Risk Management System in place at the company, including tax risk.

The company has developed a Risk Management System that not only takes account of the nature of the company, but also allows for the particular economic, geographical and regulatory characteristics of the environment in which the company operates.

The risk management strategy and policy is the responsibility of the Board of Directors. However, all the members of the organisation are stakeholders and are therefore responsible for ensuring the success of the Risk Management System.

E.2 Identify the bodies responsible for preparing and implementing the Risk Management System, including tax risk.

The governing bodies with responsibility for risk management and monitoring are the Board of Directors and the Audit Committee:

Board of Directors

The Board of Directors is the body responsible for approving the company's strategy that is needed for putting it into practice, as well as for supervising and monitoring to make sure that the Management meets the stated targets. As a result, the Board is responsible for ensuring that, in relations with all those parties having a direct or indirect interest in the Company, the laws and regulations are duly complied with, and that the obligations and contracts are fulfilled in good faith, ensuring uses and best practices of the sectors and areas in which the company carries out its activities, and guaranteeing that any additional principles of social responsibility that the company has accepted voluntarily are duly fulfilled. Article 43 of the Company Articles of Association states that the Board of Directors must create and maintain within itself an Audit and Monitoring Committee on a permanent and internal basis.

Audit and Monitoring Committee

Article 44 of the Company Articles of Association attributes to the Audit and Monitoring Committee the fundamental task of acting as support to the Board of Directors in its supervisory work, by means of the periodical review of the process of drawing up economic-financial information, of its internal controls and of the independence of the outside Auditor.

E.3 Indicate the main risks, including tax risk, which may prevent the company from achieving its targets.

The following is a list of some of the main kinds of risk that may be encountered, all of which are covered by the Risk Monitoring System, which derives from Company's real estate and rental property activity.

1. Financial risks.

a) Market risk.

(i) Interest rate risk. The Company's interest rate risk derives from the financial debt. Loans issued at variable interest rates expose the Company to cash flow interest rate risk, which is partially offset by the cash held on deposit at variable interest rates. The increase of the interest risk is also compensated through hedging derivatives.

b) Credit risk

The Company is not exposed to significant levels of credit risk, this being understood to mean the impact that the non-payment of receivables could have on its income statement. The company has policies that ensure that both sales and lettings are made to clients with an appropriate credit history.

c) Liquidity risk

The Finance Department is responsible for managing liquidity risk in order to ensure that the Company meets its existing payment obligations and/or any undertakings arising from new investments. To this end it prepares annual projections of expected cash flows.

2. Market risks.

The Company minimises this type of risk through its own strategy and business model. Axiare Patrimonio invests in prime properties, with strong upside potential in the office, logistics and retail sectors, primarily in the most consolidated areas of Spain. The company has implemented a long-term business plan that focuses on value creation through active management and repositioning of the portfolio, with special attention to environmental sustainability.

3. Economic risks.

Control over these risks in acquisitions is sought by means of a meticulous analysis of the transactions, examining and foreseeing the problems that might arise in the future, and considering the possible solutions to them. In disposals, the main risk resides in a failure to receive the prices agreed in the contracts as a result of the buyers' non-compliance. These risks are sought to be controlled by means of setting up all kinds of guarantees that will, if necessary, allow the total price to be received or the property forming the object of disposal to be recovered.

4. Risks of a legal and fiscal nature.

The company's activities are subject to the legal and fiscal provisions and to the requirements of urban development. Local, regional, national and EU administrations can impose sanctions for breaches of these regulations and requirements. Any changes to this legal and tax set up could affect general planning of the Company activities which, through the corresponding internal departments, and with the assistance of legal and tax advisors, will monitor, analyse and, if appropriate take the necessary measures in this regard.

The risks associated with complying with the specific legislation, would be the following:

a) Judicial and extrajudicial claims. The company's activity can lead to judicial actions being taken in relation to properties being let, even if deriving from actions of third parties contracted by the Company (architects, engineers, construction contractors and subcontractors). The company has various civil liability and damage insurance policies taken out in order to lessen this type of risk.

b) Company responsibilities deriving from its classification as a SOCIMI. All of the Company's activities must comply with Act 11/2009, which sets out the regulations for SOCIMIs. As a result, the Company constantly monitors its own activities and checks that they are in line with the legislation currently in force.

5. Risks regarding the Prevention of Money Laundering and Monetary Infringements

This category of risk is controlled through the prevention and monitoring of transactions carried out by the Company, in accordance with the legislation in force.

6. Risks regarding Personal Data Protection.

These risks are controlled by means of special and standardised clauses to be included in contracts in different situations, which in accordance with the rules regulating this matter, allow any kind of responsibility that may affect the Company.

7. Risks regarding Protection of Consumers and Users.

The company complies with the requirements of the different state and regional rules regarding consumers and users. In fact, it has specific standard contracts for those autonomous communities that have specific legislation in this regard. The company also has an Internal Code of Conduct focused on matters relating to Stock Markets.

Sections V to VII of the Internal Code of Conduct set down the criteria of behaviour and action that recipients of the Code have to follow with regard to securities and instruments that are affected, regarding privileged and relevant information and regarding confidential documents, in order to aid transparency in the undertaking of its activities and proper information and protection for investors.

E.4 Identify if the company has a risk tolerance level, including tax risk.

Axiare Patrimonio's risk tolerance shall be defined as the level of Risk that the organisation is prepared to accept in order to achieve the established strategic objectives. Risk tolerance is shaped by the Company's strategy. It is agreed by the Board of Directors and adequately communicated to the Compliance and Internal Audit Supervisor (in the Risk Assessment analysis, in this Manual, the risk tolerance is defined, which must be updated regularly).

Risk tolerance is defined as the level of variation that the organisation accepts in achieving an objective. It is, therefore, the acceptable threshold for each risk and objective. Risk tolerance is defined by the Appetite and should be updated regularly by the persons responsible in each department for reporting and adequately communicating to the Compliance and Internal Audit Supervisor.

E.5 Identify any risks, including tax risk, which have occurred during the year.

During the trading year none of the aforementioned risks arose.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risk.

The company's risk management and control is designed on the basis of a series of policies and procedures adjusted to the different risks that affect it or which could affect it. The Board of Directors of the company is committed to the risk management and monitoring processes, approving policies, procedures, limits and structure. In its regular meetings, the company's Management Committee, where all the business areas are represented, along with the Financial Management, analyses the situation and evolution of the main risks affecting the company, taking corrective measures if it considers them necessary. The Internal Audit Area, under the supervision of the Audit and Monitoring Committee, provides an independent evaluation of the suitability, sufficiency and efficacy of the internal control system and of the risk management system. Any risk regarded as critical is dealt with by the Management Committee in its regular meetings. The Management Committee proposes the specific plans for response to any critical risk to the Board of Directors. The Board of Directors takes the proposal into consideration, accepting it or modifying it as the case might be.

F INTERNAL RISK MONITORING AND MANAGEMENT SYSTEMS WITH REGARD TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFR).

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR, (ii) its implementation; and (iii) its monitoring.

Responsibility regarding the design, implementation and functioning of the ICFR has been taken on by the Economic Financial Management and the Internal Audit Department of the Company.

In terms of the supervising responsibility of the ICFR by the company, the Board Regulations formally include the basic functions of the Audit Committee, notable among which is that of supervising the process of drawing up and integration of the financial information on the Company.

F.1.2. F.1.2 In relation to the process of elaboration of the financial information, if the following elements do exist:

- 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 tasks and functions, and (iii) deploying procedures so this structure is communicated effectively throughout the company.

Ultimate responsibility for the design and review of the Company's organisational structure lies with the CEO, under the delegation of the Board of Directors.

In terms of the process of preparing the financial information, in addition to the organisational charts, there also exists a clear knowledge among all those involved in the process regarding the specific guidelines, responsibilities and periods for each closure.

- 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.

The Company has a Code of Conduct, compliance with which is mandatory and which shall be approved by the Board of Directors. The aim of this code of conduct is to establish the criteria of action for all those that act on behalf of Axiare Patrimonio and its subsidiary companies. The Code is applicable to all companies that make up Axiare Patrimonio and which link the Board of Directors, and all the company personnel, irrespective of the position they occupy. This Code of Conduct is in addition to the Securities Market Internal Code of Conduct, the social regulation, statuary and other legislation that applies to the activities of Axiare Patrimonio and is also mandatory to all of the companies with which a significant commercial relation is in place. Non-compliance with the terms of this Code shall be deemed infringement and may result in disciplinary measures, which are governed by a disciplinary system.

- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the Code of Conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

The Company has a 'whistle-blowing' channel for matters related to the company's internal regulations and a communications procedure for major incidents at the financial and accounting level.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting regulations, auditing, internal control and risk management.

The Internal Auditing and Finance Department has organised several workshops on internal control assessment within the organisation. It has also organised attendance at seminars on the current economic, accounting and financial situation.

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What the main characteristics of the risk identification process are, including risks of error or fraud, stating whether:

• The process exists and is documented.

The process for identifying risks exists and is based on a Corporate Risks Map along with the analysis of the activity cycles and controls for the most critical areas in order to prepare the financial information.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and how regularly.

The company's risk identification process covers all the objectives of financial information and is updated at least annually. It starts with a preliminary identification of the potential risks by the Heads of the Functional Areas. With that assessment, the risks are prioritised, analysing the need to establish potential improvements and then proceeding to their implementation by the functional areas, with all this process being documented in writing.

In any case, if, during the course of the year, the following were revealed, (i), circumstances not previously identified highlighting possible errors in the financial information or (ii), substantial changes in the operations of the Company, the Economic Financial Management then assesses the existence of risks which have to be added to those already existing.

• 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.

The organisational structure of Axiare Patrimonio is simple and is comprised of Axiare Patrimonio Socimi S.A and its subsidiary companies:

Axiare Investments, S.L.U.
Axiare Properties, S.L.U.
Axiare Investigación, Desarrollo e Innovación, S.L.U.
Venusaur, S.L.U.
Chameleon (Cedro), S.L.U.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The Risk Control and Management Policy takes into account not just risks of a financial nature but also other kinds of risks such as those concerning regulations, technology, reputation, fraud, human resources management, operational risks, etc. Section E.3 of this Corporate Governance Report presents a non-exhaustive description of the main risks the company is exposed to over the course of its activities.

• Which of the company's governing bodies is responsible for overseeing the process.

The Internal Audit Department, supervised by the Auditing and Monitoring Committee is responsible for coordinating and supervising regular updating of risk maps together with supervisors responsible for each of the functional areas, and who ultimately identify any risks for the Company.

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 the financial information and description of ICFR to be disclosed to the securities markets, stating who is responsible in each case and 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, evaluations and projections.

The company has an internal procedure for reviewing financial information (including annual accounts, financial statements for intermediate periods and the Annual Corporate Governance Report), which watches over the process from the moment that information is generated in the Administration and Finances Area up to its approval by the Audit and Monitoring Committee and, finally, by the Board of Directors prior to publication.

Moreover, the company's Risk Control and Management Policy, the strategic definition of which falls to the Board of Directors, which is then implemented by the Management of each of the functional areas and supervised by the Audit and Monitoring Committee, incorporates the need to establish a financial information control system that will bring together criteria, policies, procedures, controls and documentation in that regard.

For each of the processes, narratives and flow diagrams have been developed containing a description of the flows of activities and controls that have a material effect on the financial statements, along with risk and control matrices summarising the risks identified in the narratives and the controls that have been implemented in order to mitigate them. All the narratives, flow diagrams and risk and control matrices have been validated with the owners of the processes, the areas and/or departments which, in the different narratives, are responsible for complying with them and for communicating any change in the processes that can affect their design.

F.3.2 Internal control policies and procedures for IT systems (including secure access, tracking changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The internal control policies and procedures associated with the IT systems are defined by the Corporate Strategy Management, which is supported by the Head of Information Systems. The policies and procedures associated with the information systems are formalised and, as for the rest of the key processes, have narratives, flow diagrams and risk and control matrices. The main risks considered by the Company, to which it provides a response, concern physical security (security copies, maintenance and access to servers, etc.), logic security (access controls, procedures for registrations and withdrawals, protection against viruses and other malware, etc.), segregation of sufficient functions, registration and traceability of information, privacy (LOPD - the Data Protection Law), systems development and systems maintenance.

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.

Activity outsourced to third parties having a greater impact on the financial statements corresponds to the valuation of assets made by an independent expert on the matter. The procedure that has been implemented by the Company in this regard primarily contains recommendations from the CNMV (Spanish Securities and Exchange Commission) made to listed valuation and real estate companies in relation to the valuation of properties. In addition, that process has a narrative, flow diagram and risk and control matrix containing a description of the activities and controls having a material effect on the financial statements.

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, and an up-to-date manual of accounting policies that has been sent to all the company's operating units.

The Company's Administration and Finance Department is in charge of defining and updating accounting policies and for answering doubts and consultations made in that regard. The Company has an Accounting Policies Manual which, among other matters, defines the criteria followed for drawing up the Financial Statements. This manual is being produced under the supervision of the Administration and Finance Management, in compliance with new regulations and/or relevant legislation, as well as the Company's own needs.

F.4.2 Mechanisms for capture and preparation of financial information with homogeneous formats, to be applied and used by all the company or group units, which support the main financial statements and notes and detailed information on the ICFR.

The accounting policies defined by the Administration and Finance Department of the Company are the basis for the preparation of the financial information of both the Company and its subsidiaries. These accounting policies guarantee the application of the same criteria in the preparation of the information and the cohesiveness in its presentation.

F.5 Supervising the operation of the system

Indicate the existence of at least the following components, and specify their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee, as well as if the company has an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. 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.

As stated in Article 44 of the Company Articles of Association, the Audit and Monitoring Committee is responsible for, among other duties, the regular review of the process of drawing up the economic-financial information, for its internal controls and for the independence of the External Auditor. The company has an internal auditing function which reports to the Audit and Monitoring Committee and to the Chairman of the Board, presenting them with the Annual Audit Plan and informing them of the work done and any control weaknesses that have been detected. Also, the Company, in accordance with its undertaking to provide financial information in an efficient manner and with the maximum degree of assurance, has implemented SAP and ERP during the 2017 trading year. Regarding the scope of evaluation of the ICFR, during the course of 2018 a more thorough evaluation is going to be made of the operational efficacy of the controls that have been implemented, by means of using selective samples, along with an updating of the different activity cycles. The works mentioned above will be carried out by the different business areas of the Audit and Monitoring Committee via the Internal Audit function.

F.5.2 If 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 Annual Accounts or other assignments commissioned, 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.

The Audit and Monitoring Committee meets in order to perform its prime function, which is to act as support for the Board of Directors in its supervisory work, by means of the regular review of the process of drawing up economic-financial information, of the function of the internal audit and of the independence of the External Auditor. Along with other possible actions it also carries out the following:

1) Discussion with Internal Auditing in order to:

- Obtain information on the planning, scope and conclusions of the works carried out.
- Obtain information on the state of the processes for improving identified weaknesses and plans of action in that regard.
- Obtain an independent point of view of the financial function on particular questions.
- Obtain the requisite information for ensuring the independence of the Internal Auditor, in compliance with the duties of the Audit and Monitoring Committee.

2) Discussions with External Auditors (with particular significance when they have taken action on any specific matter: Audit reports, limited reviews, etc.) in order to:

- Obtain information on the planning, scope and conclusions of the works carried out.
- Obtain information on internal control weaknesses detected during the course of their work.
- Inform the External Auditor about any matters that could affect their work.
- Discuss with the External Auditor the expected content of its reports.
- Obtain the requisite information for ensuring the independence of the External Auditor in compliance with the

duties of the Audit and Monitoring Committee.

In addition, the Audit and Monitoring Committee will be able to demand additional information or the participation of experts when it comes to analysing topics relating to the compliance of their functions.

F.6 Other relevant information

Not Aplicable

F.7 External auditor review

State whether:

F.7.1 If the ICFR information supplied to the markets 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 Company has not subjected the information on the Internal Control System of the Financial Information to a review by the External Auditor since the operational efficacy of the controls implemented in the company and, therefore, the actual Internal Control System, are currently being evaluated internally.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the Code of Corporate Governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, a detailed explanation of the reasons should be included so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations shall not be acceptable.

1. The Articles of Association 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 the parent company and a subsidiary company are listed on the stock market both companies shall publish details of the following:

   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 General Shareholders 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 that have taken place since the previous Annual General Meeting.

   b) the specific reasons why the company has not acted on any of the Corporate Governance Code recommendations and, should they exist the alternative regulations applicable to the matter in question.

Compliant ☒ Partially compliant Explain

4. The company should draw up and implement a communication and contacts policy 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 points of contact or those charged with its implementation.

Compliant ☒ Partially compliant Explain

5. The Board of Directors should not make a proposal to the General Shareholders Meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of the share capital at the time of such delegation.

   When the Board approves any 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

The Annual General Meeting held on 12 May 2016 agreed to authorise the Board of Directors to increase the share capital as set in Article 297.1.b) of the Spanish Capital Companies Act (LSC), during the maximum period of five years, through monetary contributions and up to a maximum amount equal to half (50%) of the share capital, with the attribution of power to exclude the pre-emptive right, revoking previous authorisations. During 2017 a share capital increase without pre-emptive subscription right was carried out and the corresponding report was published on the company website.

6. That the 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) Operating reports for the Audit and Appointment and Remuneration Committees. c) Audit

   Committee report on related-party transactions.

   d) Corporate social responsibility policy report.

Compliant ☒ Partially compliant Explain

7. The company should broadcast its General Shareholder Meetings live via its website.

Compliant Explain ☒

This recommendation will be reviewed annually and is not expected to be currently reviewed

8. The Audit Committee should ensure that the Board of Directors seeks to present the Annual Accounts to the General Shareholders Meeting, with no reservations or qualifications in the Audit Report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to shareholders of their scope and exceptions.

Compliant ☒ Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend General Shareholder 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 Shareholders Meeting, the company should:

    a) Immediately circulate the supplementary items and new agreement 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 Shareholders 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 Shareholders 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. In the interests of maximum effectiveness and participation, the Board of Directors should ideally have between five and fifteen members.

Compliant ☒ Explain

14. The Board of Directors should approve a Director selection policy that:

    a) Is specific and verifiable.

    b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Shareholders Meeting is convened that shall 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 Appointments 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 seats on the Board, while the number of Executive Directors should be the minimum necessary, 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 of the total of Non-Executive Directors should not exceed the proportion between the capital of the company represented by these Directors and the remainder of the company's capital.

This criterion can be attenuated:

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 with no links to each other.

Compliant ☒ Explain

17. The number of Independent Directors should represent at least one 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 all Board places.

Compliant ☒ Explain

18. Companies should post the following Director particulars on their websites, and keep them permanently updated:

a) Professional profile and background.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) An indication of the Director’s classification, stating, in the case of Proprietary Directors, the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a Company Director.

e) Shares held in the company and any options on them.

Compliant ☒ Partially compliant Explain

19. The Annual Corporate Governance Report, following verification by the Appointments Committee, should explain the reasons for the appointment of Proprietary Directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a seat on the board 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 any Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report by the Appointments Committee. In particular, just cause shall 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 the applicable legislation.

The removal of Independent Directors may also be proposed in the event of a takeover bid, merger or similar corporate operation which makes changes to the company's capital structure, when the changes to the board structure are propitiated by the proportionality criterion set out in Recommendation 16.

Compliant ☒   Explain

22. Companies should establish rules obliging Directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, with mention of any criminal charges brought against them and of any subsequent court proceedings.

If a Director is indicted or tried for any of the crimes stipulated in corporate legislation, the board should examine the matter and, in view of the particular circumstances, decide whether or not the Director should remain in his or her post. The board should also disclose all such determinations in a reasoned fashion in the Annual Corporate Governance Report.

Compliant ☒   Partially compliant   Explain

23. All 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 unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board takes 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 should also apply to the Secretary of the Board, Director or otherwise.

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. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the Annual Corporate Governance Report.

Compliant ☒ Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that Non-Executive Directors have sufficient time available to perform their responsibilities effectively.

Board regulations should establish rules about the number of Directorships their board members can hold.

Compliant ☒ Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items to the agenda.

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 a proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.

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 ☒ Explain Not applicable

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 shall require the express prior consent, duly recorded in the minutes, 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 Articles of Association, 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 Articles of Association 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 ☒

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 applicable to the company.

Compliant ☒ 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 Appointments Committee.

Every three years, the Board of Directors should engage an External Consultant to aid in the evaluation process. This consultant's independence should be verified by the Appointments Committee.

Any business dealings that the Consultant 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 ☒ Partially compliant Explain

37. When the company has an Executive Committee, the breakdown of its members by Director category should be similar to that of the board itself. The Secretary of the Board should also act as Secretary to the Executive Committee.

Compliant   Partially compliant   Explain   Not applicable ☒

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 Executive Committee's minutes.

Compliant   Partially compliant   Explain   Not applicable ☒

39. Audit Committee members, particularly the Chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be 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 or Committees of Appointment and Remuneration should be set forth in the board.

Compliant ☒   Partially compliant   Explain

41. The Head of Internal Audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activity 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 integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles.

    b) Monitoring the independence of the internal audit function; proposing the selection, appointment, reappointment and removal of the Head of Internal Audit; proposing the department's budget; approving the focus and work plans; ensuring that activities focus mainly on the company's major risks; receiving regular feedback on its activities; and verifying that senior management takes account of the findings and recommendations of its reports.

    c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.

2. With respect to the External Auditor:

    a) There should be an investigation of the issues giving rise to the resignation of any External Auditor.

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 Auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for these.

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 Auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, further rules established in order to ensure the independence of the auditors.

Compliant ☒ Partially compliant Explain

43. The Audit Committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.

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. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk (inter alia, operational, technological, legal, social, environmental, political and reputational) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) Establishment of the level of risk the company deems acceptable.

c) Measures in place to mitigate the impact of the risks identified, 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. The company should establish a risk monitoring 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 the correct working of the risk monitoring and management systems and, in particular, that they identify, manage, and adequately quantify all major risks affecting the company.

b) Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.

c) Ensure that the risk monitoring and management systems adequately mitigate risks pursuant to the policy defined by the board.

Compliant ☒ Partially compliant Explain

47. Appointees to the Appointments and Remuneration Committee - or of the Appointments 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

48. Large cap companies should operate constituted Appointments and Remuneration Committees separately.

Compliant Explain Not applicable ☒

49. The Appointments Committee should consult with the company's Chairman and Chief Executive, especially on matters relating to Executive Directors.

Any Board Member should be able to suggest directorship candidates to the Appointments Committee for its consideration, to cover vacant Director positions.

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 the standard conditions for senior officer employment contracts to the board. b) Check

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 remuneration 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 the various 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 Independent Directors.

b) Committees should be chaired by an Independent Director.

c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its Directors and the tasks of each committee, discuss their proposals and reports, and report on their activity and the work carried out to the first board plenary following each meeting.

d) The committees can engage external advisors, when they feel this is necessary to perform their duties.

e) Minutes should be drawn up of meeting proceedings, 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 Appointments 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 the extent to which they are fulfilled.

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 shall 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 conducts.

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, remuneration via the awarding 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. The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant ☒ Partially compliant Explain

58. In the case of variable remunerations, 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 other similar circumstances.

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 shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant ☒ Explain Not applicable

Regarding the objectives that could result in variable remuneration, these may refer to investment or income, efficient management and other matters relevant to effective operation of the company business, however there may be a degree of discretion involved.

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. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the External Auditor's report.

Compliant ☒ Partially compliant Explain Not applicable

61. A significant percentage of Directors' remuneration is linked to handover of shares or financial instruments referenced at their value.

Compliant ☒ Partially compliant Explain Not applicable

62. When the shares or options or rights in shares corresponding to remuneration systems have been allocated, the Directors cannot transfer ownership of a number of shares equivalent to

twice their fixed annual remuneration, nor may they exercise the options or rights granted to them until a term of at least three years has elapsed since their allocation.

The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant   Partially compliant   Explain ☒   Not applicable

According to the incentive scheme approved by the General Shareholders Meeting held on May 7, 2015, shares attributed to the CEO will be subject to a blocking period up to the first anniversary of the date of its concession, subscription or acquisition by the CEO.

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

No similar clause has been included in the Provision of Services Contract signed between the Company and the CEO.

64. Contract 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

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. In this section, you may include any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, industry specific or other ethical principles or standard practices. If appropriate, the code in question shall be identified along with the date of affiliation.

Although it is not detailed in section C.2 of the report, the Company has an Investment Committee that analyses and approves the investments proposed by the CEO. The reason why its composition has not been detailed together with the Audit, Appointment and Remuneration Committee is that some of its members are not members of the Board of Directors.

Its composition is as follows:

Name	Position	Type
Luis Alfonso López de Herrera-Oria	Executive Chairman	
Guillermo Fernández-Cuesta Laborde	Member	-
Fernando Arenas Liñán	Member	-
Stuart William McDonald	Member	-
Iván Azinovic Gamo	Secretary	-

This Annual Corporate Governance Report was adopted by the company's Board of Directors at its meeting held on 14/02/2018.

Indicate whether there have been Directors who have voted against or abstained in connection with the approval of this Report.

Yes ☐ No ☒

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARY COMPANIES

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR THE YEAR 2017

Pursuant to the requirements set out in Article 253 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, on 14 February 2018 the members of the Board of Directors of Axiare Patrimonio Socimi, S.A. prepared the consolidated annual accounts and the consolidated management report for the financial year ending on 31 December 2017, which comprise the attached documents that precede this written submission.

Luis María Arredondo Malo
Chairman

Luis Alfonso López de Herrera-Oria
Board Member

Fernando Bautista Sagüés
Board Member

David Jiménez-Blanco Carrillo de Albornoz
Board Member

Cato Henning Stonex
Board Member

As determined in Article 8.1 (b) of Royal Decree 1362/2007, dated on the 19th October, the members of the Board of Directors of Axiare Patrimonio Socimi, S.A.

Declare:

As far as they are concerned the consolidated financial statements of Axiare Patrimonio Socimi, S.A. (Balance sheet, profit and loss account, statement of changes in net equity, statement of cash flows and memorandum) of the year ended on 31st December, 2017, formulated by the Board of Directors at its meeting held on 14th February, 2018 and prepared in accordance with applicable accounting principles, provide an exact and fair view of the equity, financial situation and results of Axiare Patrimonio Socimi, SA,

Additionally, they state that the supplementary management report of the annual accounts includes a fair analysis of the Company's performance and results and the position of Axiare Patrimonio Socimi, SA, as well as a description of the main risks and uncertainties to be dealed with.

Madrid, 14th February, 2018

D. Luis María Arredondo Malo
Chairman of the Board of Directors

D. Luis Alfonso López de Herrera-Oria
Vice-Chairman of the Board of Directors

D. Fernando Bautista Sagüés
Member

D. David Jiménez-Blanco Carrillo de Albornoz
Member

D. Cato Henning Stonex
Member

Axiare Patrimonio Socimi, S.A

Audit Report
Annual Accounts and
Management' Report
at 31 December 2017

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation"

Independent auditor´s report on the annual accounts

To the shareholders of Axiare Patrimonio Socimi, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Axiare Patrimonio Socimi, S.A. (the Company), which comprise the balance sheet as at December 31, 20x1, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 20x1, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note x of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

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

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How KAM were addressed in the audit
Investment Property Investment properties represent 77% of the Company assets. The Company measures their investment properties at cost less accumulated depreciation and less accumulated impairment losses as noted in notes 3.4 and 6. Investment Properties, which are recorded within the non-current assets caption of the balance sheet amount to 1,076 million Euros as of December 31, 2017. An impairment loss is recorded in the amount by which the book value of an asset exceeds its recoverable value, the latter being understood to mean the fair value of the asset less cost of disposal, or its value in use, whichever is higher. The Company has not booked any impairment charge as of December 31, 2017. The market value of investment property is based on the valuations performed by independent experts, mainly CB Richard Ellis (CBRE). Valuations are performed in accordance with the Appraisal and Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS) published by the International Standards Valuation Committee, whose methodology is described in notes 3.4 and 6 to the accompanying annual accounts. Investment properties are depreciated using the straight-line method, based on the number of years of useful life estimated included in note 3.3.	For all the investment properties acquisitions, we tested the key documentation support, as deed of sales, purchase contracts, or other relevant documents which impact to the acquisition cost. We observe that the useful life used for each class of asset is in accordance with their nature, additionally; we tested the depreciation expense arithmetical calculation for the period. Regarding to the potential impairment charges over investment properties we obtained the valuation carried out by independent experts over which we performed the following procedures: - Assessment of the competence, capacity and independence of the expert. - Verification that the valuations were performed according to the methodology. - Discussion of the key valuation assumptions through sundry meetings with the expert valuers. - Performance of selective tests to check the accuracy of the most relevant data provided by Management to the valuers and used by them in the valuations. - Verification for a sample of properties the main assumptions used taking into account existing market conditions and comparables, with the involvement of our property valuation experts. - Verification that the second valuation performed by another independent expert for some investment is consistent with CBRE's valuation. The competence, capacity and independence of that expert was also verified. Additionally, we assessed the sufficiency of the information disclosed in annual accounts. As a result of the procedures performed, we identified no incidents.

Key audit matters	How KAM were addressed in the audit
Revenue recognition	
The Company provides property rental services, having recorded an amount of €62 million in the income statatement for the year 2017. Property rental income is recognised on a straight-line basis over the lease period. When the Company offers tenants incentives, the effect is recognised as a decrease in rental income over the lease term and on a straight-line basis. The costs related to each lease instalment are recognised as an expense. (Note 3.11) The revenue recognition process is subjected to particular scrutiny during the audit to ensure that the group's consolidated revenue is properly supported. As a consequence of the inherent risk of fraud, we consider it a key audit matter that revenues are recognised as a result of transactions effectively performed within the audited period.	We gained an understanding of the internal control procedures that the Company has in place in the revenue recognition and rental treatment process, including, among others, the procedures for approving lease contracts and changes in the terms thereof. Additionally, an understanding was obtained of the controls over the invoicing process. For a sample of lease contracts we verified that revenues are correctly recognised in accordance with the contract terms and that any lease incentives are recognised on a straight-line basis in accordance with SIC 15 "Operating leases-Incentives", and we corroborated the arithmetic accuracy of the calculation and the impact recognised on revenues from services provided. For a sample, we carried out procedures requesting customer confirmation of the amount invoiced during the year and carried out substantive tests on collections received as an alternative means. We carried out procedures on the financial capacity of customers with outstanding balances and assessed their recoverability. With the collaboration of our IT systems specialists, we carried out a test of computer assisted audit techniques (CAAT) aimed at detecting unusual items. For each category of unusual items, we got an understanding and assessed the reasonableness of the entry by carrying out substantive tests. As a result of the aforementioned tests, we identified no incidents.

Key audit matters	How KAM were addressed in the audit
Significant transactions During the year, several significant transactions were completed which required additional analysis due to their size and the potential complexity of the underlying contractual terms. The key transactions are as follows: - Acquisitions of property amounting to €122 million and advance payments amounting to €14 million. (Note 6) - Sale of investment property amounting to €30 million, the profit got in the transaction amounts to €13 million. (Note 6) - Capital increase in February 2017 amounting to €93 million through the issue of 7,187,498 new shares with a par value of €10 each and at a premium of €3. (Note 11)	For each transaction, we gained an understanding of its nature and accounting treatment in a concordance with the Chart of Accounts approved by Royal Decree 1514/2007 as amended by Royal Decree 1159/2010 and RD 602/2016, to present fairly the Company's equity, financial position and results and accurately reflect cash flow in the cash flow statement. For all acquisitions and sales, we verified the key supporting documentation, such as contracts and purchase-sale deeds, asset valuations at the time of purchase, due diligence reports and other relevant documents. Additionally, we carried out audit procedures on cash movements and bank statements supporting the transaction and deferred payments to the sellers and the costs associated with the transaction in order to obtain sufficient audit evidence of the amounts of the acquisition. With respect to the capital increase, we obtained the Company's capital increase deeds and the independent expert report and analysed them at meetings with Management. Additionally, we carried out audit tests on a sample of invoices and documentation associated with that increase and verified its correct recognition. As a result of the procedures performed, we identified no incidents.

Other information: management report

Other information refers exclusively to the Directors' Report for 2017, the preparation of which is the responsibility of the company's directors, and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the annual accounts does not cover the Directors' Report. Our responsibility for the information contained in the directors' report is defined in auditing regulations which establishes two distinct levels in this regard:

a) A specific level which is applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of the Audit Law, that consists of verifying solely that that information has been provided in the directors' report and if not, reporting this fact.

b) A general level applicable to other information included in the directors' report that consists of assessing and reporting on the consistency of that information and the annual accounts, based on the understanding of the Company obtained in the performance of the audit of those accounts and without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated directors' report are in conformity with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report this fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of ABC, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company´s 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 of preparation and presentation of the annual accounts.

Auditors' responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 legislation governing the audit practice 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 annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, 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 Company´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.
- Conclude on the appropriateness of the directors´ use 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 annual accounts 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 annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company´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 Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts 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.

Report on other legal and regulatory requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 16 February 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on 20 June 2017 appointed us as auditors of the Group for a period of three years, as from the year ended 31 December 2017.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended 31 December 2014

Services rendered

There are no services provided to the Group for services other than the audit of the accounts additional to those indicated in the note 22 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Rafael Pérez Guerra (20738)

16 February 2018

AXIARE PATRIMONIO SOCIMI, S.A.

Annual Accounts at 31 December 2017
and Management Report for the year 2017

CONTENTS OF THE ANNUAL ACCOUNTS OF AXIARE PATRIMONIO SOCIMI, S.A. FOR THE YEAR ENDING 31 DECEMBER 2017

AXIARE PATRIMONIO SOCIMI, S.A.

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016
(Thousand euros)

ASSETS	Note	At 31 December 2017	2016
NON-CURRENT ASSETS			
Intangible Assets	**5**	**1,313**	**235**
Property, plant and equipment		**663**	**475**
Investment property	**6**	**1,075,957**	**921,854**
Long-term investments in group companies		**127,016**	**95,169**
Equity instruments	8	84,040	68,169
Loans to companies	7, 9, 22	42,976	27,000
Long-term financial investments	**7, 9**	**20,754**	**11,688**
Loans to third parties		9,728	4,626
Derivatives	15	231	47
Other financial assets		10,795	7,015
Long-term accruals		**470**	-
		1,226,173	**1,029,421**
CURRENT ASSETS			
Trade receivables and other accounts receivable		**14,064**	**12,771**
Trade receivables for sales and services	7, 9	5,138	2,463
Sundry receivables	7, 9	2,239	4,320
Other credits held with Public Authorities	17	6,687	5,988
Short-term investments in group companies	**7, 9, 22**	**6,139**	**18,401**
Short-term loans to group companies		3,540	3,401
Dividends receivable from group companies		2,599	15,000
Short-term financial investments	**7, 9**	**322**	**169**
Loans to third parties		130	130
Other financial assets		192	39
Short-term accruals		**2,737**	**999**
Cash and cash equivalents	**10**	**155,348**	**123,555**
Cash and banks		155,348	123,555
		178,610	**155,895**
		1,404,783	**1,185,316**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016
(Thousand euros)

EQUITY AND LIABILITIES	Note	At 31 December 2017	2016
EQUITY			
Shareholder equity		**814,785**	**719,487**
Share capital	11 a)	790,625	718,750
Share premium	11 b)	57,431	35,869
Reserves	12	(33,021)	(30,246)
Treasury shares	11 c)	(6,919)	(18,678)
Profit (loss) for the year	13	17,615	13,792
Interim dividend	13	(10,946)	-
Adjustments due to changes in value		**(6,470)**	**(9,436)**
Hedging transactions	15	(6,470)	(9,436)
		808,313	**710,051**
NON-CURRENT LIABILITIES			
Long-term debts		**571,829**	**460,472**
Bank loans and credits	7, 14	554,858	442,568
Derivatives	15	6,701	9,483
Long-term financial lease creditors		59	-
Other financial liabilities	7, 14	10,211	8,421
		571,829	**460,472**
CURRENT LIABILITIES			
Short-term debts		**13,771**	**2,847**
Bank loans and credits	7, 14	13,771	2,847
Trade and other payables		**9,722**	**11,241**
Miscellaneous creditors	7, 14	9,502	11,065
Other debts with Public Authorities	17	220	176
Short-term accruals		**1,146**	**705**
		24,639	**14,793**
		1,404,783	**1,185,316**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	Annual period ended 31 December 2017	Annual period ended 31 December 2016
CONTINUED OPERATIONS			
Net turnover figure	**16 a)**	**61,776**	**50,593**
Provision of services		61,776	50,593
Personnel expenses	**16 b)**	**(23,683)**	**(16,276)**
Wages, salaries and associated costs		(23,367)	(15,996)
Welfare charges		(316)	(280)
Other operating expenses		**(26,597)**	**(14,877)**
External services	16 c)	(14,806)	(10,505)
Taxes		(5,736)	(3,912)
Losses, impairment and change in operating provisions	9	(55)	(460)
Amortisation/depreciation	**6**	**(16,213)**	**(13,386)**
Impairment losses and gains/losses on disposal of non-current assets		**13,169**	**-**
Other results		**9**	**1**
OPERATING RESULTS		**14,461**	**6,055**
Financial income		**14,862**	**15,422**
Financial expenses		**(11,708)**	**(7,685)**
FINANCIAL RESULT	**18**	**3,154**	**7,737**
PRE-TAX RESULT		**17,615**	**13,792**
Income tax	**17**	-	-
INCOME FROM CONTINUOUS OPERATIONS DURING THE FINANCIAL YEAR		**17,615**	**13,792**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

STATEMENT OF CHANGES TO EQUITY FOR THE YEARS ENDING 31 DECEMBER 2017 AND 2016

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES (Thousand euros)

	Note	Annual period ended 31 December 2017	Annual period ended 31 December 2016
Profit (loss) for the year in the income statement	**13**	**17,615**	**13,792**
Due to cash flow hedges	15	2,966	(8,862)
Share capital increase costs	12	(3,095)	-
Other adjustments	12	230	574
Total income and expenses attributed directly to equity		**101**	**(8,288)**
Transfers to the income statement		-	-
Total transfers to the income statement		-	-
TOTAL RECOGNISED INCOME AND EXPENSES		**17,716**	**5,504**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

STATEMENT OF CHANGES TO EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016

B) TOTAL STATEMENT OF CHANGES IN EQUITY (Thousand euros)

	Capital	Share premium	Reserves	Treasury shares	Profit (loss) for the year	Interim dividend	Other equity instruments	Adjustments due to changes in value	TOTAL
	Note 11 a)	Note 11 b)	Note 12	Note 11 c)	Note 13	Note 13		Note 15	
BALANCE AT 31 DECEMBER 2016	**718,750**	**35,869**	**(30,246)**	**(18,678)**	**13,792**	**-**	**-**	**(9,436)**	**710,051**
Distribution of 2016 result	-	-	1,379	-	(1,379)	-	-	-	-
Total recognised income and expenses	-	-	(2,865)	-	17,615	-	-	2,966	17,716
Transactions with shareholders or owners:							-		
Share capital increase	71,875	21,562	-	-	-	-	-	-	93,437
Distribution of dividends (Note 13)	-	-	-	-	(12,413)	(10,946)	-	-	(23,359)
Treasury share transactions (Note 11c)	-	-	-	(730)	-	-	-	-	(730)
Share incentive plan (Note 21)	-	-	(1,289)	12,489	-	-	-	-	11,200
BALANCE AT 31 DECEMBER 2017	**790,625**	**57,431**	**(33,021)**	**(6,919)**	**17,615**	**(10,946)**	-	**(6,470)**	**808,315**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

STATEMENT OF CHANGES TO EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016

B) TOTAL STATEMENT OF CHANGES IN EQUITY (Thousand euros)

	Capital	Share premium	Reserves	Treasury shares	Profit (loss) for the year	Other equity instruments	Adjustments due to changes in value	TOTAL
	Note 11 a)	Note 11 b)	Note 12	Note 11 c)	Note 13		Note 15	
BALANCE AT 31 DECEMBER 2015	**718,750**	**35,869**	**(30,820)**	**(4,631)**	**3,314**	**6,470**	**(574)**	**728,378**
Distribution of 2015 results	-	-	331	-	(331)	-	-	-
Total recognised income and expenses	-	-	574	-	13,792	-	(8,862)	5,504
Transactions with shareholders or owners:								
Share capital increase	-	-	-	-	-	-	-	-
Distribution of dividends (Note 12)	-	-	-	-	(2,983)	-	-	(2,983)
Treasury stock transactions (Note 10)	-	-	-	(14,050)	-	-	-	(14,050)
Share incentive plan (Note 21)	-	-	(331)	3	-	(6,470)	-	(6,798)
BALANCE AT 31 DECEMBER 2016	**718,750**	**35,869**	**(30,246)**	**(18,678)**	**13,792**	-	**(9,436)**	**710,051**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	Annual period ended 31 December 2017	2016
A) CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax result for the year	**13**	**17,615**	**13,792**
Adjustments to profit/loss		**16,799**	**17,320**
Amortisation of fixed assets	5, 6	16,213	13,386
Change in provisions	9	56	460
Income from removal and disposal of fixed assets	6	(13,169)	-
Financial income	18	(14,862)	(15,422)
Financial expenses	18	11,708	7,685
Other income and expenses		16,853	11,211
Changes in working capital		**(13,205)**	**(8,181)**
Debtors and other receivables	7, 9	1,022	1,082
Other current liabilities	8	(2,020)	(984)
Creditors and other payables	7, 14	(10,189)	(5,299)
Other current liabilities		441	589
Other non-current assets and liabilities		(2,459)	(3,569)
Cash flow from operating activities		**21,209**	**22,931**
B) CASH FLOW FROM INVESTMENT ACTIVITIES			
Payments on investments		**(213,143)**	**(289,005)**
Group Companies	8	(19,986)	(92,516)
Intangible assets	5	(1,139)	(235)
Property, plant and equipment		(196)	(21)
Investment property	6	(186,673)	(196,233)
Other financial assets	9	(5,149)	-
Receivables from divestments	**6**	**30,000**	**-**
Investment property		30,000	-
Cash flow from investment activities		**(183,143)**	**(289,005)**
C) CASH FLOW FROM FINANCING ACTIVITIES			
Receivables and payments on equity instruments		**87,660**	**(13,769)**
Issue of equity instruments	11 a)	90,342	-
Acquisition of equity instruments	11 c)	(2,958)	(14,050)
Disposal of equity instruments		230	281
Other receivables		46	-
Receivables and payments on financial liabilities		**129,426**	**158,544**
Receivables on financial borrowings	7, 14	138,649	165,694
Repayment of financial borrowings	7, 14	(13,977)	(591)
Interest received	18	262	379
Dividends received	18	15,000	-
Interest paid	18	(10,508)	(6,938)
Dividends paid and payment with other equity instruments		**(23,359)**	**(21,952)**
Dividends	13	(23,359)	(2,983)
Payment with other equity instruments		-	(18,969)
Cash flow from financing activities		**193,727**	**122,823**
NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS	**10**	**31,793**	**(143,251)**

Notes 1 to 27 to the annual accounts form an integral part of the annual accounts at 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

1. General information

Axiare Patrimonio Socimi, S.A. (hereinafter, the "Company") was incorporated in Spain on 19 March 2014 under the Spanish Capital Companies Act. originally called Axia Real Estate Socimi, S.A., its name was changed to the current one on 7 May 2015. Its registered office is located at Calle José Ortega y Gasset 29, 28006 Madrid.

Its corporate purpose is described in Article 2 of its articles of association and consists of:

- The acquisition and development of urban properties intended for lease.

- The ownership of interests in the share capital of other Spanish Real Estate Investment Trusts (*Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario*, "SOCIMI") or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution.

- The ownership of interests in the share capital of other companies that are both resident and non-resident in Spain, whose corporate purpose is the acquisition of urban properties for lease, and which are governed by the same rules that govern SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, and which meet the investment requirements set out in Article 3 of the Spanish SOCIMI Act.

- The ownership of shares or holdings in Collective Investment Institutions governed by Spanish Collective Investment Institutions Act 35 of 4 November 2003.

The Company may also engage in other ancillary activities, this being understood to mean activities that generate income accounting for less than 20% of the Company's total income over a single tax period.

Any activity that must by law meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially engaged in indirectly by the Company through the ownership of interests in another company or companies with a similar corporate purpose.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

a) Regulatory regime

The Company is regulated under the Spanish Capital Companies Act.

In addition, on 12 June 2014 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs), and is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company, namely:

a) They must have invested at least 80% of the value of their assets in urban properties intended for lease, or in land for the development of properties that are to be used for the same purpose, provided that development begins within three years following its acquisition, or in equity investments in other companies, as set out in Article 2 section 1 of the aforementioned Act.

b) At least 80% of the income from the tax period corresponding to each year, excluding the income deriving from the transfer of ownership interests and real estate properties used by the Company to comply with its main corporate purpose, once the retention period referred to in the following paragraph has elapsed, must come from the lease of properties and from dividends or shares in profits associated with the aforementioned investments.

c) The real estate properties that make up the Company's assets must remain leased for at least three years. Calculation of this term will include the time that the properties have been offered for lease, up to a maximum of one year.

The First Transitional Provision of the SOCIMI Act allows for application of the SOCIMI tax rules under the terms set out in Article 8 of the SOCIMI Act, even when the requirements it contains are not met on the date of incorporation, on the condition that these requirements are met during the two years following the date on which it is decided to opt for application of the said tax rules.

The Company has been listed on the Spanish Stock Market since 9 July 2014.

b) Initial Public Offering

On 13 November 2017, the company Inmobiliaria Colonial, SOCIMI S.A. (hereinafter, "Colonial") submitted Prior Notice of an Offer to the National Securities Markets Commission (CNMV), as required under Article 16 of the Royal Decree on Takeover Bids, and on 24 November 2017, Colonial submitted an application to the CNMV for authorisation of its Offer, pursuant to the terms set out in Article 17 of the Royal Decree on Takeover Bids. This application was accepted on 7 December 2017.

On 28 December 2017, the National Securities Markets Commission authorised the Takeover Bid for shares in Inmobiliaria Colonial, SOCIMI S.A. on all the shares held by Axiare Patrimonio Socimi, S.A., at a price of €18.36 per share.

The Offering will be governed by the contents of the consolidated text of the Spanish Stock Market Act approved by Royal Legislative Decree 4 of 23 October 2015, as well as by Royal Decree 1066 of 27 July 2007, on the rules governing initial public share offerings, and by any other applicable legislation.

2. Bases for presentation

a) True picture

These annual accounts have been prepared from the Company's accounting records and are presented in accordance with the commercial legislation in force and with the rules set out in the General Chart of Accounts approved in Royal Decree 1514/2007 and the amendments made to it by Royal Decree 1159/2010 and Royal Decree 602/2016, with the aim of showing a true and fair view of the assets, the financial position and results of the Company, along with a true picture of the cash flows included in the cash flow statement.

The Company's balance sheet at 31 December 2017 showed a positive working capital amount of €155,825 thousand (€135,102 thousand at 31 December 2016).

b) Non-compulsory accounting principles

Where an accounting principle is compulsory and has a significant effect on the preparation of the annual accounts, there is no instance in which it has not been applied.

c) Critical aspects relating to the valuation and assessment of uncertainty

The preparation of the annual accounts requires the Company to make certain estimates and judgements with regard to the future. These estimates and judgements are continually reassessed and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The resulting accounting estimates, by definition, will rarely match actual results. The estimates and judgements that entail a significant risk of giving rise to a substantial adjustment to the book values of assets and liabilities during the next financial year are discussed below.

Fair value of investment properties

The best evidence of the fair value of investment properties in an active market is the price of similar assets. The Company determines fair value using a range of reasonable values. When making such judgements, the Company uses a series of sources, including:

i. The current prices in an active marketplace of different kinds of properties in varying states of repair and different locations, adjusted to reflect differences with the Company's own assets.

ii. The recent prices paid for properties in other, less active marketplaces, adjusted to reflect changes in economic conditions since the transaction date.

iii. The discounting of cash flows based on estimates resulting from the terms and conditions contained in current lease contracts and, where possible, evidence of the market prices of similar properties in the same location, through the use of discount rates that reflect the uncertainty of the time factor.

Useful life of investment properties

The Company Management establishes the estimated useful life of its investment properties, along with the corresponding charges for depreciation. The useful life of an investment property is estimated on the basis of the period in which each of the elements included under this heading will generate financial profits. At the close of each year, the Company reviews the useful life of its investment properties, and if its estimates differ from the estimates made in the past, the effects of this change are entered prospectively from the financial year in which the change is made.

Income Tax

The company applies the system provided for in Act 11 of 26 October 2009, which governs Spanish Real Estate Investment Trusts (SOCIMIs), which in practice means that, provided that it meets certain requirements, the Company is subject to a Corporate Income Tax rate of 0%.

The Directors monitor compliance with the requirements set out in the relevant legislation in order to secure the tax advantages offered. In this regard, the Directors consider that the necessary requirements will be met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

Share-based payments

On 7 May 2015, the Annual General Shareholders Meeting approved a new remuneration plan based on the Company's own shares, granted to the Axiare Patrimonio team. That plan will be in effect for 7 years and the right to receive shares as an incentive will accrue when the conditions set out in the plan are met for each calculation period (a period of one year, between July and June of the following year).

These conditions principally require the total return for shareholders to be in excess of a specific percentage. This return is measured as the sum of the total dividends distributed plus revaluation of the Net Asset Value, excluding any share capital increase that may have occurred during the calculation period. This payment is therefore focused on the return generated for the shareholder through active management of the portfolio, and not on the size of the portfolio.

In order for this incentive to take effect, shareholders must obtain a return in excess of a threshold of 10%. When the return exceeds this threshold, the incentive corresponds to 20% of any amount by which the threshold is exceeded. This plan does not include any "catch-up" or "promote equalization" mechanism, meaning that this is the only percentage that will be applied when making this calculation.

This incentive accrues and is calculated annually (between July and June of the following year), and it is settled with an award of company shares. The team may not dispose of these shares for a period of one year following their handover.

d) Grouped entries

To facilitate understanding of the balance sheet and the income statement, the entries in these annual accounts are presented in grouped form, and the necessary analysis is set out in the relevant notes to the accounts.

3. Accounting criteria

3.1 Intangible Assets

The IT programme licences acquired by third parties are capitalised applying the costs incurred when purchasing and preparing them to use the specific programmes. These costs will be amortised over their estimated useful lives (six years).

Costs related to IT programme maintenance are accounted for as costs once they have been incurred. Costs that are directly related to the production of unique and identifiable IT programmes controlled by the Company, and which are likely to generate profits for more than one year, are accounted for as intangible assets. The costs of developing IT programmes recognised as assets will be amortised over their estimated useful lives (which do not exceed six years).

3.2 Property, plant and equipment

Property, plant and equipment items are entered at their acquisition price or production cost, minus accumulated depreciation and the accumulated value of any recognised losses.

The costs of major repairs are activated and amortised over their estimated useful life, while recurring maintenance costs are charged to the income statement during the financial year in which they are incurred.

The depreciation of property, plant and equipment (except for land, which is not depreciated) is systematically calculated by the straight-line method according to its estimated useful life, taking account of the actual depreciation caused by its operation, use and benefit. Estimated useful life figures are as follows:

	Depreciation rate (%)
Other facilities	10%
Furnishings	10%
Data processing equipment	25%
Transport items	25%
Other fixed assets	10%

3.3 Investment property

Investment properties include office buildings, logistics warehouses and other items owned by the Company that are held to obtain long-term rental income and are not occupied by the Company. Investment properties are valued at cost of acquisition minus the relevant accumulated amortisation and any losses suffered due to impairment.

Investment properties are depreciated using the straight-line method, based on the number of years of useful life estimated in each case.

	Depreciation rate (%)
Buildings	2%
Technical installations	8%

3.4 Losses due to the impairment of non-financial assets

Assets subject to depreciation are subjected to impairment reviews whenever some event or a change in circumstances indicates that the book value may not be recoverable.

A loss due to impairment is entered in the amount by which the book value of an asset exceeds its recoverable value, the latter being understood to mean the fair value of the asset minus sale costs, or its operational value, whichever is higher.

The Company engages independent experts CBRE to calculate the value of all of its investment properties at least once a year. These valuations are made in accordance with the valuation standards issued by the Royal Institute of Chartered Surveyors (RICS) in the United Kingdom and the International Valuation Standards (IVS) established by the International Valuation Standards Council (IVSC).

When calculating the value of investment properties, consideration is given to the amount that the Company expects to recover as a result of their lease. To this end, projections are made in respect of the cash flows that will be generated, based on the best estimate of leasing rates and on expectations for each individual asset, taking account of any uncertainty that may be caused by a reduction in cash flows or discount rates The operational value of a real estate property will not necessarily be the same as its fair value, insofar as the former will be based on factors that are specific to the organisation, mainly the capacity to ask prices that are above or below market levels, due to the assumption of certain risks or the assumption of costs (construction or marketing in respect of investment properties under development; refurbishment; maintenance; etc.) other than those that are generally associated with companies in the sector, while the latter is the value at which two independent parties would be willing to complete a transaction.

The estimated yields depend on the type and age of the properties and their location. The properties have been valued individually, taking account of the lease agreements in place at the end of the financial year and, where applicable, the forecast value.

The book value of the Company's investment properties is corrected at the end of each financial year with the entry of the relevant loss due to impairment, in order to bring this figure into line with the recoverable value when the fair value is lower than the book value.

When a loss due to impairment is subsequently reversed, the book value of the asset is increased to reflect the corrected estimate of its recoverable amount, though the increased book value may not exceed the book value that would have been allocated of the loss due to impairment had not been entered in previous financial years. Reversals of losses due to impairment are entered in the income statement.

3.5 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included under current assets unless they mature more than 12 months after the balance sheet date, in which case they are entered under non-current assets. Loans and receivables are entered on the balance sheet under "Trade and other receivables".

These financial assets are initially valued at fair value, including directly attributable transaction costs, and are subsequently valued at amortised cost. Accrued interest is entered at the effective interest rate, this being understood to be the updated rate that brings the instrument's book value into line with all estimated cash flows through to maturity. Notwithstanding the foregoing, trade receivables that are due within less than one year are valued at their par value, both when initially entered and on subsequent valuation, provided that the effect of not updating flows is not significant.

At least at the end of each financial year, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

Losses due to impairment are calculated as the difference between book value of the asset in question and the current value of estimated future cash flows, discounted at the effective interest rate at the time of initial entry. Value adjustments, as well as any applicable reversions, are accounted for in the income statement.

Investments in the assets of group companies

These are valued at cost, minus (where applicable) the accumulated amount of any losses due to impairment. If there is objective evidence that the book value is not recoverable, the relevant valuation correction will be made for the difference between the book value and the recoverable amount, which is understood to be either the fair value minus sale costs or the actual value of cash flows from the investment, whichever is higher. Unless there is better evidence of the recoverable amount, when estimating the impairment of these investments, the net equity of the subsidiary company is taken into account and adjusted for the unrealised capital gains existing on the valuation date. Value corrections and, where applicable, their reversal, are entered in the income statement in the financial year in which they occur.

3.6 Financial derivatives and hedge accounting

Financial derivatives are measured at fair value both on initial entry and on subsequent measurement. The method used to enter any resulting gains or losses depends on whether the derivative is designated as a hedging instrument or not and, if so, the type of hedging applied.

Hedging instruments are valued and entered according to their characteristics, insofar as they do not provide, or cease to provide, effective coverage.

In the case of derivatives that do not qualify for hedge accounting, any gains or losses due to changes in their fair value are immediately entered in the income statement.

3.7 Equity

The share capital is made up of ordinary shares.

The costs of issuing new shares or options are entered directly in equity as a reduction in reserves.

In the event that the Company acquires treasury shares, the consideration paid including any incremental cost that is directly attributable, is deducted from equity until the shares are redeemed, issued again or otherwise disposed of. When treasury shares are subsequently sold or reissued, any amount received is moved to equity, net of any directly attributable incremental costs.

Distribution of the result and compulsory payment of dividends

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs (Spanish Real Estate Investment Trusts) are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.

b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires.

If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.

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

The dividend must be paid within one month of the distribution agreement. When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

3.8 Financial liabilities

Debts and payables

This category includes trade and non-trade payables. These third-party resources are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

These payables are initially entered at their fair value, adjusted for directly attributable transaction costs, and subsequently entered at amortised cost using the effective interest rate method. The effective interest rate is the updated rate which brings the instrument's book value into line with expected future payment flows until maturity of the liability.

Nonetheless, trade receivables that are due within less than one year and do not have a contractually agreed interest rate are valued at their par value, both when initially entered and on subsequent valuation, provided that the effect of not updating cash flows is not significant.

3.9 Current and deferred income tax

In accordance with the SOCIMI tax rules, the Company is subject to a Corporate Income Tax rate of 0%.

As established in Article 9.2 of Act 11 of 26 October 2009, with the amendments incorporated via Act 16 of 27 December 2012, the Company shall be subject to a special rate of 19% on the overall sum of the dividends or profit distributions received by shareholders whose stake in the share capital of the Company is equal to or greater than 5%, when those dividends, in the possession of its shareholders, are exempt from or have a tax rate of less than 10% (to this effect, the tax due will be taken into consideration under the Non-Resident Income Tax Act).

However, that special rate will not apply when the dividends or profit shares are received by entities whose purpose is the ownership of interests in the share capital of other SOCIMIs or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, with respect to companies that have a share that is equal to or greater than 5% of the share capital of the SOCIMIs and that pay tax on those dividends or profit shares at a rate of at least 10%.

3.10 Provisions and contingent liabilities

Provisions are valued at the current value of the payments that are expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to provisions as the result of their restatement are entered as a financial expense as they accrue.

Provisions that mature in one year or less and have non-significant financial effects are not discounted. When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party, this reimbursement is entered as an independent asset, provided that its receipt is practically certain.

The Company has signed employment contracts with its Managers (not including Chief Executive Officer) that provide for the possibility that, in certain cases (including a change in control over the Company's shares), they may terminate their contracts with the right to receive either the compensation set out in law or two years' salary at the total amount received, whichever of these amounts is higher. After the analysis of the work made by different independent consultants, these contracts were signed to be consistent with reasonable market practices, in May 2017. At the time at which these accounts are being prepared, it is not possible to make a reliable estimate of the potential employment liability that could arise as a result of the circumstances of the Takeover Bid and the change of control described in Note 27 regarding subsequent events.

3.11 Entering income

Income is stated at the fair value of the consideration to be received and it represents the amounts to be collected for the services rendered during the ordinary course of the Company's activities, minus returns, discounts, rebates and VAT.

Provision of services

The Company provides leasing services. Income earned from the leasing of property is entered as it becomes payable, and profits are entered on a straight-line basis with regard to incentives and initial lease agreement costs.

The costs associated with each rental payment, including any items removed as a result of impairment, are entered as an expense. Properties let out to third parties, all of which are let under operational leases, are included under the heading "investment properties" in the balance sheet.

Interest income

Interest income is entered using the effective interest method. When the value of a receivable is impaired, the Company reduces the book value to its recoverable amount, discounting any estimated future cash flows at the original effective interest rate for the instrument, and the discount is continuously entered in the form of lower interest income.

3.12 Leases

a) When the Company is the lessee - Operating lease

Leases in which the lessor maintains a significant part of the risks and benefits arising from ownership are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are charged to the income statement for the year in which they accrue on a straight-line basis over the lease period.

b) When the Company is the lessor

When assets are leased under an operational lease agreement, the assets in question are entered in the balance sheet according to their individual type. Income earned from the leasing of property is entered on a straight-line basis over the lease period.

3.13 Operational currency and currency in which the accounts are presented

The figures in these annual accounts are presented in thousands of euros, the euro being the currency that the Company uses for both accounting and operational purposes.

3.14 Transactions between related parties

Generally speaking, transactions performed between related parties are initially entered in the accounts at their fair value. Where applicable, if the agreed price differs from the fair value, this difference will be entered, taking account of the real financial conditions of the transaction. It will subsequently be valued in accordance with the provisions set out in the relevant standards.

3.15 Share-based payments

On 7 May 2015, the Annual General Shareholders Meeting approved a new remuneration plan based on the Company's own shares, granted to the Axiare Patrimonio team. That plan will be in effect for 7 years and the right to receive shares as an incentive will accrue when the conditions set out in the plan are met for each calculation period (a period of one year, between July and June of the following year).

These conditions principally require the total return for shareholders to be in excess of a specific percentage. This return is measured as the sum of the total dividends distributed plus revaluation of the Net Asset Value, excluding any share capital increase that may have occurred during the calculation period. This payment is therefore focused on the return generated for the shareholder through active management of the portfolio, and not on the size of the portfolio.

In order for this incentive to take effect, shareholders must obtain a return in excess of a threshold of 10%. When the return exceeds this threshold, the incentive corresponds to 20% of any amount by which the threshold is exceeded. This plan does not include any "catch-up" or "promote equalization" mechanism, meaning that this is the only percentage that will be applied when making this calculation.

This incentive accrues and is calculated annually (between July and June of the following year), and it is settled with an award of company shares. The team may not dispose of these shares for a period of one year following their handover, except in the event of liquidation or a Takeover Bid.

4. Financial risk management

4.1 Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Company's risk management programme focuses on uncertainty in financial markets and seeks to minimise any potential adverse impact on its financial profitability.

Risk management is overseen by the Company's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides policies for overall risk management and policies covering specific areas such as interest rate risk, liquidity risk, the use of derivatives and non-derivatives and investing excess liquidity.

a) Market risk

(i) Interest rate risk

The Company's interest rate risk originates from its debt financing. Loans issued at variable interest rates expose the Company to cash flow interest rate risk, which is partially offset by the cash held on deposit at variable interest rates.

At 31 December 2017 the Company maintained certain loans that were due to mature over the long term, with a variable interest rate linked to the Euribor rate. The Company covers interest rate increases using hedging instruments (Note 15).

(Thousand euros)

b) Credit risk

The company is not exposed to significant levels of credit risk, this being understood to mean the impact that the non-payment of receivables could have on its income statement. The company has policies that ensure that both sales and lettings are made to clients with an appropriate credit history.

c) Liquidity risk

The Company's Finance Department is responsible for managing liquidity risk in order to cover any existing payment obligations and/or any undertakings arising from new investments. To this end it prepares annual projections of expected cash flows.

The maturity dates set for the Company's financial asset and liability instruments at 31 December 2017 and 31 December 2016 are shown in Note 7.

5. Intangible Assets

The following table contains a breakdown of the entries shown for "Intangible assets" and the relevant movements:

		Thousand euros
	IT applications	**Total**
Balance at 31-12-2016	**235**	**235**
Cost	235	235
Accumulated amortization	-	-
Book value	**235**	**235**
Added	1,139	1,139
Allocation to depreciation	(61)	(61)
Balance at 31-12-2017	**1,313**	**1,313**
Cost	1,374	1,374
Accumulated amortization	(61)	(61)
Book value	**1,313**	**1,313**

a) Losses due to impairment

During both 2017 and 2016, no entries were made or reversed in respect of value correction for impairment in relation to any intangible asset item.

(Thousand euros)

b) Fully written down assets

No items had been written down in their entirety at 31 December 2017 or 31 December 2016.

6. Investment properties

Investment properties include office buildings, logistics warehouses and other items owned by the Company that are held to obtain long-term rental income and are not occupied by the Company.

The following table contains a breakdown of the entries shown for investment properties and the movements in these figures:

			Thousand euros
	Plots of Land	Constructions	Total
Book value at 31-12-2015	**309,495**	**433,503**	**742,998**
Added	94,709	97,476	192,185
Allocation to depreciation	-	(13,329)	(13,329)
Balance at 31-12-2016	**404,204**	**517,650**	**921,854**
Cost	404,204	546,289	950,493
Accumulated amortization	-	(28,639)	(28,639)
Book value at 31-12-2016	**404,204**	**517,650**	**921,854**
Added	64,147	122,526	186,673
Removed at cost	(11,636)	(5,785)	(17,421)
Removed at amortised cost	-	923	923
Allocation to depreciation	-	(16,072)	(16,072)
Balance at 31-12-2017	**456,715**	**619,242**	**1,075,957**
Cost	456,715	663,030	1,119,745
Accumulated amortization	-	(43,788)	(43,788)
Book value at 31-12-2017	**456,715**	**619,242**	**1,075,957**

During 2017, the Company acquired four assets for a total of €133.9 million (not including acquisition costs): an office building located at Calle Miguel Ángel 23, in Madrid for €53.4 million (€3.5 million of which had already been paid in advance at 31 December 2016); an office building located at Calle Puerto de Somport 8, in Madrid, for €41.5 million (€4.15 million of which had already been paid in advance at 31 December 2016); an office building located at Sant Cugat del Vallés, in Barcelona, for €19.5 million and 77% of an office building located at Calle Sagasta 27, in Madrid, for €19.5 million.

Agreements have also been signed for the acquisition of two turn-key projects; an office building at Josefa Valcárcel 40 in Madrid, at a cost of €29.7 million, delivery of which is expected in 2018, and Phase 2 of the logistics platforms in San Fernando de Henares (Madrid), at a cost of €38 million delivery of which is scheduled for January 2019. A total of €12 million was paid out in respect of these two projects during 2017.

The Company also continued with the development of Phase 1 of the turn-key logistics platform project in San Fernando de Henares in Madrid, which was started in 2016, at a total cost of €45 million of which a €29 million had been paid out as of 31 December 2017 (€17 million as of 31 December 2016).

On 14 December, the Company sold the office building located at Calle Fernando el Santo 15 in Madrid, at a price of €30 million. The asset was entered by the Company with a net book value of €16.498 million.

The market value of investment properties at 31 December 2017 amounted to €1,563,955,000 (€1,458,555 thousand with the inclusion of the advance payments on the two phases of the San Fernando project and the building at Josefa Valcárcel 40 bis). The market value of investment properties at 31 December 2016 amounted to €1,283,600 thousand (€1,148,608 thousand with the inclusion of the advance payment on the San Fernando property and two purchase options).

At 31 December 2017, mortgages had been taken out on certain properties with a total market value of €1,383,055 thousand (€1,024,100 thousand at 31 December 2016), to guarantee compliance with the obligations assumed in connection with the financing obtained by the Company. At 31 December 2017, the nominal value of this financing amounted to €577,347 thousand (€452,594 thousand at 31 December 2016) (Note 14).

a) Losses due to impairment

During both 2017 and 2016, no entries were made or reversed in respect of value correction for impairment in relation to any real estate investment.

b) Fully written down assets

No items had been written down in their entirety at 31 December 2017 or 31 December 2016.

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(Thousand euros)

c) Income and expenses on investment properties

The following income and expenses on investment properties have been detailed in the income statement.

	Thousand euros	
	2017	**2016**
Rental income	61,766	50,593
Expenses for the operations resulting from investment properties that generate rental income	(14,426)	(12,671)
Expenses for the operations resulting from investment properties that do not generate rental income	(215)	(302)
	47,125	**37,620**

The operating expenses that result from investment properties include external services (Note 16) and other taxes (mainly, the Spanish Property Tax, "IBI").

d) Operating leases

The total amount of future minimum receivables from non-cancellable operating leases is as follows:

	Thousand euros	
	2017	**2016**
Less than one year	51,941	36,053
Between one and five years	109,145	78,189
More than five years	42,560	7,960
	203,646	**122,202**

(Thousand euros)

e) Insurance

The Company maintains a policy of taking out all the insurance policies necessary to cover any possible risk that might affect any aspect of its investment properties. The coverage in these policies is deemed to be sufficient.

7. Analysis of financial instruments

7.1 Analysis by category

The book value of each of the categories of financial instruments established in the regulations on the recording and valuation of "financial instruments", excluding investments in group company equity (Note 8), is as follows:

	Thousand euros					
	Long-term financial assets					
	Equity instruments		**Debt values**		**Credits Derivatives Others**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Loans and receivables (Note 9)	-	-	-	-	63,730	38,688
	-	-	-	-	**63,730**	**38,688**
	Short-term financial assets					
	Equity instruments		**Debt values**		**Credits Derivatives Others**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Loans and receivables (Note 9)	-	-	-	-	13,838	25,353
	-	-	-	-	**13,838**	**25,353**
Total financial assets	-	-	-	-	**77,568**	**64,041**

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	Thousand euros					
	Long-term financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Creditors and payables (Note 14)	554,917	442,568	-	-	16,971	17,904
	554,917	**442,568**	-	-	**16,971**	**17,904**

	Short-term financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Creditors and payables (Note 14)	13,771	2,847	-	-	9,502	11,065
	13,771	**2,847**	-	-	**9,502**	**11,065**
Total financial liabilities	**568,688**	**445,415**	-	-	**26,473**	**28,969**

(Thousand euros)

7.2 Analysis by maturity date

At 31 December 2017 and 31 December 2016, the value of financial instruments with a specific maturity date or with a maturity date falling within a specific year was as follows:

At 31 December 2017:

	Thousand euros						
	Financial assets						
	2018	**2019**	**2020**	**2021**	**2022**	**Subsequent years**	**Total**
Other financial investments:							
- Loans to group companies	3,540	12,000	2,000	25,000	500	3,476	**46,516**
- Loans to third parties	-	-	-	-	-	9,728	**9,728**
- Derivatives	-	-	-	232	-	-	**232**
- Long-term guarantees in place	-	2,265	2,284	2,206	1,119	2,920	**10,794**
Trade receivables:							
- Trade receivables	7,377	-	-	-	-	-	**7,377**
- Investments in group companies	2,599	-	-	-	-	-	**2,599**
- Loans to third parties	130	-	-	-	-	-	**130**
- Other financial assets	192	-	-	-	-	-	**192**
	13,838	**14,265**	**4,284**	**27,438**	**1,619**	**16,124**	**77,568**

(Thousand euros)

	Financial liabilities						
	2018	2019	2020	2021	2022	Subsequent years	Total
Debts:							
- Derivatives	-	-	-	95	2,584	4,022	**6,701**
- Long-term guarantees received	-	2,143	2,160	2,087	1,059	2,762	**10,211**
- Bank loans and credits	13,771	10,578	38,708	79,644	208,741	217,246	**568,688**
Trade payables:							
- Creditors and other payables	9,502	-	-	-	-	-	**9,502**
	23,273	**12,721**	**40,868**	**81,826**	**212,384**	**224,030**	**595,102**

At 31 December 2016:

	Thousand euros						
	Financial assets						
	2017	2018	2019	2020	2021	Subsequent years	Total
Other financial investments:							
- Loans to group companies	-	-	-	2,000	25,000	-	**27,000**
- Loans to third parties	-	-	-	-	-	4,626	**4,626**
- Derivatives	-	-	-	-	47	-	**47**
- Long-term guarantees put in place	-	2,351	1,336	1,225	1,090	1,013	**7,015**
Trade receivables:							
- Trade receivables	6,783	-	-	-	-	-	**6,783**
- Investments in group companies	18,401	-	-	-	-	-	**18,401**
- Loans to third parties	130	-	-	-	-	-	**130**
- Other financial assets	39	-	-	-	-	-	**39**
	25,353	**2,351**	**1,336**	**3,225**	**26,137**	**5,639**	**64,041**

(Thousand euros)

	Financial liabilities						
	2017	**2018**	**2019**	**2020**	**2021**	**Subsequent years**	**Total**
Debts:							
- Derivatives	-	-	-	-	266	9,217	**9,483**
- Long-term guarantees received	-	2,833	1,610	1,476	1,314	1,188	**8,421**
- Bank loans and credits	2,847	13,243	10,304	37,580	78,572	302,869	**445,415**
Trade payables:							
- Creditors and other payables	11,065	-	-	-	-	-	**11,065**
	13,912	**16,076**	**11,914**	**39,056**	**80,152**	**313,274**	**474,384**

8. Long-term investments in group and associate companies

The following table shows a breakdown of long-term investments in group and associate companies at 31 December 2017:

			Share capital percentage		Voting rights	
			Direct	**Indirect**	**Direct**	**Indirect %**
Name	**Address**	**Activity**	**%**	**%**	**%**	
Axiare Investments, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100	-	100	-
Axiare Properties, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100	-	100	-
Axiare Investigación, Desarrollo e Innovación, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Intellectual property Real estate activity	100	-	100	-
Venusaur, S.L.U.	Carrer Roselló 258, 1ª pl. – 08037 Barcelona	Real estate activity	100	-	100	-
Chameleon (CEDRO), S.L.U	Carrer Roselló 258, 1ª pl. – 08037 Barcelona	Real estate activity	100	-	100	-

(Thousand euros)

None of the Group companies in which the Company has a shareholding is listed on the Stock Market.

The group company Axiare Investments, S.L.U. (formerly, Acotango Spain, S.L.) changed its name to the current one on 24 October 2016.

The following table shows a breakdown of long-term investments in group and associate companies at 31 December 2016:

			Share capital percentage		Voting rights	
			Direct	Indirect	Direct	Indirect %
Name	**Address**	**Activity**	**%**	**%**	**%**	
Axiare Investments, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100	-	100	-
Axiare Properties, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate activity	100	-	100	-
Axiare Investigación, Desarrollo e Innovación, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Intellectual property Real estate activity	100	-	100	-
Venusaur, S.L.U.	Carrer Roselló 258, 1ª pl. – 08037 Barcelona	Real estate activity	100	-	100	-

(Thousand euros)

At 31 December 2017 the capital and reserve amounts, results for the financial year and other information of interest, as shown in the annual accounts for each of the individual companies, were as follows:

	Equity						Thousand euros
Company	**Capital**	**Reserves**	**Other entries**	**Operating result**	**Profit (loss) for the year**	**Book value of holding**	**Dividends received**
Axiare Investments, S.L.U.	4,051	-	(15)	(14)	(26)	4,054	-
Axiare Properties, S.L.U.	3	-	-	-	-	3	-
Axiare Investigación, Desarrollo e Innovación, S.L.U.	3	-	147	(1)	(1)	150	-
Venusaur, S.L.U.	57,198	5,040	(13,500)	16,318	13,923	64,799	13,500
Chameleon (Cedro) S.L.	4,503	105	(1,099)	1,503	1,221	15,034	1,099

Other entries relate, in the main, to the interim dividends paid during the year. On 31 January 2017, the Company acquired the company known as Chameleon (Cedro) S.L., owner of the Cedro building in Calle Anabel Segura. This transaction is classified as an asset acquisition, as it does not fall within the definition of business established in the accounting standards.

During the 2016 financial year, the Company transferred a plot of land to the group company Axiare Investments, S.L.U., resulting in its removal from the accounts as a real estate investment (Note 6).

On 2 December 2016, the Company acquired the company Venusaur, S.L.U., owner of the building at Calle Almagro 9, Madrid. This transaction is classified as an asset acquisition, as it does not fall within the definition of business established in the accounting standards.

(Thousand euros)

9. Loans and receivables

	Thousand euros 2017	2016
Long-term loans and receivables:		
- Loans to Group companies (Note 22)	42,976	27,000
- Loans to third parties	9,728	4,626
- Derivatives (Note 15)	231	47
- Other financial assets	10,795	7,015
	63,730	**38,688**
Short-term loans and receivables:		
- Trade receivables for sales and services	5,138	2,463
- Receivables from related parties (Note 22)	3,540	18,401
- Sundry receivables	2,239	4,320
- Loans to third parties	130	130
- Other financial assets	192	39
- Dividends receivable from the Group	2,599	-
	13,838	**25,353**
	77,568	**64,041**

The book amounts of loans and receivables, both long and short-term, approximate their fair values, since the effect of discounting is not significant.

Long-term loans to third parties mainly refers to the loans granted to members of the Board of Directors (Note 21), which accrue interest at market rates.

The entry "Other long-term financial assets" includes the amounts deposited with the corresponding organisations.

Of the total amount shown for short-term loans and other receivables, a total of €795 thousand had become due in respect of customer accounts receivable and sundry receivables as of 31 December 2017 (€355 thousand at 31 December 2016), of which €55 thousand has been set aside in allowance provision (€0 at 31 December 2016), in accordance with established policy relating to pending customer balances and an assessment made in this regard by the Company. In addition, the amount of 0 euros was entered in the income statement in respect of non-performing loans (€827 thousand at 31 December 2016).

The amount of €4,367 thousand is entered under this heading (€2,108 thousand at 31 December 2016), which corresponds to the rental incentives granted.

"Sundry Receivables" mainly includes a provision of funds for the Company's regular operations with notaries and registries amounting to €2,180 thousand (€2,295 thousand at 31 December 2016).

(Thousand euros)

The following table contains a breakdown of the age of receivables for sales and services:

	Thousand euros	
	2017	**2016**
Up to 3 months	687	244
Between 3 and 6 months	31	94
More than 6 months	76	17
	794	**355**

The book value of loans and receivables is denominated in euros.

Movements in the provision for insolvencies over the period were as follows:

	Thousand euros	
	2017	**2016**
Opening balance	-	(367)
Allocation	(128)	(460)
Reversion	73	-
Application	-	827
Closing balance	**(55)**	**-**

10. Cash and cash equivalents

	Thousand euros	
	2017	**2016**
Cash and banks	155,348	123,555
	155,348	**123,555**

The current accounts accrue a market interest rate.

11. Share capital and share premium

a) Share capital

The Company was incorporated on 19 March 2014 with the issue of 10,000 registered shares, each with a par value of €6. On the date of its incorporation, Rodex Asset Management, S.L. held 9,999 ordinary shares representing 99.99% of the Company’s issued share capital, and Inmodesarrollos Integrados, S.L. held 1 ordinary share representing 0.01% of the Company’s issued share capital.

(Thousand euros)

At an Extraordinary General Shareholders Meeting held on 10 June 2014, it was agreed to increase the share capital by means of an offer to subscribe shares in the Company, and the shareholders waived their preferential subscription right.

A share capital increase was agreed at a General Shareholders Meeting on 7 May 2015. On 13 May 2015 the Board of Directors approved the agreements relating to the share capital increase. This was entered at the Madrid Company Registry on 10 June 2015 and 35,868,988 new shares were listed, each with a par value of €10 and a premium of €1.

On 7 March 2017 the Board of Directors approved the agreements relating to the share capital increase that the Company carried out during this financial year. This was entered at the Madrid Company Registry on 9 March 2017 and 7,187,498 new shares were listed, each with a par value of €10 and a premium of €3.

Following this share capital increase, the subscribed share capital stands at 79,062,486 fully paid-up ordinary shares.

As of 31 December 2017 and 31 December 2016, the breakdown of share capital is as follows:

	Thousand euros	
	31.12.17	**31.12.2016**
Subscribed share capital	790,625	718,750
	790,625	**718,750**

At 31 December 2017, the companies that held a share of 3% or more in the share capital were as follows:

Company	**% voting rights allocated to shares**	**% voting rights held through financial instruments**	**Total %**
Citigroup Global Markets Limited	4.906%	0.011%	**4.917%**
Inmobiliaria Colonial, S.A.	28.790%	0.000%	**28.790%**
T. Rowe Price Associates, Inc	5.557%	0.000%	**5.557%**
The Goldman Sachs Group, INC.	0.076%	3.168%	**3.244%**
Sand Grove Capital Management LLP	0.000%	6.738%	**6.738%**

(Thousand euros)

b) Share premium

This reserve is freely available.

c) Treasury shares

Movements in treasury stock over the year have been as follows:

	2017		2016	
	Number of treasury shares	Thousand euros	Number of treasury shares	Thousand euros
Opening balance	1,536,266	18,678	416,928	4,631
Additions/ Purchases	547,445	8,284	2,797,932	33,694
Reductions	(1,540,876)	(20,043)	(1,678,594)	(19,647)
Closing balance	**542,835**	**6,919**	**1,536,266**	**18,678**

On 7 July 2017 Axiare Patrimonio SOCIMI S.A. entered into a liquidity contract with JB Capital Markets, S.V., S.A.U. with the aim of increasing liquidity and promoting stability in the listing of the Company's shares. Said contract became valid as of 11 July 2017, replacing the prior contract signed with the same company on 31 October 2014.

The General Shareholders Meeting held on 7 May 2015 agreed to implement a management incentive plan consisting of the award of shares or cash, at the Company's discretion (Note 21).

As a consequence of the Inmobiliaria Colonial Takeover Bid described in Note 1, the Company's liquidity agreements and share repurchase agreements were cancelled on the date on which these annual accounts were prepared.

Shares owned by the Company itself at 31 December 2017 represented 0.68% of the Company's share capital (2,11% at 31 December 2016) and totalled 542,835 shares (1,536,266 shares at 31 December 2016). The average acquisition price was €15.1319 per share (€12.3428 per share at 31 December 2016).

These shares are registered, thus reducing the value of the Company's equity on 31 December 2017 to €6,919 thousand (€18,678 thousand on 31 December 2016).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares in the Company.

(Thousand euros)

d) Dividends

Pursuant to the tax rules set out in the Spanish SOCIMI Act (Note 23), the Company paid out a dividend in the amount of €10,946 thousand on account against the results for the 2017 financial year. The proposed distribution of the result from the financial year ending 31 December 2017 is set out in Note 13.

12. Reserves

	Thousand euros	
	31.12.2017	31.12.2016
Other reserves:		
- Voluntary reserves	(34,932)	(30,778)
- Legal reserve	1,911	532
	(33,021)	**(30,246)**

Under voluntary reserves, the Company has mainly entered the costs relating to the share issues made in 2014 and the costs associated with the share capital increases made in 2015 and March 2017 (Note 11).

Legal Reserve

The legal reserve must be set aside under the terms of Article 274 of the Spanish Capital Companies Act, which establishes that companies must in all cases allocate an amount equal to 10% of their profits for the year to this reserve, until the total reaches at least 20% of the share capital figure.

It cannot be distributed, and if it is used to offset losses when the other available reserves are not sufficient for this purpose, it must be replenished with future profits.

(Thousand euros)

13. Profit (loss) for the year

Proposed distribution of the result

The proposed distribution for the result and the reserve amount to be submitted to the General Shareholders Meeting, is as follows:

	Thousand euros
	2017
Base for distribution	
Profit and loss	17,615
Application	
Legal reserve	1,762
Interim dividend	10,946
Dividends	4,907
	17,615

On 14 November 2017, the Board of Directors approved the payment of a dividend of €0.14 per share on account against the results for 2017, in accordance with an undertaking made with the shareholders when the 2016 accounts were submitted in February 2017. To this end, the following cash flow forecast was drawn up:

	Thousand euros
Net profits obtained from the 2017 financial year	17,656
Legal reserve to be set aside	(1,766)
Dividends distributed previously	-
Dividends for distribution against the results from the 2017 financial year	15,890
Interim Dividend for distribution	**10,946**
Cash liquidity	164,437
Short-term debts	(35,811)
Net cash position	**128,626**

(Thousand euros)

Distribution of the results for the 2016 financial year, which was approved by the General Shareholders Meeting held on 20 June 2017 was carried out as follows:

	Thousand euros
	2016
Base for distribution	
Profit and loss	13,792
Application	
Legal reserve	1,379
Dividends	12,413
	13,792

14. Debts and payables

	Thousand euros	
	2017	**2016**
Long-term debts and payables (Note 7):		
- Bank loans and credits	554,858	442,568
- Derivatives (Note 15)	6,701	9,483
- Other financial liabilities	10,211	8,421
- Financial lease creditors	59	-
	571,829	**460,472**
Short-term debts and payables (Note 7):		
- Bank loans and credits	13,758	2,847
- Financial lease creditors	13	-
- Creditors and other payables	9,502	11,065
	23,273	**13,912**
	595,102	**474,384**

The book amounts of debts and payables, both long and short-term, approximate their fair values, since the effect of discounting is not significant. In the case of debts with financial institutions, these are entered at their amortised cost.

The guarantee deposits received from tenants as per the lease agreements signed are registered as other long-term financial liabilities.

Creditors and other payables mainly includes provisioned amounts relating to the Company's property acquisitions, financing obtained during the current financial year, as well as balances payable relating to investments currently under construction.

The book value of loans and receivables to be paid by the Company is denominated in euros.

(Thousand euros)

Bank loans and credits includes the balance of 22 loans (16 loans at 31 December 2016) granted to the Company. The maturities of these bank loans and credits are detailed below by par value:

	2017		2016	
Maturity year	**Non-Current**	**Current**	**Non-Current**	**Current**
2017	-	-	-	-
2018	-	7,000	7,000	-
2019	-	-	-	-
2020	24,100	-	24,100	-
2021	62,200	-	62,200	-
>2022	477,679	6,368	357,292	2,001
Total	**563,979**	**13,368**	**450,592**	**2,001**

The Company has included €9,162 thousand (€8,005 thousand in 2016) in the amortised cost on the balance sheet for the formalisation of the debt costs. As of 31 December 2017, accrued financial interest not paid stood at €431 thousand (€826 thousand at 31 December 2016). The financial expenses accrued during the period stand at €11,708 thousand (€7,685 thousand in 2016) (Note 18).

During the period the Company has signed financing agreements to the value of €136,254 thousand (€127,882 thousand in 2016).

These loans are granted subject to compliance with certain financial ratios, which is standard practice in the sector in which the Company operates, with the ratio being calculated annually at the end of each financial year. At 31 December 2017, the Company was in compliance with all of these ratios except for the ratios relating to the financing of properties under refurbishment during the period, for which the financial institutions have granted temporary exemption from compliance.

The investment properties, land and buildings offered as security for the loans mentioned, in the form of mortgage guarantees, have a market value of €1,383,055 thousand (€1,024,100 thousand at 31 December 2016).

(Thousand euros)

The following table shows a breakdown of the nominal value of these loans:

Subject property	Outstanding nominal value 31/12/2017	Outstanding nominal value 31/12/2016	Maturity
Francisca Delgado 11	13,000	13,000	2030
Fernando El Santo 15	-	12,000	2030
Avenida de la Vega 15	27,667	27,913	2029
Cabanillas 1	2,494	2,530	2022
Cabanillas 2	3,698	3,698	2022
Cabanillas 3	2,866	2,909	2022
Azuqueca	9,143	9,143	2022
Guadalix	4,349	4,349	2022
Rivas Vaciamadrid	9,112	9,193	2029
Camarma	19,881	19,881	2022
Manuel de Falla 7	24,000	24,000	2021
Valls	4,954	4,954	2022
Dos Hermanas	5,398	5,446	2029
Diagonal 197	28,839	29,096	2029
Les Gavarres	14,460	14,673	2022
Ribera del Loira 28	24,100	24,100	2020
Cristalia 2 & 3	29,024	29,451	2022
Cristalia 5 & 6	27,500	27,500	2022
Luca de Tena 14	10,475	10,850	2028
Velázquez	53,488	45,688	2022
Tucumán	10,562	10,562	2022
Hotel Rafael Madrid Norte	7,000	7,000	2018
Ramírez Arellano	8,500	7,437	2028
Don Ramón de la Cruz	20,856	21,000	2025
Constantí	11,015	11,015	2022
Avenida de Bruselas, 38	14,301	14,400	2025
Alcalá 506	7,335	7,335	2021
Luca de Tena 6	4,469	4,500	2025
Las Mercedes Open Park	23,865	23,865	2021
Josefa Valcárcel 24	7,000	7,000	2021
Viapark	11,500	10,063	2028
Azuqueca 2	4,778	4,778	2022
Alcalá de Henares	3,264	3,265	2022
Sagasta 31-33	26,400	-	2024
Luca de Tena 7	19,000	-	2029
Sant Cugat	14,500	-	2022
Miguel Ángel	32,014	-	2026
Peugeot	24,900	-	2026
Planetocio	11,640	-	2024
	577,347	**452,594**	

Deferred payments to suppliers

The following table shows a breakdown of the payments that are due for commercial operations completed during the year and that remained pending on the date on which the balance sheet was closed, with reference to the maximum payment deadlines provided for under Act 15/2010 and subsequently modified under Act 11/2013:

	2017	2016
	Days	**Days**
Average supplier payment term	26	35
Ratio of transactions paid	26	36
Ratio of transactions pending payment	27	20
	Amount (Thousand euros)	**Amount (Thousand euros)**
Total payments made	200,051	221,378
Total payments pending	2,275	4,436

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NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

15. Financial derivatives

			Thousand euros			
			2017			
			Non-Current		Current	
	Principal amount covered	Maturity	Asset	Liability	Asset	Liability
Interest rate swap	22,000	2022	-	361	-	-
Interest rate swap	38,115	2022	-	1,187	-	-
Interest rate swap	14,900	2022	-	42	-	-
Interest rate swap	20,520	2023	-	67	-	-
Interest rate swap	18,000	2022	-	72	-	-
Interest rate swap	18,650	2022	-	670	-	-
Interest rate swap	42,610	2025	-	945	-	-
Interest rate swap	9,350	2024	-	150	-	-
Interest rate swap	25,000	2028	-	1,399	-	-
Interest rate swap	20,817	2023	-	47	-	-
Interest rate swap	17,000	2021	-	40	-	-
Interest rate swap	39,900	2025	-	1,414	-	-
Interest rate swap	21,763	2022	-	138	-	-
Interest rate swap	18,650	2022	-	114	-	-
Interest rate swap	31,200	2021	178	-	-	-
Interest rate swap	7,000	2021	-	55	-	-
Interest rate swap	24,000	2021	53	-	-	-
			231	**6,701**		

(Thousand euros)

			Thousand euros			
			2016			
			Non-Current		Current	
	Principal amount covered	Maturity	Asset	Liability	Asset	Liability
Interest rate swap	22,000	Up to 2022	-	595	-	-
Interest rate swap	25,410	Up to 2022	-	1,672	-	-
Interest rate swap	14,900	Up to 2022	-	106	-	-
Interest rate swap	18,650	Up to 2022	-	1,003	-	-
Interest rate swap	43,152	Up to 2028	-	1,557	-	-
Interest rate swap	9,350	Up to 2024	-	273	-	-
Interest rate swap	30,000	Up to 2025	-	1,687	-	-
Interest rate swap	20,817	Up to 2023	-	145	-	-
Interest rate swap	17,000	Up to 2021	-	97	-	-
Interest rate swap	39,900	Up to 2025	-	1,767	-	-
Interest rate swap	21,763	Up to 2022	-	226	-	-
Interest rate swap	18,650	Up to 2022	-	186	-	-
Interest rate swap	31,200	Up to 2021	14	-	-	-
Interest rate swap	7,000	Up to 2021	33	-	-	-
Interest rate swap	24,000	Up to 2021	-	169	-	-
			47	**9,483**		

The total fair value of a hedging derivative is entered under non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and under current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months.

Using interest rate swaps (financial swaps) to provide cash flow hedges allows one to change floating rate debt to fixed rate debt, where the future cash flows being hedged are the future interest payments on the loans taken out (Note 14). The changes to the fair value of derivatives are shown in the entry “Adjustments due to changes in value”, under equity.

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NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

16. Income and expenses

a) Net turnover figure

The net turnover figure corresponding to the Company's ordinary business activities broke down in geographical terms as follows:

		2017
Market	**Percentage**	**Thousand euros**
Domestic	100%	61,776
	100%	**61,766**

		2016
Market	**Percentage**	**Thousand euros**
Domestic	100%	50,593
	100%	**51,011**

The net turnover figure breaks down as follows:

		Thousand euros
	31.12.2017	**31.12.2016**
Revenue		
Rents	53,324	43,434
Reinvoicing of costs	8,452	7,159
	61,776	**50,593**

b) Personnel expenses

		Thousand euros
	2017	**2016**
Wages, salaries and associated costs	23,367	15,996
Welfare charges:		
- Other welfare charges	316	280
	23,683	**16,276**

(Thousand euros)

At 31 December 2017 there was no compensation for dismissals (€7 thousand at 31 December 2016).

The average number of employees during the period, shown by professional grade, was as follows:

		Total
Grade	**2017**	**2016**
Directors	8	8
Employees with degrees	9	8
Administrative personnel and others	4	4
	21	**20**

In addition, at 31 December 2017 and 31 December 2016, Company personnel details broken down by gender were as follows:

			2017
Grade	**Men**	**Women**	**Total**
Directors	5	3	8
Employees with degrees	7	2	9
Administrative personnel and others	-	4	4
	12	**9**	**21**

			2016
Grade	**Men**	**Women**	**Total**
Directors	5	3	8
Employees with degrees	5	2	7
Administrative personnel and others	-	4	4
	10	**9**	**19**

The Company did not have any employees classified as 33% disabled or more (or the local equivalent) at 31 December 2017 or 31 December 2016.

(Thousand euros)

c) External services

The following table gives a breakdown of the external services:

	Thousand euros	
	2017	**2016**
External services attributable directly to investment properties	10,099	8,422
Other external services	4,707	2,083
	14,806	**10,505**

17. Income tax and tax situation

Reconciliation of the net income and expenses figure for the year with the tax base for Income Tax is as follows:

	Thousand euros					
	Income statement			Income and expenses attributed directly to equity		
	Increases	**Reductions**	**Total**	**Increases**	**Reductions**	**Total**
Income and expenses balance for the year	17,615	**-**	**17,615**	101	-	**101**
Corporate Income Tax	-	-	-	-	-	-
Permanent differences	-	-	**-**	-	-	**-**
Temporary differences:						
- Originating during this year	2,080	-	**2,080**	-	-	**-**
Taxable base	19,695	-	**19,695**	101	-	**101**

Pursuant to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed, the current Company Tax amount is calculated by applying a tax rate of 0% to the tax base. Tax withholdings and payments on account amounted to €16 thousand (€359 in 2016).

Temporary differences relate to the cap on the deduction of financial expenses incurred in the year.

(Thousand euros)

Tax inspections

Under current law, taxes cannot be understood to have been effectively settled until the tax authorities have reviewed the tax returns submitted or until the time-bar period of four years has elapsed.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. In any case, the Directors believe that any such liabilities, in the event that they arise, will not have any significant effect on the balance sheet or the income statement for the financial year beginning on 1 January 2017 and ending on 31 December 2017.

At 31 December 2017 and 31 December 2016, the amounts receivable and the amounts payable by the Company in respect of the Public Authorities broke down as follows:

	Thousand euros	
	2017	**2016**
Accounts receivable		
Receivables from Spanish Tax Authorities (VAT)	6,671	5,629
Receivables from Spanish Tax Authorities (withholdings and payments on account)	16	359
	6,687	**5,988**
Accounts payable		
Payables to Spanish Tax Authorities (withholdings collected)	(159)	(148)
Payables to Social Security Bodies	(61)	(28)
	(220)	**(176)**

(Thousand euros)

18. Financial result

	Thousand euros	
	2017	**2016**
Financial income		
- From holdings in group company asset instruments	14,599	15,000
- From negotiable securities and other third-party financial instruments	263	422
	14,862	**15,422**
Financial expenses		
- For debts with third parties	(11,708)	(7,685)
	(11,708)	**(7,685)**
	3,154	**7,737**

At 31 December 2017, financial income corresponded to the dividends paid out by the companies in the Venusaur, S.L.U. group and Chameleon (Cedro) S.L.U (Note 22).

The financial expenses recorded result from the financing obtained by the Company (Note 14).

19. Contingencies

Contingent liabilities

At 31 December 2017 the Company had put guarantee bonds in place in a total amount of €4,800 thousand (€2,000 thousand in 2016).

20. Commitments

Operational leasing commitments

The Company leases its offices under a non-cancellable operational lease agreement. This agreement has a term of six years and may be renewed under market conditions upon its expiry.

Minimum total future payments for non-cancellable operational leases are as follows:

	Thousand euros
	2017
Less than one year	177
Between one and five years	355
More than five years	-
	532

21. Board of Directors and other payments

Shareholdings, positions and activities of the members of the Board of Directors

Article 229 of the Spanish Capital Companies Act, which was approved by Royal Legislative Decree 1 of 2 July 2010, requires Directors to notify the Board of Directors (or, in the absence of such a body, the other Directors or the General Shareholders Meeting) of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, Directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the Company's corporate purpose. They must also disclose the positions they hold or duties they perform at such companies. In this regard, Appendix I sets out the information provided by Directors who have declared that they hold positions and perform duties in companies with an identical, similar or complementary kind of activity.

Remuneration of members of the Board of Directors

During 2017, payments to members of the Board of Directors totalled €1,307 thousand (€1,243 thousand at 31 December 2017), of which the executive member received a total of €929 thousand (€900 thousand at 31 December 2016). This person has signed a commercial senior executive agreement with the Company.

In addition, under the share award plan approved by the General Shareholders Meeting on 7 May 2015, during the 2016-2017 period, the executive member accrued 667,000 shares which have been handed over in their entirety (472 thousand shares during the 2015-2016 period).

The Company has authorised loans amounting to €8,622 thousand (€3,850 thousand on 31 December 2016) and it does not hold pension funds or any other similar liabilities to the benefit of its Directors.

Axiare Patrimonio Team

In accordance with the plan mentioned above for the 2016-2017 period, and given compliance with the conditions required in this regard, the rest of the Axiare Patrimonio team has accrued a total of 887 thousand shares, which they received during the 2017 financial year (588 thousand shares accrued during 2015-2016).

The average cost of acquiring the shares accrued under the 2016-2017 plan is €12.28 per share. The cost associated with this plan is entered under the heading "Personnel costs" in the income statement.

(Thousand euros)

22. Other group companies and related-party transactions

The transactions listed below were carried out with group companies and related parties:

	Thousand euros	
	2017	2016
Transactions with group companies		
Venusaur, S.L.U.	13,500	15,000
Chameleon (Cedro), S.L.U	1,099	-
	14,599	**15,000**

The following table shows a breakdown of pending balances linked to group companies and related parties at 31 December 2017 and 31 December 2016:

	Thousand euros	
	2017	2016
Long-term investments in group companies		
Credits	42,976	27,000
Short-term investments in group companies		
Short-term loans to group companies	3,540	3,401
Dividends due from group companies	2,599	15,000
	49,115	**45,401**

The amount shown under “Long-term loans to group companies” relates to participating loans granted to Axiare Investments (€27,000 thousand) and Axiare R&D&i (€500 thousand), on which the interest accrued is linked to Company results, and other loans granted to Venusaur (€14,000 thousand) and Chameleon (Cedro) (€1,476 thousand), which accrue interest at the market rate.

Short-term investments in group companies includes a receivable of €2,599 thousand by way of dividends, which have been paid out by the companies Grupo Venusaur, S.L.U. and Chameleon (Cedro) (Note 7).

23. Information requirements resulting from SOCIMI status, Act 11/2009, as amended by Act 16/2012

a) Reserves from financial years prior to the application of the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012.

Not applicable.

b) Reserves from financial years in which the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012, have been applied.

Not applicable.

c) Dividends distributed against profits each year in which the tax rules contained in this Act applied, with differentiation between the portion originating from income subject to tax at a rate of 0% or 19%, and the portion originating from income subject to tax at the general rate.

The total dividend distributed comes from income subject to tax at 0%.

d) In the case of distribution against reserves, identifying the year from which the reserves applied originate, and whether they were taxed at 0%, 19% or the general rate.

No dividends were distributed against reserves (Note 13).

e) Date of the agreement for the distribution of dividends referred to in c) and d) above.

In June 2017, the General Shareholders Meeting approved the payment of the dividend for 2016, and on 14 November 2017 the Board of Directors approved the payment of an interim dividend against the results for 2017.

f) Date of acquisition of properties intended for rent and interests in the share capital of companies referred to in Article 2.1 of this Act.

The Company has holdings in the share capital of companies, referred to in Article 2.1 of the Spanish SOCIMI Act. This holding refers to the group company Venusaur, S.L.U., which was acquired on 2 December 2016, and to the company Chameleon (CEDRO), S.L.U., acquired on 31 January 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

	Property	Location	Date acquired
1	F. Delgado	Plot TN-5B, Sole Sector, Calle Francisca Delgado, 11, Alcobendas (Madrid)	28 July 2014
2	Cabanillas	Plot 2.4, Warehouses 1, 2 and 3, P-5 Industrial Estate, Cabanillas del Campo (Guadalajara)	29 July 2014
3	Miralcampo	Logistics warehouse, Avda. de la Construction, 9 - 11, Miralcampo Industrial Estate, Azuqueca de Henares (Guadalajara)	30 July 2014
4	Dos Hermanas	Plots 47 to 50, "La Isla" Industrial Estate, Dos Hermanas (Seville)	30 July 2014
5	F. Santo	Calle Fernando el Santo 15, 28010 Madrid	24 September 2014
6	Av. Vega	Avda. Arroyo de la Vega, nº 15, Arroyo de la Vega, Alcobendas (Madrid)	24 September 2014
7	Rivas	Plots 18-14 and 19-13, Calle Mariano Benlliure, Rivas-Vaciamadrid (Madrid)	24 September 2014
8	Planetocio	Avenida Juan Carlos I 46, Collado Villalba (Madrid)	24 September 2014
9	Valls	Logistics warehouse, Avenida del Polígono 5. Valls Industrial Estate, Valls (Tarragona)	9 October 2014
10	Guadalix	Department number 3, property forming part of U.A.-47, and building "B", San Agustín de Guadalix (Madrid)	9 October 2014
11	Camarma	Logistics warehouse, sector S1-4 "La Raya Industrial", Camarma de Esteruelas (Madrid)	9 October 2014
12	Manuel de Falla	Calle Manuel de Falla 7, 28036 Madrid	6 November 2014
13	Diagonal	Edificio Diagonal. Avenida Diagonal 197, 08018 Barcelona	4 December 2014
14	Ribera del Loira	Edificio Ribera del Loira. Calle Ribera del Loira 28, 28042 Madrid	4 December 2014
15	Cristalia 2&3	Buildings 2 and 3, Cristalia Business Park. Calle Vía de los Poblados s/n (Madrid)	4 December 2014
16	Les Gavarres	Edificio Tarragona, property number two, sub-zone PP-9, Les Gavarres Industrial Estate (Tarragona)	4 December 2014

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR 2017
(Thousand euros)

	Property	Location	Date acquired
17	Hotel	Building intended for hotel use. Omega Business Park. Carretera de Alcobendas a Barajas, km 1,100. Alcobendas (Madrid)	20 February 2015
18	Luca de Tena 14	Calle Juan Ignacio Luca de Tena 14, 28027 Madrid	30 March 2015
19	Tucumán	Edificio Tucumán. Glorieta del Mar Caribe 1, Madrid	30 March 2015
20	Cristalia 5&6	Buildings 5 and 6, Cristalia Business Park. Calle Vía de los Poblados s/n (Madrid)	22 May 2015
21	Velázquez	Retail unit housed in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	22 May 2015
		Twenty registered properties located in a building at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	15 June 2015
		Retail unit housed in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	29 July 2015
		Parking spaces located in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	5 August 2015
		Floors 6 and 7 and parking spaces located in a building located at Calle Padilla 17, corner with Calle Velázquez, 28006 Madrid	22 December 2016
22	R. Arellano	Building located at Calle Ramírez de Arellano 15, Madrid	21 July 2015
23	Constantí	Industrial plot located in the Constantí Industrial Estate, Constantí (Tarragona)	30 July 2015
24	Luca de Tena 6	Building located at Calle Juan Ignacio Luca de Tena 6, 28027 Madrid	23 September 2015
25	Alcalá 506	Building located at Calle Alcalá 506, 28027 Madrid	23 September 2015
26	Av. Bruselas	Building located at Avenida de Bruselas 38, 28108 Alcobendas (Madrid)	23 September 2015
27	Las Mercedes	Retail Park at Calle Campezo 12, 28022, Madrid.	23 September 2015

(Thousand euros)

	Property	Location	Date acquired
28	D. Ramón Cruz	Building located at Calle Don Ramón de la Cruz no. 84, 28006 Madrid	8 October 2015
29	Josefa Valcárcel 24	Building located at Calle Josefa Valcárcel no. 24, 28027 Madrid	26 January 2016
30	Viapark	Four retail warehouses located in the town of Vícar, Parajes del Cortijo Blanco, Cerrillo de los Vaqueros and Cerro de los Lobos (Almería)	14 April 2016
31	San Fernando *	Industrial warehouse under construction located in sector SUP I-1, in San Fernando de Henares (Madrid)	28 April 2016
32	Sagasta	Building located at Calle Sagasta 31 and 33, 28004 Madrid	17 November 2016
33	Alcalá de Henares	Industrial warehouse located in Alcalá de Henares (Madrid)	25 November 2016
34	Azuqueca de Henares	Industrial warehouse located in Azuqueca de Henares (Guadalajara)	25 November 2016
36	Luca de Tena 7	Building located at Calle Juan Ignacio Luca de Tena 7, 28027 Madrid	23 December 2016
37	Miguel Ángel 23	Calle Miguel Ángel 23, 28010, Madrid	16 January 2017
38	Peugeot	Calle Puerto de Somport 8, Las Tablas	20 January 2017
39	San Cugat	Edificio Palausibaris, no. 9, Avda. San Cugat del Valles, Barcelona	16 March 2017
40	Sagasta 27	Several floors of the building located at Calle Sagasta 27, 28004, Madrid	04 April 2017
41	San Fernando 2*	Industrial warehouse under construction located in sector SUP I-1, in San Fernando de Henares (Madrid)	28 June 2017
42	Josefa Valcárcel 40 *	Building located at Calle Josefa Valcárcel no. 40, 28027 Madrid	16 November 2017

* These assets are currently under construction. They are scheduled for completion in August 2018, January 2019 and October 2018 respectively.

g) Identification of assets taken into account when calculating the 80% referred to in Article 3.1 of this Act.

The assets taken into account when calculating the 80% referred to in Article 3.1 of the SOCIMI Act are the ones listed in the above table.

h) Reserves from years in which the tax system provided for under the Act was applicable and which have been made use of (not for distribution or offsetting losses) during the tax period, with identification of the year from which the reserves originate.

Not applicable.

24. Auditors' fees

The fees accrued by PricewaterhouseCoopers Auditores, S.L. during the financial year beginning on 1 January 2017 and ending on 31 December 2017 for auditing the Company's Annual Accounts totalled €345 thousand (€104 thousand in 2016), and fees for other auditing services totalled €81 thousand (€47 thousand at 31 December 2016).

At 31 December 2017, the fees accrued by other companies in the PwC network totalled €119 thousand (€164 thousand at 31 December 2016).

25. Information on greenhouse gas emission rights

The Company has not held any greenhouse gas emission rights during the 2017 and 2016 financial years.

26. Environmental information

The Company's activities do not give rise to any negative environmental impacts and the Company has not, therefore, incurred any significant costs or made any significant investments with a view to mitigating such potential impacts.

27. Subsequent events

As a consequence of the Takeover Bid mentioned in Note 1, and pursuant to the incentive plan approved on 7 May 2015 by the General Shareholders Meeting (mentioned in Note 3.15), in the event of any change in control over the company an incentive would accrue for the management team.

In the significant event published the 8th of January of 2018 on the CNMV, the report from the Board of Directors in relation with the voluntary takeover bid launched by Colonial says:

" 8.4 OPINION OF THE BOARD OF DIRECTORS

In accordance with article 24 of Royal Decree 1066/2007, the Board of Directors is required to issue a detailed and reasoned report on each and all of the takeover bids for the Company that have been authorized by CNMV.
Based on the considerations and opinions expressed herein, as well as on the information contained in the Prospectus, the Board of Directors, in view of all the terms and characteristics of the Bid and its effect on the Company's interests, assesses the Bid Price positively, thus, it expresses a favourable opinion regarding the Bid; however, it believes that the consideration offered does not fully reflect the intrinsic value of Axiare's shares in the context of the Bid and, therefore, considers that there is potential for its improvement.

[…]

9. INTENTION TO ACCEPT THE BID IN CONNECTION TO THE OWN SHARES WHICH AXIARE HOLDS IN TREASURY

With regard to the own shares that the Company holds in treasury, which as of the date of this report amount to 542,835 shares representing 0.687% of its share capital (as communicated by Axiare to the market by relevant fact on 20 November 2017, register number 258,726), the Board of Directors declares its intention to accept the Bid, in line with the opinion expressed by the Board of Directors."

On 2 February 2018, Inmobiliaria Colonial gave notice that, following settlement of the Takeover Bid, its shareholding had risen to 86.86%. Therefore, this plan is accrued for an amount of 36 million in 2018.

AXIARE PATRIMONIO SOCIMI, S.A.

Appendix I – Detail of positions and ownership interests held by the Directors in companies with a similar company object

Luis Alfonso López de Herrera-Oria

Company	Position or duties	% Share
Rodex Asset Management, S.L.	Sole Director	100.00
Agrodesarrollos Integrados, S. L.	Sole Director	100.00
Inmodesarrollos Integrados, S.L.	Representative of the Sole Director	100.00
Puerto Feliz, S.A.	Representative of the Sole Director	78.88
Heracles Proyectos y Promociones Inmobiliaras, S.A.	Sole Director	100.00

Luis María Arredondo Malo

Company	Position or duties	% Share
Nieve de Andalucía, S.A.	Chairman	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	Board Member	18.01
Aljaral, S.A.	Chairman	100.00

AXIARE PATRIMONIO SOCIMI, S.A.

MANAGEMENT REPORT FOR THE YEAR 2017

1. ORGANISATIONAL STRUCTURE AND OPERATION

Axiare Patrimonio Socimi, S.A. (Axiare Patrimonio) was incorporated in Spain on 19 March 2014, in accordance with the Spanish Capital Companies Act, through the issue of 10,000 registered shares, each with a par value of €6. At a General Shareholders Meeting held on 10 June 2014, it was agreed to increase the share capital by means of an offer to subscribe shares in the Company, and the shareholders waived their preferential subscription right.

On 12 June 2014 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs).

On 9 July 2014, Axiare Patrimonio went public and made a share capital increase of €360 million through the issue of 36 million ordinary shares, each with a par value of €10.

Axiare Patrimonio was a new company that was created without assets, classified as a "blind pool", which would allow it to take advantage of the opportunities available in the Spanish real estate sector. As of 31 December 2014, the Company had invested 1.2 times the capital raised during its Takeover Bid, with a total investment of €424 million. The market value of this investment amounted on 31 December 2014 to €439 million (including Manuel de Falla).

In order to raise the necessary funds to continue with its investment plan, the Company initiated a share capital increase in May 2015. It was seeking to raise €395 million, all of which it successfully covered. In total 35,868,988 new shares were subscribed, worth €394,558,868, doubling the Company's capitalization to more than €800 million. One of the peculiarities of this operation was that it was performed without underwriting or guarantees from the banks. The new shares were acquired at a price of €11 per share, which represents a premium of 10 percent over the price set when the Company's shares were first listed for trading.

During March 2017, the Parent Company carried out a further share capital increase, listing 7,187,498 new shares, each with a par value of €10 and an issue premium of €3. Following this share capital increase, the subscribed share capital stands at 79,062,486 fully paid-up ordinary shares. The Company's shareholders include large well-renowned international funds, who are extremely interested in the Spanish real estate market.

Axiare Patrimonio's business strategy focuses on investment in high-quality rental assets with strong growth potential. Its commercial policy is based mainly on exploiting offices in the financial centres of Madrid and Barcelona, as well as in other prime locations outside the city centre, logistics properties in the most important distribution centres in Spain and other commercial properties, mainly retail.

Axiare's Board of Directors conducts its business in accordance with the rules of good corporate governance set out primarily in the Company's Articles of Association, the Rules of the General Shareholders Meeting and the Board of Directors' Regulations.

The Board of Directors is the body that is responsible for overseeing and controlling the Company's business, with jurisdiction over matters such as the adoption of the Company's general policies and strategies, corporate governance and corporate social responsibility, and risk management and monitoring. It is at all times responsible for compliance with the requirements necessary to maintain the Company's status as a SOCIMI.

The Board of Directors has two committees, an Audit and Monitoring Committee and an Appointments and Remuneration Committee, whose essential purpose is to provide the Board of Directors with support in the performance of its duties relating to the supervision and control of the Company's day-to-day business.

2. BUSINESS PERFORMANCE AND PROFIT (LOSS)

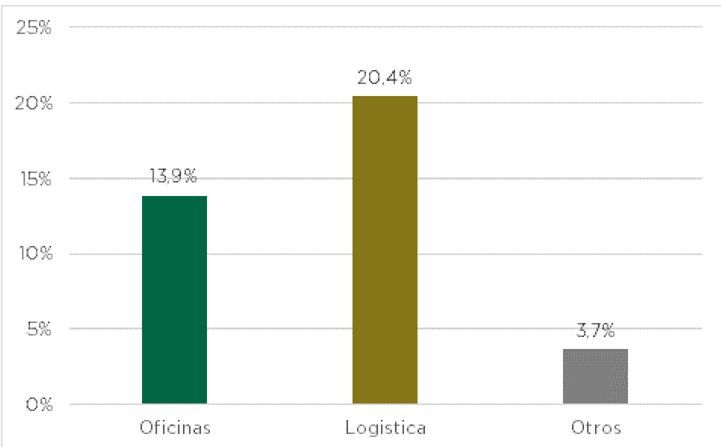
Since it was listed on the stock market in 2014, the Company has engaged in several transactions for the acquisition of real estate assets which have led to positive earnings amounting to €220,092 thousand in 2017, and €148,626 thousand in 2016 when calculated on a consolidated basis.

The "net business turnover" figure from letting the acquired properties has reached €69,670 thousand (€51,011 thousand in 2016).

EBITDA stood at €24,901 thousand in 2017 (€19,850 thousand in 2016). (EBITDA: Earnings before interest, taxes, depreciation and amortisation).

The market value of the Company's assets at 31 December 2017 stood at €1,797,000 thousand, equating to a 37.7% increase on the purchase price and 13.9% on the portfolio in like-for-like terms[1] at 31 December 2016.

The following figure gives a breakdown by segment of the increase in the portfolio's valuation over 12 months, on a like-for-like basis[1]:



The main reasons for the increased valuation of the portfolio over the last year are as follows:

[1] Comparing the same assets included in the portfolio as of 31 December 2017.

AXIARE PATRIMONIO SOCIMI, S.A.

MANAGEMENT REPORT FOR THE YEAR 2017

- Active management: some of the growth potential displayed by the portfolio results from the active management of assets. The company's leasing business, combined with rent reviews and the renewal of lease agreements over the period have covered 194 thousand sqm, ensuring annual rental income of €18 million.
- Assets being restructured: The valuation of assets being restructured increased by 18.4% in 2017.
- Growth in turnover: since the beginning of the financial year, turnover from the lease of real estate assets has grown by 36.6% on the previous twelve months. The quality of our portfolio has continued to benefit from the changing trend among tenants towards Grade A real estate assets.
- Investor appetite: yields fell over this period, due to increased demand for assets in the Spanish market.

The following tables show a breakdown of the market valuation of our portfolio at 31 December 2017, as determined by CBRE Valuation Advisory, S.A. (RICS):

	Acquisition Price EUR M	GAV 31/12/2016 EUR M	Weighting %	Valuation performance on acq Price EUR M	Valuation performance on acq Price %	12-months LFL Valuation performance %	12-months LFL Valuation performance EUR M
Offices	**794.7**	**973.2**	**72.5%**	**178.5**	**22.5%**	**87.0**	**14.0%**
Madrid	741.7	906.2	67.5%	164.5	22.2%	78.0	13.9%
CBD	334.9	402.0	29.9%	67.1	20.0%	33.7	18.7%
BD	406.9	504.2	37.5%	97.3	23.9%	44.3	11.6%
Barcelona	53.0	67.0	5.0%	14.0	26.4%	9.0	15.5%
Logistics	**163.3**	**230.6**	**17.2%**	**67.3**	**41.2%**	**26.6**	**20.4%**
Madrid	135.9	184.6	13.7%	48.7	35.9%	16.0	16.9%
Barcelona	18.0	29.5	2.2%	11.5	63.9%	7.7	35.3%
Other	9.4	16.5	1.2%	7.1	75.2%	2.9	21.3%
Others	**110.5**	**139.2**	**10.4%**	**28.7**	**26.0%**	**9.3**	**8.6%**
Total	**1,068.5**	**1,343.0**	**100.0%**	**274.5**	**25.7%**	**122.9**	**14.3%**

AXIARE PATRIMONIO SOCIMI, S.A.

MANAGEMENT REPORT FOR THE YEAR 2017

3. EPRA INFORMATION

The ratios defined in the EPRA's recommended best practices are as follows:

EPRA indicators		(Thousand euros)
	2017	2016
Adjusted EPRA earnings	32,210	24,036
Adjusted EPRA earnings per share	0.40	0.34
EPRA earnings	11,737	19,272
EPRA earnings per share	0.15	0.27
EPRA NAV	1,246,521	967,817
EPRA NAV per share	15.9	13.8
EPRA NNNAV	1,236,804	956,417
EPRA NNNAV per share	15.8	13.6
EPRA Net Initial Yield (NIY)	3.9%	4.1%
EPRA "Topped-up" NIY	4.1%	4.4%
EPRA vacancy rate	10.5%	14.1%

EPRA Earnings and Earnings Per Share		(Thousand euros)
	2017	2016
Earnings per IFRS income statement	**220,092**	**148,626**
Adjustments to calculate EPRA, exclude:		
(i) Changes in value of investment properties	(208,355)	(129,354)
EPRA earnings	**11,737**	**19,272**
EPRA earnings per share	**0.15**	**0.27**
Company specific adjustments:		
Company specific adjustments:	18,473	4,764
Adjusted earnings	**30,210**	**24,036**
Adjusted earnings per share	**0.40**	**0.34**

Average no. of shares (excluding treasury shares)	71,025,429	56,109,538

AXIARE PATRIMONIO SOCIMI, S.A.

MANAGEMENT REPORT FOR THE YEAR 2017

EPRA Net Asset Value (NAV)	(Thousand euros)	
	31/12/2017	31/12/2016
NAV per the financial statements (*)	**1,247,224**	**965,838**
Effect of exercise of options, convertibles and other equity interests	-	-
Diluted NAV	**1,247,224**	**965,838**
Exclude:	-	-
(iv) Fair value of financial instruments	6,825	9,436
(v.a) Deferred tax assets	(7,528)	(7,457
EPRA NAV	**1,246,521**	**967,817**
EPRA NAV per share (in euros)	**15.9**	**13.8**

(*) Includes capital gains on San Fernando, Miguel Angel and Peugeot

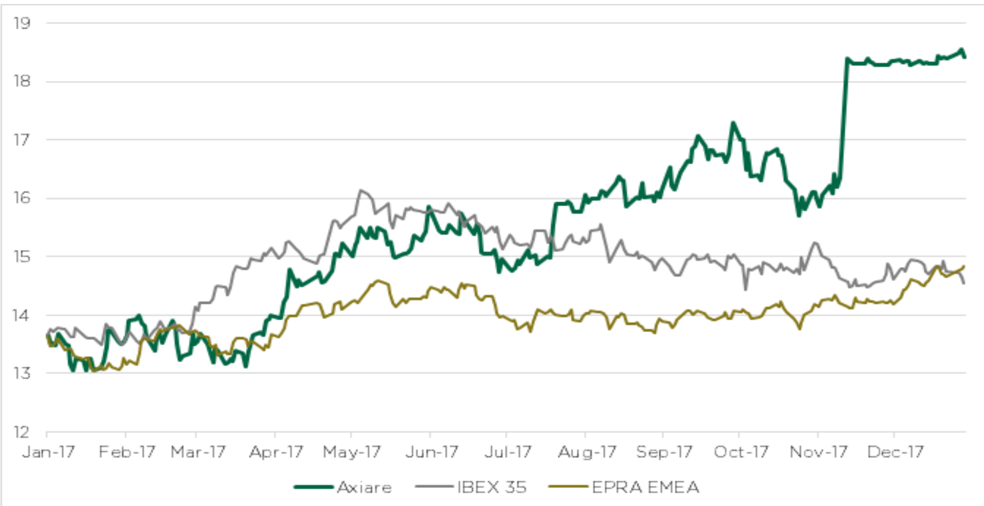
Triple NAV (NNNAV)	(Thousand euros)	
	31/12/2017	31/12/2016
EPRA NAV	**1,246,521**	**967,817**
Include:		
(i) Fair value of financial instruments	(6,825)	(9,436)
(ii) Fair value of debt	(10,420)	(9,421)
(iii) Deferred tax	7,528	7,457
EPRA NNNAV	**1,236,804**	**956,417**
EPRA NNNAV per share	**15.8**	**13.6**

EPRA YIELDS				(Thousand euros)
	Offices	Logistics	Others	Total
Investment property	1,324,550	328,055	144,350	1,796,955
Minus assets under refurbishment	(204,830)	(116,400)	-	(321,230)
Investment property completed	**1,119,720**	**211,655**	**144,350**	**1,475,725**
Estimated real estate asset transaction costs	17,356	2,937	2,237	22,530
Total completed property portfolio valuation (B)	**1,137,076**	**214,936**	**146,587**	**1,498,599**
Annual return on real estate investments	42,719	11,568	8,783	63,070
Operating costs associated with non-recoverable assets	(3,245)	(696)	(753)	(4,694)

Annualised net rents (A)	**39,474**	**10,872**	**8,030**	**58,376**
Temporary rental discounts or rent-free periods	1,850	498	109	2,457
Maximum net return on real estate investments (c)	**41,324**	**11,370**	**8,139**	**60,833**
EPRA NIY (A/B)	**3.5%**	**5.1%**	**5.5%**	**3.9%**
EPRA "Topped-up" NIY (C/B)	**3.6%**	**5.3%**	**5.6%**	**4.1%**

VACANCY RATE				**(Thousand euros)**
	Offices	**Logistics**	**Others**	**Total**
ERV of available spaces	7,096	913	214	8,223
Total ERV	53,909	13,566	10,790	78,265
EPRA Vacancy rate	**13.2 %**	**6.7%**	**2.0%**	**10.5%**

4. PERFORMANCE OF THE COMPANY'S SHARES



The graph shows the share price performance in 2017, starting from a listed price of €13.65/share on the first trading day of the year and reaching €18.42/share at 31 December 2017.

5. TREASURY STOCK

Movements in treasury stock over the period have been as follows:

	2017		2016	
	Number of treasury shares	Thousand euros	Number of treasury shares	Thousand euros
Opening balance	1,536,266	18,678	416,928	4,631
Additions/purchases	547,445	8,284	2,797,932	33,693
Reductions	(1,540,876)	(20,043)	(1,678,594)	(19,646)
Closing balance	**542,835**	**6,919**	**1,536,266**	**18,678**

Shares owned by the Company itself at 31 December 2017 represented 0.68% of the Company's share capital (2.11% at 31 December 2016) and totalled 542,835 shares (1,536,266 shares at 31 December 2016). The average cost of the Company's own shares was €12.746 per share (€12.158 per share at 31 December 2016).

These shares are registered, thus reducing the value of the Company's equity on 31 December 2017 to €6,919 thousand (€18,678 thousand on 31 December 2016).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares in the Company.

6. DIVIDEND POLICY

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs (Spanish Real Estate Investment Trusts) are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.

AXIARE PATRIMONIO SOCIMI, S.A.

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b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.

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

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

When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

The dividend to be distributed by the Axiare Group is determined on the basis of its profits for the year, calculated under the Spanish GAAP. The following table outlines the difference between the IFRS result and the Spanish Gaap result, which was the basis for the calculation of the dividend distribution:

Reconciliation of Spanish GAAP to IFRS		**(Thousand euros)**
	2017	**2016**
Result for the year under the Spanish GAAP	**19,469**	**13,792**
Adjustments:		
(i) Consolidation	(23,784)	(7,849)
(ii) Amortisation of investment properties	16,072	13,329
(iii) Changes in value of investment properties	208,335	129,354
Earnings per IFRS income statement	**220,092**	**148,626**

The following table shows the calculation of the dividend according to SOCIMI rules:

PROPOSAL FOR DISTRIBUTION OF THE RESULTS		(Thousand euros) 2017
Profit (loss) for the year		
Profits		19,469
Distribution		
Legal reserve	10% of Profits	1,947
Interim dividend	62% of Profits may be distributed	10,946
Dividend	38% of Profits may be distributed	6,576

7. RISK MANAGEMENT

Axiare Patrimonio has a risk monitoring system in place that covers its operations and suitably matches its risk profile. Risk management policies are monitored by the Board of Directors.

The main risk to attaining the Company's objectives concerns compliance with the necessary legislative requirements to ensure it retains its SOCIMI status.
The risk monitoring system also includes the management of financial risk. The policies applied in order to hedge against each type of risk are detailed in the accompanying Notes.

Note 3 of the notes to the annual accounts gives details of the Group's risk management activities.

8. AVERAGE PAYMENT PERIOD TO SUPPLIERS

The following table shows a breakdown of the payments that are due for commercial operations completed during the year and that remained pending on the date on which the balance sheet was closed, with reference to the maximum payment deadlines provided for under Act 15/2010 and subsequently modified under Act 31/2014:

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	2017	2016
	Days	Days
Average payment period to suppliers	26	35
Ratio of transactions paid	26	36
Ratio of transactions pending payment	27	20
	Amount (Thousand euros)	Amount (Thousand euros)
Total payments made	222,448	221,378
Total payments pending	3,880	4,436

9. THE TEAM

The team of professionals who make up Axiare Patrimonio is one of the Company's main strengths. Since its incorporation, the Group has selected the necessary personnel to develop its strategy and achieve its objectives.

Axiare Patrimonio is a self-managed real estate investment group whose management team forms an integral part of its organisational structure.

This internal team works exclusively for the company and its shareholders on a full-time basis. The team comprises specialist professionals with extensive experience, a recognised track record in the real estate sector and a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations over short periods of time and complete all aspects of the value creation process; from identifying the investment to actively managing the property and its rotation potential.

The Company is overseen by a Board of Directors, the broad majority of whom are independent directors, who combine skills in the real estate, financial and legal sectors. The Board is advised by an Investments Committee, an Appointments and Remuneration Committee and an Audit and Monitoring Committee that oversee compliance with the investment and profitability requirements established by the Company.

Axiare Patrimonio has assembled a strong team of real estate professionals who together have accumulated more than 100 years' experience and who devote their time exclusively both to the creation of value for the company and the shareholders and to the satisfaction of their customers. Their specialist skills and existing contact network provide the management team with access to unique investment opportunities in the Spanish real estate market.

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MANAGEMENT REPORT FOR THE YEAR 2017

10. MAJOR EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

On 13 November 2017, the company Inmobiliaria Colonial, SOCIMI S.A. submitted Prior Notice of an Offer to the National Securities Markets Commission (CNMV), as required under Article 16 of the Royal Decree on Takeover Bids, and on 24 November 2017, Colonial submitted an application to the CNMV for authorisation of its Offer, pursuant to the terms set out in Article 17 of the Royal Decree on Takeover Bids. This application was accepted on 7 December 2017.

On 28 December 2017, the National Securities Markets Commission authorised the Takeover Bid for shares in Inmobiliaria Colonial, SOCIMI S.A. on all the shares held by Axiare Patrimonio Socimi, S.A., at a price of €18.36 per share.

The Offering will be governed by the contents of the consolidated text of the Spanish Stock Market Act approved by Royal Legislative Decree 4 of 23 October 2015, as well as by Royal Decree 1066 of 27 July 2007, on the rules governing initial public share offerings, and by any other applicable legislation.

As a consequence of the aforementioned Takeover Bid, and pursuant to the incentive plan approved on 7 May 2017 by the General Shareholders Meeting (mentioned in Note 2.18), in the event of any change in control over the company an incentive would accrue for the management team.

In the significant event published the 8th of January of 2018 on the CNMV, the report from the Board of Directors in relation with the voluntary takeover bid launched by Colonial says:

" 8.4 OPINION OF THE BOARD OF DIRECTORS

In accordance with article 24 of Royal Decree 1066/2007, the Board of Directors is required to issue a detailed and reasoned report on each and all of the takeover bids for the Company that have been authorized by CNMV.
Based on the considerations and opinions expressed herein, as well as on the information contained in the Prospectus, the Board of Directors, in view of all the terms and characteristics of the Bid and its effect on the Company's interests, assesses the Bid Price positively, thus, it expresses a favourable opinion regarding the Bid; however, it believes that the consideration offered does not fully reflect the intrinsic value of Axiare's shares in the context of the Bid and, therefore, considers that there is potential for its improvement.

[…]

9. INTENTION TO ACCEPT THE BID IN CONNECTION TO THE OWN SHARES WHICH AXIARE HOLDS IN TREASURY

With regard to the own shares that the Company holds in treasury, which as of the date of this report amount to 542,835 shares representing 0.687% of its share capital (as communicated by Axiare to the market by relevant fact on 20 November 2017, register number 258,726), the Board of Directors declares its intention to accept the Bid, in line with the opinion expressed by the Board of Directors."

On 2 February 2018, Inmobiliaria Colonial gave notice that, following settlement of the Takeover Bid, its shareholding had risen to 86.86%. Therefore, this plan is accrued for an amount of 36 million in 2018.

11. COMPANY PERFORMANCE FORECAST

The Axiare Patrimonio Group has investment capacity with regard to its cash flows and it has the capacity to finance the assets that remain pending financing. In 2018 the Group will continue to pursue its investment strategy, which focuses on commercial properties in Spain.

The Group will also continue to actively manage its properties, focusing on improving leases expiring in 2018, as well as occupancy.

Several of the Group's assets are undergoing refurbishments which are scheduled to be completed during the 2018 financial year.

Notwithstanding the foregoing, the way that Grupo Axiare Patrimonio can be expected to perform is closely conditioned by the Takeover Bid mentioned in the previous section.

SCHEDULE: Annual Corporate Governance Report

SCHEDULE 1

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

ISSUER'S IDENTIFICATION DATA

FINANCIAL YEAR CLOSING DATE	31/12/2017
SPANISH TAX ID (C.I.F.)	A86971249

COMPANY NAME
AXIARE PATRIMONIO SOCIMI, S.A.

REGISTERED OFFICE
JOSÉ ORTEGA Y GASSET, 29, 5ª PLANTA, 28006 MADRID

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A OWNER STRUCTURE

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
31/12/2017	790,624,860.00	79,062,486	79,062,486

Indicate whether different types of shares exist with different associated rights:

Yes No ☒

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors:

Shareholder's name or corporate name	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
INMOBILIARIA COLONIAL, S.A.	22,762,089	0	28.79%
CITIGROUP GLOBAL MARKETS LIMITED	3,878,528	8,444	4.92%
T. ROWE PRICE ASSOCIATES, INC	4,393,224	0	5.56%
THE GOLDMAN SACHS GROUP, INC.	60,445	2,504,699	3.24%
SAND GROVE CAPITAL MANAGEMENT LLP	0	5,327,230	6.74%

Name or corporate name of the indirect owner of the stake	Via: Name or corporate name of the direct owner of the stake	Number of voting rights
CITIGROUP GLOBAL MARKETS LIMITED	CITIGROUP GLOBAL MARKETS LIMITED	8,444
THE GOLDMAN SACHS GROUP, INC.	THE GOLDMAN SACHS GROUP, INC.	2,504,699
SAND GROVE CAPITAL MANAGEMENT LLP	SAND GROVE CAPITAL MANAGEMENT LLP	5,327,230

Please indicate the most significant movements in shareholding structure during the year:

Shareholder's name or corporate name	Date of the operation	Description of the operation
INMOBILIARIA COLONIAL, S.A.	12/11/2017	Share capital holding has exceeded 25%
SAND GROVE CAPITAL MANAGEMENT LLP	15/12/2017	Share capital holding has exceeded 5%
DAVID EINHORN	04/04/2017	Share capital holding reduced to below 5%
PELHAM CAPITAL LTD	14/11/2017	Share capital holding reduced to below 5%
DAVID EINHORN	20/07/2017	Share capital holding reduced to below 3%
GIC PRIVATE LIMITED	13/11/2017	Share capital holding reduced to below 3%
J.P. MORGAN SECURITIES PLC	07/06/2017	Share capital holding reduced to below 5%
DEUTSCHE BANK AG	13/11/2017	Share capital holding reduced to below 5%

Shareholder's name or corporate name	Date of the operation	Description of the operation
AMBER GLOBAL OPPORTUNITIES MASTER FUND LTD.	13/11/2017	Share capital holding has exceeded 1% (only tax havens)
CITIGROUP GLOBAL MARKETS LIMITED	20/07/2017	Share capital holding reduced to below 5%
GRUSS CAPITAL MANAGEMENT LLP	16/11/2017	Share capital holding reduced to below 2% (only tax havens)
WELLINGTON MANAGEMENT GROUP LLP	07/12/2017	Share capital holding reduced to below 3%
GAM INTERNATIONAL MANAGEMENT LIMITED	22/02/2017	Share capital holding reduced to below 3%
GAM INTERNATIONAL MANAGEMENT LIMITED	15/02/2017	Share capital holding reduced to below 5%
BANK OF AMERICA CORPORATION	14/11/2017	Share capital holding has exceeded 5%
BANK OF AMERICA CORPORATION	16/11/2017	Share capital holding reduced to below 3%
BANK OF AMERICA CORPORATION	15/11/2017	Share capital holding reduced to below 5%
LANDSDOWNE PARTNERS INTERNATIONAL LIMITED	05/05/2017	Share capital holding reduced to below 2% (only tax havens)
LANDSDOWNE PARTNERS INTERNATIONAL LIMITED	20/07/2017	Share capital holding reduced to below 1% (only tax havens)

A.3 Complete the following tables regarding Company Directors holding voting rights through company shares:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	1,406,653	17,388	1.80%

Name or corporate name of the indirect owner of the stake	Via: Name or corporate name of the direct owner of the stake	Number of voting rights
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	RODEX ASSET MANAGEMENT S.L.	17,388

% of voting rights held by the Board Members	1.80%

Complete the following tables regarding Company Directors holding rights over company shares

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Capital Companies Act. Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes No X

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

There are no concerted actions among the shareholders of the Company.

A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the company pursuant to article 4 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify:

Yes No ☒

Observations

A.8 Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
542,835	0	0.68%

(*) Via:

Give details of any significant changes during the year pursuant to Royal Decree 1362/2007:

Detail the significant variations

In 2017, a total of 1,198,579 of the Company's treasury shares were delivered following the accrual of the share incentive plan.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting to issue, buy back and/or transfer treasury shares.

The Ordinary General Shareholders Meeting held on 20 May 2017 agreed to authorise the derivative acquisition of treasury shares by the Company, or group companies, revoking previous authorisations.

A.9.bis Estimated Floating Capital:

	%
Existing floating capital	50.75

A.10 Give details of any restriction on the transfer of securities and/or any voting rights. Indicate the existence of any restrictions that could complicate the takeover of the company by means of the acquisition of your shares on the market.

Yes No ☒

A.11 Indicate whether the General Shareholders Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

B GENERAL SHAREHOLDERS MEETING

B.1 Indicate, and where applicable detail, if there are differences with the system of minimum quorums established in the Spanish Capital Companies Act (LSC) compared to the quorum for the constitution of the General Shareholders Meeting.

Yes No ☒

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Capital Companies Act (LSC):

Yes No ☒

Describe how they differ from the rules established in the LSC:

B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when changing the Articles of Association.

The system of adoption of resolutions stated in the Articles of Association refers to the LSC.

B.4 Indicate the attendance figures for the General Shareholders Meetings held during the year that refer to this report and those of the previous year:

	Attendance data				
Date of General Shareholders Meeting	**% of physical presence**	**% proxy voting**	**% remote voting**		**Total**
			Electronic vote	**Others**	
12/05/2016	0.01%	47.94%	0.00%	2.58%	50.53%
20/06/2017	17.85%	43.30%	0.00%	2.77%	63.92%

B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the general shareholders' meeting:

Yes No ☒

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website, as well as other information on General Shareholders Meetings which must be made available to shareholders on the Company website.

The company website is www.axiare.es
In order to obtain information on corporate governance and general shareholders meetings, click on the tab "Investors Area" and then on the tab "Corporate Governance" or "General Shareholders Meeting".

C. COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors included in the Articles of Association:

Maximum number of Directors	7
Minimum number of Directors	5

C.1.2 Complete the following table with board member's details:

Name or corporate name of Director	Representative	Position of the Director	Director position	Date of first appointment	Date of last appointment	Election procedure
LUIS ALFONSO LOPEZ DE HERRERA-ORIA		Executive Director	CHIEF EXECUTIVE OFFICER (CEO)	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
LUIS MARIA ARREDONDO MALO		Independent Director	CHAIRMAN	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
FERNANDO BAUTISTA SAGÜÉS		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
CATO HENNING STONEX		Independent Director	DIRECTOR	20/06/2017	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Total number of Directors	**5**

Indicate any Board Members who left during the period:

C.1.3 Complete the following tables on the members of the board and their specific category:

EXECUTIVE DIRECTORS

Name or corporate name of Director	Position in the company's organisational chart
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	CHIEF EXECUTIVE OFFICER (CEO)

Total number of Executive Directors	1
% of the Board	20.00%

PROPRIETARY EXTERNAL DIRECTORS

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director:

LUIS MARIA ARREDONDO MALO

Profile:

He holds a degree in Civil Engineering, with the Professional Medal of Merit from the Civil Engineering College and graduated from the Senior Management Programme at IESE Business School (Navarre University). From 1969 to 2017, Luis María Arredondo Malo held the following positions: Managing Director of Constructora S.A.C.R.A, which forms part of the Belgian company Grupo C.F.E., Constructor and Toll Road Concessionaire, he held this position up until 1978. Managing Director of Corporación Inmobiliaria Hispamer, Grupo Santander, between 1980-1988, this company develops landmark office properties in Madrid and Barcelona. CEO of Inmobiliaria Zabálburu, S.A. between 1988-1994, a property development company that also owned and managed a prime office rental portfolio in Madrid. CEO and subsequently Chairman of Inmobiliaria Urbis, from 1994-2006. Inmobiliaria Urbis has been one of the largest developers and listed rental portfolio owners on the Madrid Stock Exchange. Chairman of Santander Global Property, (Grupo Santander), between 2006-2013. This company developed large projects in Mexico City, Monterrey, Miami and Madrid. He is currently a Consultant Engineer and freely exercises the profession.

Name or corporate name of Director:

FERNANDO BAUTISTA SAGÜÉS

Profile:

Holds a degree in Law from the Deusto University and a diploma in economic science and business studies from ICADE, and has also been a member of the Madrid Law Society (*Colegio de Abogados de Madrid*) since 1981. Fernando Bautista Sagüés became a partner at the law firm J&A Garrigues in 1989 and after its merger with Arthur Andersen, he became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, Fernando Bautista Sagüés was made a partner of Freshfields. He currently works as an independent legal adviser on matters regarding corporate and finance law, is Director of Abante Asesores S.A., is Secretary of the Corporate Social Responsibility Committee at Iberdrola, S.A.

Name or corporate name of Director:

DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ

Profile:

He holds a degree in Business Economics from CUNEF. David Jiménez-Blanco Carrillo de Albornoz worked in Goldman Sachs International between 1995 and 2006, managing the European Industrial Clients Group and the Investment Banking teams in Spain and Portugal. He was the President of Merrill Lynch Capital Markets España, S.A., Sociedad de Valores, between 2006 and 2009, and held the position of Head of the Investment Banking Operating Committee for EMEA (Europe, Middle East and Africa). Since 2010, he has held positions en BK Partners, a company that directly invests in assets in Mexico, and in World Duty Free SpA, a leading airport retail company. He was an Independent Board Director of Atento Inversiones y Teleservicios, and is currently an Independent Board Director at Gawa Capital Microfinanzas. David Jiménez-Blanco Carrillo de Albornoz is currently Managing Director of Restructuring and Strategy at Abengoa.

Name or corporate name of Director:

CATO HENNING STONEX

Profile:

He studied at London School of Economics and Political Science, where he held positions such as Governor, Member of the Endowment Investments Committee, Emeritus Governor and Member of LSE IDEAS. He began his professional career in London, where he took a work placement at Morgan, Grenfell & Co and was subsequently named as Director's Assisatnt for the “European Bond Trading” Department. He later moved to work for J. Rothschild Administration for seven years, as a Fund Manager. In 1996, he founded, along with other founding partners, the company Taube Hodson Stonex (THS), located in London. THS merged with the company Global Asset Management (GAM) in 2016. Mr Stonex, has just founded the company Partners Investments Company LLP, in London, which is his main business activity.

Total number of Independent Directors	4
% of the Board	80.00%

List any Independent Directors who receive from the company or its own group any amount or payment other than Standard Director remuneration or who maintain, or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, Director or Senior Officer of an entity, which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the Board detailing the reasons why the said Director may carry on their duties as an Independent Director.

OTHER EXTERNAL DIRECTORS

List the reasons why these cannot be considered Proprietary or Independent Directors and detail their relationships with the company, its executives or shareholders:

List any changes in the category of each Director that have occurred during the year:

C.1.4 Complete the following table on the number of female Directors over the past four years and their roles:

	Number of female Directors				**% of total Directors of each type**			
	2017	**2016**	**2015**	**2014**	**2017**	**2016**	**2015**	**2014**
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary Director	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent Director	0	0	0	0	0.00%	0.00%	0.00%	0.00%

	Number of female Directors				% of total directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
Other External Members	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	0	0	0	0	0.00%	0.00%	0.00%	0.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there are enough female directors on the board to guarantee an even balance between men and women.

Explain of the measures

Although there are no women on the Board of Directors, the Board is committed to balancing out this situation. To that effect, appropriate internal assessments are being made, although so far with these have not been as successful as hoped.

C.1.6 Explain the measures taken, if applicable, by the Appointment Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explain of the measures

As stated above, the company is making the relevant internal assessments on incorporating women onto the Board of Directors.

When, in spite of any measures taken, there are few or no female directors, please explain why:

Explain of the reasoning

The Company has established a policy of selecting Board Directors based on an analysis of the Company’s needs. Candidates for Board Directors will be persons of renowned prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be professionals whose conduct and professional trajectory are aligned with the mission, vision and values of the Company. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It shall also ensure that candidates for Non-Executive Directors have sufficient time available for the proper performance of the role.

C. 1.6 bis Explain the conclusions of the Appointment Committee regarding the verification of compliance with the Directors' Selection Policy and, in particular, how this policy aims to ensure that the number of female Directors will represent at least 30% of the total members of the Board of Directors in 2020.

Explain of the conclusions

The Company has established a policy of selecting Board Directors based on an analysis of the Company’s needs. Candidates for Board Directors will be persons of renowned prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be professionals whose conduct and professional trajectory are aligned with the mission, vision and values of the Company. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It shall also ensure that candidates for Non-Executive Directors have sufficient time available for the proper performance of the role.

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

During the 2017 trading year there was no Director representing shareholders with significant holdings.

C.1.8 Explain, where applicable, the reasons why Proprietary Directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding interest is equal to or greater than that of other shareholders who have successfully requested the appointment of Proprietary Directors. Where applicable, explain the reasons why they were rejected.

Yes No ☒

C.1.9 Indicate whether any Director has resigned before their term of office has expired, whether that Director has given the Board their reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer/s:

Name or corporate name of Director

LUIS ALFONSO LOPEZ DE HERRERA-ORIA

Brief description:

All of the powers accorded to the Board of Directors which may be subject to delegation under Law, the Articles of Association and the Board Regulations.

C.1.11 List the Directors, if any, who hold office as Directors or Executives in other companies belonging to the listed company's group:

Name or corporate name of Director	Corporate name of the group company	Position	Is this role Executive?
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Venusaur, S.L.U	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Investments, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Properties, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Axiare Investigación, Desarrollo e Innovación, S.L.U.	Individual representing the Sole Director	YES
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Chameleon (Cedro), S.L.U.	Individual representing the Sole Director	YES

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 in Spain, insofar as these have been disclosed to the company:

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its Directors may sit:

Yes No [X]

Explanation of the rules
In accordance with Article 21, section 2.a of the Board of Directors Regulations, under no circumstances may a Director form part of more than 5 Boards of Directors.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the Board of Directors:

Board remuneration (Thousand euros)	11,911
Amount of total remuneration corresponding to accumulated pension rights (Thousand euros)	0
Amount of total remuneration accumulated by the Former Director in pension rights (Thousand euros)	0

C.1.16 List any members of Senior Management who are not Executive Directors and indicate the total remuneration paid to them during the year:

C.1.17 List, if applicable, the identity of those Directors who are likewise members of the Boards of Directors of companies that own significant holdings and/or group companies:

List, where applicable, any relevant relationships, other than those included under the previous heading, which link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

Yes No [X]

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 procedure.

The policy of selecting candidates for a Director establishes that the selection of candidates for the Company's Board of Directors will ensure the following principles:

1. The aim will be to ensure that the Board of Directors comprises a balanced membership with the majority being Non-Executive Directors and with a reasonable ratio of Proprietary and Independent Directors.

2. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It will also ensure that candidates for Non-Executive Directors have sufficient time available to properly carry out the role.

3. Additionally, in the process of selecting candidates for a Director, that the process will begin with a preliminary analysis of the needs of the Company and its Group. This analysis will be carried out by the Board of Directors of the Company, with the advice and prescriptive prior supporting report of the Appointment and Remuneration Committee.

4. The supporting report of the Appointment and Remuneration Committee shall be published when convening the General Shareholders Meeting, to which the ratification, appointment or re-election of each Director is submitted.

5. The Appointments and Remuneration Committee will annually verify that the company is acting in compliance with the Board Member Selection Policy and will detail its findings in the Annual Corporate Governance Report.

The Board of Directors shall conduct an annual self-assessment of its operation and of its Commissions and Committees, in particular the diversity in the composition and competence of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company and of the different Directors, paying special attention to the heads of the different Board Commissions and Committees and will take the appropriate measures for their improvement.

C.1.20 Explain the extent to which the annual appraisal of the Board has given rise to significant changes in its internal organisation and the procedures applicable to its activities:

Description of the amendments

There have been no changes in the internal organisation of the Board due to its evaluation.

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors, assisted, where appropriate, by an External Consultant, regarding the diversity in their composition and competencies, the functioning and composition of their commissions, the performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company and of the performance and contribution of each Director.

The Board of Directors shall conduct an annual self-assessment of its operations and of its Commissions and Committees, in particular the diversity in the composition and competence of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company and of the different Directors, paying special attention to the heads of the different Board Commissions and Committees and will take the appropriate measures for their improvement.

The result of the evaluation shall be recorded in the minutes of the meeting or incorporated as an annex.

The evaluation of Board Commissions and Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report drafted by the Appointments and Remunerations Committee.

Every three years, the Board of Directors shall be assisted in carrying out the evaluation by an External Consultant, whose independence shall be verified by the Appointment and Remuneration Committee.

The business relationships that the Consultant (or any company of its group) maintains with the Company (or any company within the Company group) must be disaggregated in the Annual Corporate Governance Report. The process and evaluated areas will be described in the aforementioned Annual Corporate Governance Report.

C.1.20. Detail the business relations that the Consultant or any company of its group maintain with the company or any company of its group.

None exist.

C.1.21 Indicate the cases in which Directors must resign.

Article 12 of the Board Regulations regulates the dismissal and removal of Directors:

1. Directors must relinquish their post and formalise their resignation when any of the situations occur of incompatibility or prohibition for holding the post of Director provided for in Law, and also in the following cases:

a) In the case of Directors representing major shareholders, when the shareholder at whose instance he was appointed transfers the entire stake that they had in the Company or reduces it to such a level that demands a reduction in the number of its Proprietary Directors.

b) When the Board itself asks for this by a majority of at least two thirds (2/3) of its members, due to the Director having infringed his/her obligations as such, with a prior proposal or report from the Appointment and Remuneration Committee, or when his/her remaining on the Board could endanger the credit and reputation of the Company.

2. In the event that a private individual representing a legal entity Director were to become bound by any of the situations of incompatibility or prohibition for holding the post of Director provided for in Law, the legal entity Director must immediately replace that person.

3. The Board of Directors may not propose the removal of any Independent Director prior to the end of the statutory period for which he/she was appointed, unless there are fair grounds as assessed by the Board following a report from the Appointment and Remuneration Committee. In particular, it shall be understood that just cause exists when the Director has failed to comply with the duties inherent to his/her post, has failed to comply with any applicable recommendation on the subject of corporate governance or has become bound by any of the circumstances preventing his/her appointment as an Independent Director. Notwithstanding the above, it shall also be possible to propose the removal of Independent Directors resulting from takeover bids, mergers or other similar corporate operations that imply a change in the capital structure of the Company when such changes in the structure of the Board arise from the criterion of proportionality stated in article 9, section 3, above.

4. When a Director leaves his/her post before the end of his/her term, whether by resignation or due to any other cause, he/she shall explain their reasons in a letter sent to all members of the Board, notwithstanding the resignation being notified as a significant event and the reason for the resignation being noted in the Annual Corporate Governance Report. In particular, in the event that the resignation of the Director is due to the Board having adopted significant or repeated resolutions regarding which the Director has set down on record his/her reservations and as a consequence of this has decided to resign, this circumstance shall be expressly stated in his/her resignation letter. This provision also applies to the Secretary of the Board, even if he/she is not a Director.

5. Notwithstanding the above, the removal of Directors may be approved by the General Shareholders Meeting at any moment, even when not provided for in the agenda for the meeting.

C.1.22 Section revoked.

C.1.23 Are enhanced majorities required in any type of decision other than those legally stipulated?:

Yes ☒ No

If applicable, describe the differences.

Description of the differences

Article 30, section 5, of the Board Regulations states that in order to approve the necessary report so that the General Shareholders Meeting can approve the establishment of the system of remunerations for Directors and Managers of the Company consisting of providing them with shares or rights on them, the vote in favour of a qualified majority of Directors shall be required.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman of the Board of Directors.

Yes No ☒

C.1.25 Indicate whether the Chairman has the casting vote:

Yes ☒ No

Matters where the Chairman has the casting vote

In general, Articles 40.4 of the Company Articles of Association and 26 of the Board Regulations state that the Chairman has the casting vote in votes held in meetings both of the Board of Directors and of the Executive Committee (since if this Committee is established, the aforesaid Article 26 of the Regulations states that it shall be chaired by the Chairman of the Board).

C.1.26 Indicate whether the Articles of Association or the Board Regulations set any age limit for Directors:

Yes No ☒

C.1.27 Indicate whether the Articles of Association or the regulations of the Board of Directors set a limited term of office for Independent Directors different from that stated by the regulation:

Yes No X

C.1.28 Indicate whether the Articles of Association or Board Regulations stipulate specific rules on appointing a Proxy to the board, the procedures thereof and, in particular, the maximum number of Proxy appointments a Director may hold. Also, indicate whether only one Director of the same category may be appointed as a proxy. Where applicable, detail these briefly.

Article 30.2 of the Board Regulations states that although Directors must attend Board meetings in person, they shall be able to be represented by another Director in accordance with the legislation applicable at each moment. The representation must be made especially for the Board meeting under consideration and may be communicated by means of letter, fax, telegram, email or any other means.

C.1.29 Indicate the number of Board meetings held during the year. Indicate how many times the Board has met without the Chairman in attendance. Attendance will also include Proxies appointed with specific instructions.

Number of Board meetings	9
Number of Board meetings with the Chairman in attendance	0

If the Chairman is an Executive Director, indicate the number of meetings held without an Executive Director present or represented and chaired by the lead Director.

Number of meetings	0

Indicate the number of meetings held of the various Board Committees during the year:

Committe	No. of Meetings
AUDIT COMMITTEE	4
APPOINTMENT AND REMUNERATION COMMITTEE	5
BOARD OF DIRECTORS	9

C.1.30 Indicate the number of Board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

Number of meetings with all Directors in attendance	7
% of attendances of the total votes cast during the year	77.78%

C.1.31 Indicate whether the consolidated and individual annual accounts submitted for authorisation for issue by the board are certified previously:

Yes No X

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual accounts prior to their authorisation for issue by the board:

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated annual accounts it prepares from being presented before the General Shareholders Meeting with a qualified Audit Report.

Article 39 of the Board Regulations regulates relations with the External Auditors in the following terms:

1. Relations between the Board and the Company's External Auditors shall be channelled via the Audit and Monitoring Committee.

2. The Board of Directors shall abstain from contracting audit firms in which the fees which the company and the companies in its group are expected to pay for all items are greater than five percent of the income of the audit firm in Spain during the immediately preceding fiscal year.

3. The Board of Directors shall aim to formulate the annual accounts definitively in such a way that there are no provisos or reservations in the audit report, and in the exceptional case that these exist, both the Chairman of the Audit and Monitoring Committee and the Auditors shall clearly explain to the shareholders the content and scope of those provisos or reservations.

C.1.33 Is the Secretary of the Board also a Director?

Yes No X

If the Secretary does not have the status of Director, please complete the following table:

Name of individual or corporate name of the Secretary	Representative
IVAN AZINOVIC GAMO	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the Auditor, Financial Analysts, investment banks and rating agencies.

Article 34, section 5, of the Board Regulations states the following duties of the Audit Committee in relation to the External Auditor:

(i) To bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor (having to be international firms of acknowledged standing), along with the terms of their contracting.

(ii) To receive information from the External Auditor on a regular basis regarding the audit plan and the results of its execution, and to check that the top management takes its recommendations into account.

(iii) To ensure the independence of the External Auditor and, for that purpose, to ensure that the Company informs the CNMV (Spanish Securities and Exchange Commission) of the change of Auditor as a significant event enclosing a declaration on the possible existence of disagreements with the outgoing auditor and the content of them if there were any, and, in the event of the External Auditor having resigned, to examine the circumstances that gave rise to this.

The Audit and Monitoring Committee must establish the appropriate relations with the accounts auditors or audit companies in order to receive information on those questions that could endanger their independence so that they can be examined by the Audit and Control Committee, and any other questions related to the process of conducting the accounts audits, as well as those other communications provided for in the legislation on accounts audits and in auditing standards. In all cases, they must receive written confirmation each year from the accounts auditors or the audit companies of their independence regarding the bodies that are directly or indirectly related to them, along with information on additional services of any kind that the said auditors or companies have provided for these entities or which have been provided by related parties in accordance with the provisions of the Spanish Accounts Audit Law 19/1988, of 12 July 1988.

(iv) To aid the Company Auditor so that it can accept responsibility for the audits of the companies making up the group, as the case might be.

(v) To ensure that the Company and its Auditor respect the regulation in force about providing different services from the auditing, the limits about the concentration of services provided and, in general, all the rest of the regulation regarding the independence of the Auditor.

Equally, each year prior to the issuing of the audit report on the accounts, the Audit Committee must produce a report in which it states an opinion on the independence of the accounts auditors or audit companies. This report must, in all cases, make a statement regarding the provision of the additional services referred to in section b), point (iii), above.

C.1.36 Indicate whether the Company has changed its external auditing firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same:

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes ☒ No

	Company	Group	Total
Amount from non-audit work (Thousand euros)	0	169	169
Amount for work other than auditing/total amount invoiced by the audit firm (in %)	0.00%	29.44%	29.44%

C.1.38 Indicate whether the audit report on the previous year's annual accounts is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No ☒

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	4	3
No. of years audited by current audit firm / No. of years the company's annual accounts have been audited (%)	100.00%	100.00%

C.1.40 Indicate, where applicable, if there is a procedure through which Directors may receive external advice:

Yes ☒ No

Details of the procedure

Articles 23 and 24 of the Board Regulations regulate the information for Directors in the following terms:

Article 23. Powers of information and inspection

1. So that they can carry out their duties, all Directors may be informed of any aspect of the Company and of its partly owned companies. For these purposes, they shall be able to examine their books, records, documents and other background information concerning corporate operations, being able to inspect all its facilities and communicate with the Company Managers.

2. In order not to disturb the day-to-day management of the Company, the exercise of the powers of information shall be channelled via the Chairman of the Board of Directors, who shall attend to requests made by the Director, providing him with the information directly or putting him in touch with the appropriate points of contact at a suitable level of the organisation.

Article 24. Help from experts

1. In order to assist them in the performance of their duties, External Directors are entitled to obtain the requisite advice and assistance from the company in order to carry out their duties in an appropriate manner, and the advice and services of the Secretary as and when they are needed and at the Company's expense, legal, accounting, financial and any other type of expert

advice provided that these are needed for specific matters of some significance and complexity that arise in the performance of their duties.

2. The request to contract External Advisors or experts must be made to the Chairman of the Board of Directors and shall be authorised by a full meeting of the Board if, in the opinion of the latter:

a) It is necessary for the proper fulfilment of the duties entrusted to the Directors;

b) Its cost is reasonable, in view of the importance of the problem and of the assets and income of the Company;

c) The technical assistance that is received cannot be adequately provided by the Company's own experts and technical staff;

and d) It does not endanger the confidentiality of the information that has to be provided to the expert.

3. In the event that the request for the help of experts is made by any of the Board Committees, this may not be refused unless a majority of the Board considers that the circumstances provided for in section 2 of this article do not apply.

C.1.41 Indicate, and where applicable detail, whether there is a procedure for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes ☒ No

Details of the procedure

Article 29, section 5, of the of the Board Regulations states as follows:

The summoning of Board meetings shall be done by means of letter, fax, telegram, email or any other means, and shall be authorised with the signature of the chairman, or that of the secretary or vice-secretary, by order of the chairman. The summons shall be sent out sufficiently far in advance so that the directors receive it no later than three days before the date set for the meeting, unless the meeting is urgent. This does not apply to situations in which these regulations require greater notice. The summons shall in all cases include the place, date and time for holding the meeting, and its agenda, and, unless the Board of Directors has been constituted or summoned on an exceptional basis for reasons of urgency, it shall be accompanied by the information regarded as necessary for the discussion and adoption of the resolutions on the matters to be dealt with..

C.1.42 Indicate and, where applicable, give details of whether the company has established regulations obliging Directors to inform the Board of any circumstances that might harm the organisation's name or reputation, resigning as the case may be:

Yes ☒ No

Details of the regulations

Article 21 of the Board Regulations governs the duty of notification on the part of Directors:
1. Directors must notify the Company of any stake holdings held personally by the Director or by any of his or her Related Parties in the share capital of any company with the same, complementary or analogous kind of activity as that making up the Company's corporate purpose, and positions held or functions performed in such companies, as well as the performance of any kind of activity complementary to that making up the Company's corporate purpose, whether on the Director's own account or on behalf of any third party. All such information will be included in the notes to the annual accounts and in the Annual Corporate Governance Report, in accordance with legal requirements.

2. Directors must also notify the Company:

a) Of all the posts held and the activities carried out in other companies or entities, as well as any other professional obligations. In particular, and prior to accepting any appointment as a Director or Executive in another company or entity, Directors must consult the Appointment and Remuneration Committee. No Director may, in any case, form part of more than five (5) Boards.

b) Of any material change in their professional situation affecting the nature or condition by virtue of which they had been appointed as Directors.

c) Of any judicial, administrative or other proceedings they may be involved in and that, due to their characteristics or importance, could have a serious impact on the Company's reputation. In particular, all Directors must inform the Company, through its Chairman, of any cases in which they are arraigned or if a court decides to hold a trial involving them in connection with any of the crimes listed in Article 213 of the Spanish Capital Companies Act (LSC). Should such a circumstance arise, the Board shall examine the matter as promptly as possible and adopt any resolutions it may feel are appropriate for the Company's best interests.

d) Of any direct or indirect stake holdings held personally by the Director or by any of his or her Related Parties in the Company's share capital, and of any change in such stake holdings. Of any transactions engaged in, whether directly or indirectly, by the Director or any Related Parties with or in connection with the Company's share capital. For these purposes, the concept of Related Parties shall be deemed to include any other persons considered to have close ties to Directors pursuant to Article 9 of Royal Decree 1,333 dated 11 November 2005, developing the Securities Market Act (Law 24 dated 28 July 1988) with regard to market abuses.

e) In general, of any fact or situation that may be of relevance for their behaviour as a Director of the Company.

C.1.43 Indicate whether any Director has notified the company that they have been indicted or tried for any of the offences stated in Article 213 of the LSC:

Yes No X

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken to the date of this report or to be taken by the Board.

C.1.44 List the significant agreements entered by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Axiare Patrimonio Socimi, S.A. has an incentives scheme for company Directors. This plan was approved at the General Shareholders Meeting of 7 May 2015 and can be found in the information prospectus on the Company capital increase with preferential subscription right, registered with the National Securities Market Commission (CNMV) on 14 May 2015.
According to the terms of section 3.2 of the Prospectus, under the heading "Others", if as a consequence of a public share offering, a change in control is involved in accordance with the terms of Royal Decree 1066/2007 of 27 July on public tenders for acquisition of securities, this event shall be considered as a liquidation event as defined in the Incentive Scheme.
This plan may be settled both in shares and in cash, at the Board of Directors discretion.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its Officers, Executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other form of transaction.

Number of beneficiaries: 1

Type of beneficiary: CHIEF

EXECUTIVE OFFICER (CEO)

Description of the Contract:

The services contract entered into by the company and its CEO, Luis Alfonso López de Herrera-Oria, on 5 June 2014, establishes that if the contract is terminated without just cause (i.e. unfair dismissal as defined by the Statute of Workers), the CEO will be entitled to a compensation in cash equivalent to the fixed remuneration of two years or, if higher, to the compensation for unfair dismissal applicable calculated according to the formula provided by the Statute of Workers in force. The company acknowledges the Chief Executive Officer a tenure of four-years for such purpose.

Furthermore, if the Company decides to terminate the contract and unemployment benefits are not granted by the competent public authorities to Luis Alfonso López de Herrera-Oria, the company shall compensate the CEO with an amount equivalent to the unemployment benefits to which he would be entitled if he were legally unemployed when terminating the mercantile relationship, for a maximum period of two years.

In addition, seven directors of the Company, excluding the CEO, have compensation clauses in relation to the conclusion of the employment contract, either for any other reason different of an appropriate disciplinary dismissal, such as the conclusion of the contract at the request of the Director in cases of change of control (company succession, appointment of a new CEO, modification of the main activity of the company or change of control in the shareholding of the Company as consequence of a takeover bid). These clauses were written after the analysis of the work made by different independent consultants, these contracts were signed to be consistent with reasonable market practices, in May 2017.

Indicate whether these contracts have to be reported to and/or authorised by the governing bodies of the company or its group:

	Board of Directors	General Shareholders Meeting
Body authorising clauses	**Ye**	**No**

	Yes	No
Is the General Shareholders Meeting informed of such clauses?		X

C.2 Board Committees

C.2.1 Give details of all the Board Committees, their members and the proportion of Executive, Proprietary, Independent Directors and other external members that form part of them:

AUDIT COMMITTEE

Name	Position	Category
LUIS MARIA ARREDONDO MALO	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	MEMBER	Independent Director

Name	Position	Category
FERNANDO BAUTISTA SAGÜÉS	CHAIRMAN	Independent Director

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%
% of other externals	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The primary function of the Audit Committee is to support the Board of Directors in its oversight role by regularly reviewing the process of preparing economic and financial information, its internal controls and the independence of the External Auditor.

Identify the member of the Audit Committee who has been appointed bearing in mind their knowledge and experience in accounting, auditing or both, and report on the number of years held by the Chairman of this Committee.

Name of the Board Director with experience	FERNANDO BAUTISTA SAGÜÉS
Number of years of the Chairman in the	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Positio	Category
FERNANDO BAUTISTA SAGÜÉS	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	CHAIRMAN	Independent Director
CATO HENNING STONEX	MEMBER	Independent Director

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%
% of other externals	0.00%

Explain the functions attributed to this Committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The main duty of the Appointments and Remuneration Committee is to provide support and assistance to the Board of Directors on the proposed appointment, re-election, approval and dismissal of board members, the setting up and overseeing of payment policy for Board Members and Directors of the Company, the monitoring of Directors' compliance with their duties, particularly as regards conflicts of interest and related-party transactions, and overseeing compliance with the Internal Code of Conduct and Corporate Governance regulations.

BOARD OF DIRECTORS

Name	Positio	Category
LUIS MARIA ARREDONDO MALO	CHAIRMAN	Independent Director
LUIS ALFONSO LOPEZ DE HERRERA-ORIA	VICE CHAIRMAN	Executive Director
FERNANDO BAUTISTA SAGÜÉS	MEMBER	Independent Director
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	MEMBER	Independent Director
CATO HENNING STONEX	MEMBER	Independent Director

% of Executive Directors	20.00%
% of Proprietary Directors	0.00%
% of Independent Directors	80.00%
% of other externals	0.00%

Explain the functions attributed to this Committee, describe the procedures and rules of the organisation and operation of the same and summarise the most important actions during the year.

The Board of Directors holds the authority to adopt resolutions for a wide range of issues, so long as they are not legally reserved for the statutes or for the General Shareholders Meeting. It holds executive power to manage, administer and represent the company, in and out of court, without detriment to which its activity will essentially be concerned with approving the corporate strategy and organising how to put this into practice.

C.2.2 Complete the following table on the number of female Directors on the various Board Committees over the past four years:

	Number of female Directors							
	2017		**2016**		**2015**		**2014**	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
APPOINTMENT AND REMUNERATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
BOARD OF DIRECTORS	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked

C.2.4 Section revoked.

C.2.5 Indicate, if appropriate, whether the Board Committees are subject to regulations, the place where they are available for consultation and any amendments made during the trading year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The rules for the organisation and operation of the Board's committees are set out in Articles 33, 34 and 35 of the Board of Directors Regulations. The Board of Directors Regulations are published in the Shareholders and Investors section of the Company's website.

No voluntary annual reports have been drawn up on the activities of each committee.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intra-group transactions:

Procedure for the approval of related-party transactions

Article 22 of the Board of Directors Regulations establishes the following procedure in its sections 3, 4 and 5 for the approval of related-party transactions:

1. Subject to the authorisation of the Board, following a favourable report from the Audit and Monitoring Committee, operations carried out by the Company with Directors, significant shareholders or who are represented on the Board, with Directors or with persons related to any of the aforementioned and including those transactions that could give rise to a conflict of interest and any transaction with third parties pursuant to which any Director, significant shareholder or that is represented on the Board, Manager or related person is entitled to receive any compensation, remuneration or commission.
2. The Audit and Monitoring Committee and the Board of Directors, prior to authorising the execution of such transactions by the Company, will assess the transaction from the standpoint of ensuring equal treatment for all shareholders and market conditions.
3. Should the related-party transaction affect a Director, he or she will not be provided with any additional information about the operation or transaction in question and, should the Directors involved be present at the meeting of the Board of Directors or the Audit and Monitoring Committee, then, in addition to being unable to exercise or delegate their voting rights, they must withdraw from the meeting room during the deliberation and vote, if any, about the transaction(s) at sessions of both the Board and the Audit and Monitoring Committee.
4. The prior authorisation of the Board foreseen in sub-section 1 of this Article shall not be required when the following three conditions are simultaneously met:
a) When the transactions in question are carried out pursuant to standard contracts with pre-established conditions that are applied en masse to many customers;
b) When the transactions in question are carried out at prices or with tariffs established at a general level with the party acting as the supplier of the good or service involved.
c) When the amount of the transactions in question do not exceed 1% of the Company's annual revenue.
5. In the case of transactions within the ordinary course of the Company's business and habitual or recurrent in nature, a generic authorisation from the Board shall suffice.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's Managers or Directors:

D.4 List any relevant 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 subject matter and terms set them apart from the company's ordinary trading activities.

In any case, it will be informed of any intra-group transactions carried out with entities established in countries or territories that have the status of tax haven:

D.5 Indicate the amount from related-party transactions.

0 (Thousand euros)

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, Management or significant shareholders.

Article 17 of the Board Regulations governs conflicts of interest in the following terms:

1. A conflict of interest will be deemed to exist in those situations where the interests of the Company or companies in its business group collide, directly or indirectly, with the personal interests of the Director. Directors will be deemed to have personal interest whenever the matter at hand affects the Director personally or a Related Party (as defined below).

2. For the purposes of the present Regulations, "Related Parties" will be considered:

a) With respect to an individual, the following:

(i) The spouse or a person who is spousal equivalent.

(ii) Forebears, descendants and siblings of the person subject to these Regulations or of the spouse (or other person with an analogous emotional relationship) of the person subject to these Regulations.

(iii) The spouses of all forebears, descendants and siblings of the person subject to these Regulations.

(iv) Companies in which the person subject to these Regulations, in their own name or through an intermediary, holds or may hold control, either directly or indirectly, in accordance with the scenarios contemplated in Article 42 of the Business Code.

b) With respect to a legal entity, the following:

(i) Partners or shareholders who hold or may hold control, albeit directly or indirectly, with respect to the person subject to this Regulation with that person being a body corporate, in accordance with the situations considered in article 42 of the Commercial Code.

(ii) Companies which form part of the same business group, as defined in Article 42 of the Business Code, and the partners or shareholders in the same.

(iii) The representative natural person, the managers, de jure and de facto, the liquidators, and the attorneys in fact with general powers to act on behalf of the legal entity subject to this Regulation.

(iv) The persons who, with respect to the representative of the legal person subject to this Regulation are deemed to be connected persons, in accordance with the terms of the previous section for Directors who are natural persons.

3. All conflict of interest situations will be governed by the following rules:

a) Notification: Directors must inform the Board, through its Chairman or Secretary, of any situation affecting them that entails a conflict of interest.

b) Abstention: Directors must refrain from attending and participating in any deliberation and votes on those matters in which a conflict of interest may exist and, in consequence, their presence will not be taken into account in such cases for the calculation of the quorum. In the case of Proprietary Directors, these must refrain from participating in any voting on matters which might imply a conflict of interest between the shareholders who have proposed their appointment and the Company.

c) Transparency: the Company's Annual Corporate Governance Report will inform on any conflict of interest situation involving Directors known to the Company through notification by the person concerned or by any other means.

4. The provisions contained in the present Article may be developed further through the corresponding rules issued by the Company's Board of Directors, including an Internal Code of Conduct.

D.7 Is more than one group company listed in Spain?

Yes No ☒

Identify the listed subsidiaries in Spain:

Listed subsidiary

Indicate whether they have publicly provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Define the possible business relationship between the listed subsidiary company and the other companies in the Group

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms in place to resolve eventual conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the Risk Management System in place at the company, including tax risk.

The company has developed a Risk Management System that not only takes account of the nature of the company, but also allows for the particular economic, geographical and regulatory characteristics of the environment in which the company operates.

The risk management strategy and policy is the responsibility of the Board of Directors. However, all the members of the organisation are stakeholders and are therefore responsible for ensuring the success of the Risk Management System.

E.2 Identify the bodies responsible for preparing and implementing the Risk Management System, including tax risk.

The governing bodies with responsibility for risk management and monitoring are the Board of Directors and the Audit Committee:

Board of Directors

The Board of Directors is the body responsible for approving the company's strategy that is needed for putting it into practice, as well as for supervising and monitoring to make sure that the Management meets the stated targets. As a result, the Board is responsible for ensuring that, in relations with all those parties having a direct or indirect interest in the Company, the laws and regulations are duly complied with, and that the obligations and contracts are fulfilled in good faith, ensuring uses and best practices of the sectors and areas in which the company carries out its activities, and guaranteeing that any additional principles of social responsibility that the company has accepted voluntarily are duly fulfilled. Article 43 of the Company Articles of Association states that the Board of Directors must create and maintain within itself an Audit and Monitoring Committee on a permanent and internal basis.

Audit and Monitoring Committee

Article 44 of the Company Articles of Association attributes to the Audit and Monitoring Committee the fundamental task of acting as support to the Board of Directors in its supervisory work, by means of the periodical review of the process of drawing up economic-financial information, of its internal controls and of the independence of the outside Auditor.

E.3 Indicate the main risks, including tax risk, which may prevent the company from achieving its targets.

The following is a list of some of the main kinds of risk that may be encountered, all of which are covered by the Risk Monitoring System, which derives from Company's real estate and rental property activity.

1. Financial risks.

a) Market risk.

(i) Interest rate risk. The Company's interest rate risk derives from the financial debt. Loans issued at variable interest rates expose the Company to cash flow interest rate risk, which is partially offset by the cash held on deposit at variable interest rates. The increase of the interest risk is also compensated through hedging derivatives.

b) Credit risk

The Company is not exposed to significant levels of credit risk, this being understood to mean the impact that the non-payment of receivables could have on its income statement. The company has policies that ensure that both sales and lettings are made to clients with an appropriate credit history.

c) Liquidity risk

The Finance Department is responsible for managing liquidity risk in order to ensure that the Company meets its existing payment obligations and/or any undertakings arising from new investments. To this end it prepares annual projections of expected cash flows.

2. Market risks.

The Company minimises this type of risk through its own strategy and business model. Axiare Patrimonio invests in prime properties, with strong upside potential in the office, logistics and retail sectors, primarily in the most consolidated areas of Spain. The company has implemented a long-term business plan that focuses on value creation through active management and repositioning of the portfolio, with special attention to environmental sustainability.

3. Economic risks.

Control over these risks in acquisitions is sought by means of a meticulous analysis of the transactions, examining and foreseeing the problems that might arise in the future, and considering the possible solutions to them. In disposals, the main risk resides in a failure to receive the prices agreed in the contracts as a result of the buyers' non-compliance. These risks are sought to be controlled by means of setting up all kinds of guarantees that will, if necessary, allow the total price to be received or the property forming the object of disposal to be recovered.

4. Risks of a legal and fiscal nature.

The company's activities are subject to the legal and fiscal provisions and to the requirements of urban development. Local, regional, national and EU administrations can impose sanctions for breaches of these regulations and requirements. Any changes to this legal and tax set up could affect general planning of the Company activities which, through the corresponding internal departments, and with the assistance of legal and tax advisors, will monitor, analyse and, if appropriate take the necessary measures in this regard.

The risks associated with complying with the specific legislation, would be the following:

a) Judicial and extrajudicial claims. The company's activity can lead to judicial actions being taken in relation to properties being let, even if deriving from actions of third parties contracted by the Company (architects, engineers, construction contractors and subcontractors). The company has various civil liability and damage insurance policies taken out in order to lessen this type of risk.

b) Company responsibilities deriving from its classification as a SOCIMI. All of the Company's activities must comply with Act 11/2009, which sets out the regulations for SOCIMIs. As a result, the Company constantly monitors its own activities and checks that they are in line with the legislation currently in force.

5. Risks regarding the Prevention of Money Laundering and Monetary Infringements

This category of risk is controlled through the prevention and monitoring of transactions carried out by the Company, in accordance with the legislation in force.

6. Risks regarding Personal Data Protection.

These risks are controlled by means of special and standardised clauses to be included in contracts in different situations, which in accordance with the rules regulating this matter, allow any kind of responsibility that may affect the Company.

7. Risks regarding Protection of Consumers and Users.

The company complies with the requirements of the different state and regional rules regarding consumers and users. In fact, it has specific standard contracts for those autonomous communities that have specific legislation in this regard. The company also has an Internal Code of Conduct focused on matters relating to Stock Markets.

Sections V to VII of the Internal Code of Conduct set down the criteria of behaviour and action that recipients of the Code have to follow with regard to securities and instruments that are affected, regarding privileged and relevant information and regarding confidential documents, in order to aid transparency in the undertaking of its activities and proper information and protection for investors.

E.4 Identify if the company has a risk tolerance level, including tax risk.

Axiare Patrimonio's risk tolerance shall be defined as the level of Risk that the organisation is prepared to accept in order to achieve the established strategic objectives. Risk tolerance is shaped by the Company's strategy. It is agreed by the Board of Directors and adequately communicated to the Compliance and Internal Audit Supervisor (in the Risk Assessment analysis, in this Manual, the risk tolerance is defined, which must be updated regularly).

Risk tolerance is defined as the level of variation that the organisation accepts in achieving an objective. It is, therefore, the acceptable threshold for each risk and objective. Risk tolerance is defined by the Appetite and should be updated regularly by the persons responsible in each department for reporting and adequately communicating to the Compliance and Internal Audit Supervisor.

E.5 Identify any risks, including tax risk, which have occurred during the year.

During the trading year none of the aforementioned risks arose.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax risk.

The company's risk management and control is designed on the basis of a series of policies and procedures adjusted to the different risks that affect it or which could affect it. The Board of Directors of the company is committed to the risk management and monitoring processes, approving policies, procedures, limits and structure. In its regular meetings, the company's Management Committee, where all the business areas are represented, along with the Financial Management, analyses the situation and evolution of the main risks affecting the company, taking corrective measures if it considers them necessary. The Internal Audit Area, under the supervision of the Audit and Monitoring Committee, provides an independent evaluation of the suitability, sufficiency and efficacy of the internal control system and of the risk management system. Any risk regarded as critical is dealt with by the Management Committee in its regular meetings. The Management Committee proposes the specific plans for response to any critical risk to the Board of Directors. The Board of Directors takes the proposal into consideration, accepting it or modifying it as the case might be.

F INTERNAL RISK MONITORING AND MANAGEMENT SYSTEMS WITH REGARD TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFR).

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR, (ii) its implementation; and (iii) its monitoring.

Responsibility regarding the design, implementation and functioning of the ICFR has been taken on by the Economic Financial Management and the Internal Audit Department of the Company.

In terms of the supervising responsibility of the ICFR by the company, the Board Regulations formally include the basic functions of the Audit Committee, notable among which is that of supervising the process of drawing up and integration of the financial information on the Company.

F.1.2. F.1.2 In relation to the process of elaboration of the financial information, if the following elements do exist:

- 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 tasks and functions, and (iii) deploying procedures so this structure is communicated effectively throughout the company.

Ultimate responsibility for the design and review of the Company's organisational structure lies with the CEO, under the delegation of the Board of Directors.

In terms of the process of preparing the financial information, in addition to the organisational charts, there also exists a clear knowledge among all those involved in the process regarding the specific guidelines, responsibilities and periods for each closure.

- 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.

The Company has a Code of Conduct, compliance with which is mandatory and which shall be approved by the Board of Directors. The aim of this code of conduct is to establish the criteria of action for all those that act on behalf of Axiare Patrimonio and its subsidiary companies. The Code is applicable to all companies that make up Axiare Patrimonio and which link the Board of Directors, and all the company personnel, irrespective of the position they occupy. This Code of Conduct is in addition to the Securities Market Internal Code of Conduct, the social regulation, statuary and other legislation that applies to the activities of Axiare Patrimonio and is also mandatory to all of the companies with which a significant commercial relation is in place. Non-compliance with the terms of this Code shall be deemed infringement and may result in disciplinary measures, which are governed by a disciplinary system.

- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the Code of Conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

The Company has a 'whistle-blowing' channel for matters related to the company's internal regulations and a communications procedure for major incidents at the financial and accounting level.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting regulations, auditing, internal control and risk management.

The Internal Auditing and Finance Department has organised several workshops on internal control assessment within the organisation. It has also organised attendance at seminars on the current economic, accounting and financial situation.

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What the main characteristics of the risk identification process are, including risks of error or fraud, stating whether:

• The process exists and is documented.

The process for identifying risks exists and is based on a Corporate Risks Map along with the analysis of the activity cycles and controls for the most critical areas in order to prepare the financial information.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and how regularly.

The company's risk identification process covers all the objectives of financial information and is updated at least annually. It starts with a preliminary identification of the potential risks by the Heads of the Functional Areas. With that assessment, the risks are prioritised, analysing the need to establish potential improvements and then proceeding to their implementation by the functional areas, with all this process being documented in writing.

In any case, if, during the course of the year, the following were revealed, (i), circumstances not previously identified highlighting possible errors in the financial information or (ii), substantial changes in the operations of the Company, the Economic Financial Management then assesses the existence of risks which have to be added to those already existing.

• 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.

The organisational structure of Axiare Patrimonio is simple and is comprised of Axiare Patrimonio Socimi S.A and its subsidiary companies:

Axiare Investments, S.L.U.
Axiare Properties, S.L.U.
Axiare Investigación, Desarrollo e Innovación, S.L.U.
Venusaur, S.L.U.
Chameleon (Cedro), S.L.U.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The Risk Control and Management Policy takes into account not just risks of a financial nature but also other kinds of risks such as those concerning regulations, technology, reputation, fraud, human resources management, operational risks, etc. Section E.3 of this Corporate Governance Report presents a non-exhaustive description of the main risks the company is exposed to over the course of its activities.

• Which of the company's governing bodies is responsible for overseeing the process.

The Internal Audit Department, supervised by the Auditing and Monitoring Committee is responsible for coordinating and supervising regular updating of risk maps together with supervisors responsible for each of the functional areas, and who ultimately identify any risks for the Company.

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 the financial information and description of ICFR to be disclosed to the securities markets, stating who is responsible in each case and 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, evaluations and projections.

The company has an internal procedure for reviewing financial information (including annual accounts, financial statements for intermediate periods and the Annual Corporate Governance Report), which watches over the process from the moment that information is generated in the Administration and Finances Area up to its approval by the Audit and Monitoring Committee and, finally, by the Board of Directors prior to publication.

Moreover, the company's Risk Control and Management Policy, the strategic definition of which falls to the Board of Directors, which is then implemented by the Management of each of the functional areas and supervised by the Audit and Monitoring Committee, incorporates the need to establish a financial information control system that will bring together criteria, policies, procedures, controls and documentation in that regard.

For each of the processes, narratives and flow diagrams have been developed containing a description of the flows of activities and controls that have a material effect on the financial statements, along with risk and control matrices summarising the risks identified in the narratives and the controls that have been implemented in order to mitigate them. All the narratives, flow diagrams and risk and control matrices have been validated with the owners of the processes, the areas and/or departments which, in the different narratives, are responsible for complying with them and for communicating any change in the processes that can affect their design.

F.3.2 Internal control policies and procedures for IT systems (including secure access, tracking changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The internal control policies and procedures associated with the IT systems are defined by the Corporate Strategy Management, which is supported by the Head of Information Systems. The policies and procedures associated with the information systems are formalised and, as for the rest of the key processes, have narratives, flow diagrams and risk and control matrices. The main risks considered by the Company, to which it provides a response, concern physical security (security copies, maintenance and access to servers, etc.), logic security (access controls, procedures for registrations and withdrawals, protection against viruses and other malware, etc.), segregation of sufficient functions, registration and traceability of information, privacy (LOPD - the Data Protection Law), systems development and systems maintenance.

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.

Activity outsourced to third parties having a greater impact on the financial statements corresponds to the valuation of assets made by an independent expert on the matter. The procedure that has been implemented by the Company in this regard primarily contains recommendations from the CNMV (Spanish Securities and Exchange Commission) made to listed valuation and real estate companies in relation to the valuation of properties. In addition, that process has a narrative, flow diagram and risk and control matrix containing a description of the activities and controls having a material effect on the financial statements.

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, and an up-to-date manual of accounting policies that has been sent to all the company's operating units.

The Company's Administration and Finance Department is in charge of defining and updating accounting policies and for answering doubts and consultations made in that regard. The Company has an Accounting Policies Manual which, among other matters, defines the criteria followed for drawing up the Financial Statements. This manual is being produced under the supervision of the Administration and Finance Management, in compliance with new regulations and/or relevant legislation, as well as the Company's own needs.

F.4.2 Mechanisms for capture and preparation of financial information with homogeneous formats, to be applied and used by all the company or group units, which support the main financial statements and notes and detailed information on the ICFR.

The accounting policies defined by the Administration and Finance Department of the Company are the basis for the preparation of the financial information of both the Company and its subsidiaries. These accounting policies guarantee the application of the same criteria in the preparation of the information and the cohesiveness in its presentation.

F.5 Supervising the operation of the system

Indicate the existence of at least the following components, and specify their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee, as well as if the company has an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. 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.

As stated in Article 44 of the Company Articles of Association, the Audit and Monitoring Committee is responsible for, among other duties, the regular review of the process of drawing up the economic-financial information, for its internal controls and for the independence of the External Auditor. The company has an internal auditing function which reports to the Audit and Monitoring Committee and to the Chairman of the Board, presenting them with the Annual Audit Plan and informing them of the work done and any control weaknesses that have been detected. Also, the Company, in accordance with its undertaking to provide financial information in an efficient manner and with the maximum degree of assurance, has implemented SAP and ERP during the 2017 trading year. Regarding the scope of evaluation of the ICFR, during the course of 2018 a more thorough evaluation is going to be made of the operational efficacy of the controls that have been implemented, by means of using selective samples, along with an updating of the different activity cycles. The works mentioned above will be carried out by the different business areas of the Audit and Monitoring Committee via the Internal Audit function.

F.5.2 If 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 Annual Accounts or other assignments commissioned, 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.

The Audit and Monitoring Committee meets in order to perform its prime function, which is to act as support for the Board of Directors in its supervisory work, by means of the regular review of the process of drawing up economic-financial information, of the function of the internal audit and of the independence of the External Auditor. Along with other possible actions it also carries out the following:

1) Discussion with Internal Auditing in order to:

- Obtain information on the planning, scope and conclusions of the works carried out.
- Obtain information on the state of the processes for improving identified weaknesses and plans of action in that regard.
- Obtain an independent point of view of the financial function on particular questions.
- Obtain the requisite information for ensuring the independence of the Internal Auditor, in compliance with the duties of the Audit and Monitoring Committee.

2) Discussions with External Auditors (with particular significance when they have taken action on any specific matter: Audit reports, limited reviews, etc.) in order to:

- Obtain information on the planning, scope and conclusions of the works carried out.
- Obtain information on internal control weaknesses detected during the course of their work.
- Inform the External Auditor about any matters that could affect their work.
- Discuss with the External Auditor the expected content of its reports.
- Obtain the requisite information for ensuring the independence of the External Auditor in compliance with the

duties of the Audit and Monitoring Committee.

In addition, the Audit and Monitoring Committee will be able to demand additional information or the participation of experts when it comes to analysing topics relating to the compliance of their functions.

F.6 Other relevant information

Not Aplicable

F.7 External auditor review

State whether:

F.7.1 If the ICFR information supplied to the markets 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 Company has not subjected the information on the Internal Control System of the Financial Information to a review by the External Auditor since the operational efficacy of the controls implemented in the company and, therefore, the actual Internal Control System, are currently being evaluated internally.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the Code of Corporate Governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, a detailed explanation of the reasons should be included so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations shall not be acceptable.

1. The Articles of Association 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 the parent company and a subsidiary company are listed on the stock market both companies shall publish details of the following:

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 General Shareholders 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 that have taken place since the previous Annual General Meeting.

b) the specific reasons why the company has not acted on any of the Corporate Governance Code recommendations and, should they exist the alternative regulations applicable to the matter in question.

Compliant ☒ Partially compliant Explain

4. The company should draw up and implement a communication and contacts policy 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 points of contact or those charged with its implementation.

Compliant ☒ Partially compliant Explain

5. The Board of Directors should not make a proposal to the General Shareholders Meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of the share capital at the time of such delegation.

   When the Board approves any 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

The Annual General Meeting held on 12 May 2016 agreed to authorise the Board of Directors to increase the share capital as set in Article 297.1.b) of the Spanish Capital Companies Act (LSC), during the maximum period of five years, through monetary contributions and up to a maximum amount equal to half (50%) of the share capital, with the attribution of power to exclude the pre-emptive right, revoking previous authorisations. During 2017 a share capital increase without pre-emptive subscription right was carried out and the corresponding report was published on the company website.

6. That the 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) Operating reports for the Audit and Appointment and Remuneration Committees. c) Audit

   Committee report on related-party transactions.

   d) Corporate social responsibility policy report.

Compliant ☒ Partially compliant Explain

7. The company should broadcast its General Shareholder Meetings live via its website.

Compliant Explain ☒

This recommendation will be reviewed annually and is not expected to be currently reviewed

8. The Audit Committee should ensure that the Board of Directors seeks to present the Annual Accounts to the General Shareholders Meeting, with no reservations or qualifications in the Audit Report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to shareholders of their scope and exceptions.

Compliant ☒ Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend General Shareholder 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 Shareholders Meeting, the company should:

    a) Immediately circulate the supplementary items and new agreement 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 Shareholders 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 Shareholders 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. In the interests of maximum effectiveness and participation, the Board of Directors should ideally have between five and fifteen members.

Compliant ☒ Explain

14. The Board of Directors should approve a Director selection policy that:

    a) Is specific and verifiable.

    b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Shareholders Meeting is convened that shall 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 Appointments 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 seats on the Board, while the number of Executive Directors should be the minimum necessary, 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 of the total of Non-Executive Directors should not exceed the proportion between the capital of the company represented by these Directors and the remainder of the company's capital.

This criterion can be attenuated:

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 with no links to each other.

Compliant ☒ Explain

17. The number of Independent Directors should represent at least one 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 all Board places.

Compliant ☒ Explain

18. Companies should post the following Director particulars on their websites, and keep them permanently updated:

a) Professional profile and background.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) An indication of the Director’s classification, stating, in the case of Proprietary Directors, the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a Company Director.

e) Shares held in the company and any options on them.

Compliant ☒ Partially compliant Explain

19. The Annual Corporate Governance Report, following verification by the Appointments Committee, should explain the reasons for the appointment of Proprietary Directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a seat on the board 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 any Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report by the Appointments Committee. In particular, just cause shall 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 the applicable legislation.

The removal of Independent Directors may also be proposed in the event of a takeover bid, merger or similar corporate operation which makes changes to the company's capital structure, when the changes to the board structure are propitiated by the proportionality criterion set out in Recommendation 16.

Compliant ☒ Explain

22. Companies should establish rules obliging Directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, with mention of any criminal charges brought against them and of any subsequent court proceedings.

If a Director is indicted or tried for any of the crimes stipulated in corporate legislation, the board should examine the matter and, in view of the particular circumstances, decide whether or not the Director should remain in his or her post. The board should also disclose all such determinations in a reasoned fashion in the Annual Corporate Governance Report.

Compliant ☒ Partially compliant Explain

23. All 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 unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board takes 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 should also apply to the Secretary of the Board, Director or otherwise.

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. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the Annual Corporate Governance Report.

Compliant ☒ Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that Non-Executive Directors have sufficient time available to perform their responsibilities effectively.

Board regulations should establish rules about the number of Directorships their board members can hold.

Compliant ☒ Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items to the agenda.

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 a proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.

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 ☒ Explain Not applicable

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 shall require the express prior consent, duly recorded in the minutes, 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 Articles of Association, 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 Articles of Association 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 ☒

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 applicable to the company.

Compliant ☒ 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 Appointments Committee.

Every three years, the Board of Directors should engage an External Consultant to aid in the evaluation process. This consultant's independence should be verified by the Appointments Committee.

Any business dealings that the Consultant 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 ☒ Partially compliant Explain

37. When the company has an Executive Committee, the breakdown of its members by Director category should be similar to that of the board itself. The Secretary of the Board should also act as Secretary to the Executive Committee.

Compliant Partially compliant Explain Not applicable ☒

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 Executive Committee's minutes.

Compliant Partially compliant Explain Not applicable ☒

39. Audit Committee members, particularly the Chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be 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 or Committees of Appointment and Remuneration should be set forth in the board.

Compliant ☒ Partially compliant Explain

41. The Head of Internal Audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activity 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 integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles.

   b) Monitoring the independence of the internal audit function; proposing the selection, appointment, reappointment and removal of the Head of Internal Audit; proposing the department's budget; approving the focus and work plans; ensuring that activities focus mainly on the company's major risks; receiving regular feedback on its activities; and verifying that senior management takes account of the findings and recommendations of its reports.

   c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.

2. With respect to the External Auditor:

   a) There should be an investigation of the issues giving rise to the resignation of any External Auditor.

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 Auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for these.

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 Auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, further rules established in order to ensure the independence of the auditors.

Compliant ☒ Partially compliant Explain

43. The Audit Committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.

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. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk (inter alia, operational, technological, legal, social, environmental, political and reputational) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) Establishment of the level of risk the company deems acceptable.

c) Measures in place to mitigate the impact of the risks identified, 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. The company should establish a risk monitoring 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 the correct working of the risk monitoring and management systems and, in particular, that they identify, manage, and adequately quantify all major risks affecting the company.

b) Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.

c) Ensure that the risk monitoring and management systems adequately mitigate risks pursuant to the policy defined by the board.

Compliant ☒ Partially compliant Explain

47. Appointees to the Appointments and Remuneration Committee - or of the Appointments 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

48. Large cap companies should operate constituted Appointments and Remuneration Committees separately.

Compliant Explain Not applicable ☒

49. The Appointments Committee should consult with the company's Chairman and Chief Executive, especially on matters relating to Executive Directors.

Any Board Member should be able to suggest directorship candidates to the Appointments Committee for its consideration, to cover vacant Director positions.

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 the standard conditions for senior officer employment contracts to the board. b) Check

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 remuneration 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 the various 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 Independent Directors.

b) Committees should be chaired by an Independent Director.

c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its Directors and the tasks of each committee, discuss their proposals and reports, and report on their activity and the work carried out to the first board plenary following each meeting.

d) The committees can engage external advisors, when they feel this is necessary to perform their duties.

e) Minutes should be drawn up of meeting proceedings, 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 Appointments 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 the extent to which they are fulfilled.

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 shall 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 conducts.

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, remuneration via the awarding 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. The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant ☒ Partially compliant Explain

58. In the case of variable remunerations, 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 other similar circumstances.

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 shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant Partially compliant ☒ Explain Not applicable

Regarding the objectives that could result in variable remuneration, these may refer to investment or income, efficient management and other matters relevant to effective operation of the company business, however there may be a degree of discretion involved.

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. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the External Auditor's report.

Compliant ☒ Partially compliant Explain Not applicable

61. A significant percentage of Directors' remuneration is linked to handover of shares or financial instruments referenced at their value.

Compliant ☒ Partially compliant Explain Not applicable

62. When the shares or options or rights in shares corresponding to remuneration systems have been allocated, the Directors cannot transfer ownership of a number of shares equivalent to

twice their fixed annual remuneration, nor may they exercise the options or rights granted to them until a term of at least three years has elapsed since their allocation.

The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant Partially compliant Explain ☒ Not applicable

According to the incentive scheme approved by the General Shareholders Meeting held on May 7, 2015, shares attributed to the CEO will be subject to a blocking period up to the first anniversary of the date of its concession, subscription or acquisition by the CEO.

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

No similar clause has been included in the Provision of Services Contract signed between the Company and the CEO.

64. Contract 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

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. In this section, you may include any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, industry specific or other ethical principles or standard practices. If appropriate, the code in question shall be identified along with the date of affiliation.

Although it is not detailed in section C.2 of the report, the Company has an Investment Committee that analyses and approves the investments proposed by the CEO. The reason why its composition has not been detailed together with the Audit, Appointment and Remuneration Committee is that some of its members are not members of the Board of Directors.

Its composition is as follows:

Name Position Type

Luis Alfonso López de Herrera-Oria Executive Chairman
Guillermo Fernández-Cuesta Laborde Member -
Fernando Arenas Liñán Member -
Stuart William McDonald Member -
Iván Azinovic Gamo Secretary -

This Annual Corporate Governance Report was adopted by the company's Board of Directors at its meeting held on 14/02/2018.

Indicate whether there have been Directors who have voted against or abstained in connection with the approval of this Report.

Yes No X

AXIARE PATRIMONIO SOCIMI, S.A.

PREPARATION OF THE ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR THE YEAR 2017

Pursuant to the requirements set out in Article 253 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, on 14 February 2018 the members of the Board of Directors of Axiare Patrimonio Socimi, S.A. prepared the annual accounts and the management report for the financial year ending on 31 December 2017, which comprise the attached documents that precede this written submission.

Luis María Arredondo Malo
Chairman

Luis Alfonso López de Herrera-Oria
Board Member

Fernando Bautista Sagüés
Board Member

David Jiménez-Blanco Carrillo de Albornoz
Board Member

Cato Henning Stonex
Board Member

As determined in Article 8.1 (b) of Royal Decree 1362/2007, dated on the 19th October, the members of the Board of Directors of Axiare Patrimonio Socimi, S.A.

Declare:

As far as they are concerned the financial statements of Axiare Patrimonio Socimi, S.A. (Balance sheet, profit and loss account, statement of changes in net equity, statement of cash flows and memorandum) of the year ended on 31st December, 2017, formulated by the Board of Directors at its meeting held on 14th February, 2018 and prepared in accordance with applicable accounting principles, provide an exact and fair view of the equity, financial situation and results of Axiare Patrimonio Socimi, SA,

Additionally, they state that the supplementary management report of the annual accounts includes a fair analysis of the Company's performance and results and the position of Axiare Patrimonio Socimi, SA, as well as a description of the main risks and uncertainties to be dealed with.

Madrid, 14th February, 2018

D. Luis María Arredondo Malo
Chairman of the Board of Directors

D. Luis Alfonso López de Herrera-Oria
Vice-Chairman of the Board of Directors

D. Fernando Bautista Sagüés
Member

D. David Jiménez-Blanco Carrillo de Albornoz
Member

D. Cato Henning Stonex
Member