

**Audit report on the Consolidated Financial Statements
issued by an Independent Auditor**

**HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A.
Consolidated Financial Statements and Group Management Report
for the year ended
December 31, 2017**

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of Activos Inmobiliarios SOCIMI, S.A.:

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hispania Activos Inmobiliarios SOCIMI, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of property, plant and equipment and investment property

Description At December 31, 2017, the Group has “Investment property” and “Property plant and equipment” amounting to 2,356,700 thousand euros and 65,220 thousand euros, respectively, which, in the case of investment properties, correspond to office buildings, hotels, and residences held either to earn rentals or for capital gain. Property plant and equipment are hotels operated directly by the Group.

The Group’s accounting policy is to measure both investment property and those operating hotels classified as “Property plant and equipment” (IAS 16) at fair value (IAS 40), recognizing the differences between the fair value and the prior carrying amount in the consolidated statement of profit or loss or in equity, depending on the type of asset, as explained in Notes 4.2 and 4.3 of the notes to the consolidated financial statements.

The Group determines fair value primarily on the appraisals provided by an independent expert according to the valuation standards prescribed by the Royal Institution of Chartered Surveyors (RICS). The determination of these fair values requires the making of significant judgments and estimates by an independent expert and Group management. The various methodologies used and the sensitivity analysis carried out are described in Note 4.3 to the consolidated financial statements.

We determined this matter to be a key audit issue due to the significance of the amounts and due to the high sensitivity of the analysis carried out on the changes in the assumptions used by management, for example, rents, discount rates or yields used in calculations.

Our

response:

With regard to this area, our audit procedures included:

- ▶ Review, in collaboration with our valuation experts, of the valuation methodology used by the independent expert. For a sample of the properties appraised by the latter, review specifically encompassed a mathematical assessment of the model, an analysis of the projected cash flows and a review of the discount rates and yields used in calculations, as well as the review of the sensitivity analysis carried out by the independent expert.
- ▶ Review of the projected cash flows from lease agreements, market rents for fully or partially unoccupied properties and current results from assets operated directly by the Group.
- ▶ Review of the disclosures included in the notes to the Group’s consolidated financial statements required by applicable accounting regulations.

Special "SOCIMI" tax regime

Description As of January 1, 2016, the parent company opted to apply the special tax regime applicable to Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario "SOCIMI" (Spanish REIT). In addition, certain Group subsidiaries opted to apply the regime in specific years.

As explained in Note 4.11 to the consolidated financial statements, application of the regime obligates companies to meet certain requirements established by prevailing regulations.

Application of the special tax regime directly affects the design of corporate structure, operating activities, and the Group's legal and regulatory compliance, as well as the parent company's shareholder remuneration policy. Failure to apply the regime correctly could have a significant impact on the Group's consolidated financial statements. The aforementioned circumstances have caused us to consider these issues a key audit matter.

Our

response:

With regard to this area, our audit procedures included:

- ▶ Meetings with the Group's tax advisers to gain an understanding and reasonably assess, from a tax viewpoint, the Group's corporate structure, operating activities, as well as management's capacity to take the actions necessary to apply the special "SOCIMI" regime.
- ▶ Review, in collaboration with our tax specialists, of prevailing tax and mercantile regulations and evaluation of the each group company's degree of compliance with the special SOCIMI tax regime.
- ▶ Review of the disclosures included in the notes to the Group's consolidated financial statements required by applicable accounting and tax regulations.

Significant estimates

Description The Group makes significant estimates when valuing certain economic transactions, for example, to determine revenue from variable rent leases based on the operating income from related assets, alignment of incentives and scaled rents or the calculation of provisions and/or possible contingent liabilities related to possible variable payments or contract incentives signed by the Group, as explained in note 2d of the consolidated financial statements.

We have determined these estimates and valuations to be a key audit matter since, given the amount of the assets and liabilities affected, changes in the hypotheses could have a material impact on the Group's consolidated financial statements.

Our**response:**

With regard to this area, our audit procedures included:

- ▶ Understanding policies and procedures applied by the Group for recognition of revenue that affect variable rents and other adjustments made to align rents and incentives, paying special attention to those procedures carried out by management to identify all contracts awarded discounts as well as scaled and variable rents.
- ▶ Testing transactions and substantive analytical review procedures to analyze revenue performance, comparing it with our expectations.
- ▶ Obtaining calculations made by management of rents from leases recorded on a straight-line basis over the duration of the lease and/or leases that include variable rents.
- ▶ Reviewing, on a sample basis, the aforementioned calculations to determine whether they are in accordance with the terms stipulated in the lease agreements and whether they have been correctly recorded in the accounting records.
- ▶ Carrying out an analytical review of the balance sheet balances recorded as accruals and receivable balances as a result of estimating variable rents, comparing them to our expectations and verifying that they were recorded correctly.
- ▶ Obtaining and reviewing the principal contracts signed by the parent company and/or subsidiaries awarding incentives and variable payments, verifying the reasonableness of the hypotheses, assumptions, models used, and the related mathematical calculations made by the Group to ensure that they are correctly valued and recognized.
- ▶ Reviewing the disclosures included in the notes to the Group's consolidated financial statements required by applicable accounting and tax regulations.

Other information: Consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the parent Company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report and if not, disclose this fact.

- b) a general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company's directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company 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 has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 prevailing audit regulations 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 consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, 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 management.
- ▶ 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 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 financial statements 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 financial statements, including the disclosures, and whether the consolidated financial statements 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 financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 to the parent's audit committee

The opinion expressed in this audit report is consistent with the additional report we issued for the Parent's audit committee on Month February 26, 2018.

Term of engagement

On April 6, 2017, the shareholders of the parent company in general meeting reappointed us as the Group's and parent company's auditors for years 2007, 2018, and 2019.

Previously, we were appointed as auditors by the Sole Shareholder for 3 years and we have been carrying out the audit of the financial statements continuously since the year ended December 31, 2014.

ERNST & YOUNG, S.L.
(Registered in Spain's Official Register of Auditors
under # S0530)

(Signed on the original)

David Ruiz-Roso Moyano
(Registered in the Official Register
of Auditors under entry no. 18336)

February 26, 2018

**HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A.
AND SUBSIDIARIES**

**Consolidated annual accounts
for the year ended 31 December 2017 prepared in accordance
with International Financial Reporting Standards**

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position at 31 December 2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

(Thousand euros)	Note	31 December 2017	31 December 2016		Note	31 December 2017	31 December 2016
ASSETS				LIABILITIES AND EQUITY			
				Share capital	11	109,170	109,170
				Share premium	11	966,638	966,257
				Shareholder contributions	11	540	540
				Treasury shares	11	(2,377)	(2,177)
				Legal Reserves		3,795	-
				Reserves		360,484	87,900
				Revaluation reserves		7,502	5,558
Intangible assets		186	246	Profit for the period		222,829	308,572
Property, plant and equipment	7	65,220	113,210	Interim dividend		-	(17,000)
Investment property	8	2,356,700	1,888,418	Valuation adjustments	11	(6,439)	(14,585)
Equity instruments	9	350	350	Non-controlling interests	11	7	116,337
Non-current financial assets	9	16,249	42,429	EQUITY		1,662,149	1,560,572
Non-current accruals		8,857	-	Non-current provisions	15	95,739	719
Non-current deferred tax assets	13	11,831	11,731	Bank borrowings	12	598,408	595,066
NON-CURRENT ASSETS		2,459,393	2,056,384	Hedging derivatives	12	13,865	23,254
				Other non-current financial liabilities	12	24,529	34,064
				Deferred tax liabilities	13	77,042	73,959
				Non-current accruals		7,343	7,957
				NON-CURRENT LIABILITIES		816,921	735,019
				Liabilities linked to assets held for sale	19	21,231	-
Non-current assets held for sale	19	37,500	-	Bank borrowings	12	27,183	23,240
Inventories		818	1,815	Hedging derivatives	12	8,125	8,433
Trade and other receivables	9	47,781	38,819	Other current financial liabilities	12	80,937	16,267
Current tax assets	13	477	334	Trade and other payables	12	47,857	20,889
Receivables from government agencies	13	13,067	11,664	Personnel remuneration payable	12	134	376
Other current financial assets	9	9,931	5,549	Current tax liabilities	13	416	419
Short term accruals		2,295	1,103	Payables to government agencies	13	490	15,647
Cash and cash equivalents	10	95,480	266,612	Customer prepayments	12	475	435
CURRENT ASSETS		207,349	325,896	Short term accruals		824	983
				CURRENT LIABILITIES		187,672	86,689
TOTAL ASSETS		2,666,742	2,382,280	TOTAL LIABILITIES AND EQUITY		2,666,742	2,382,280

The accompanying Notes 1 to 21 are an integral part of the consolidated statement of financial position for the year ended 31 December 2017

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Income Statement for the year ended 31 December 2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

(Thousand euros)	Note	2017	2016
Rental income	14.1	142,067	111,113
Services rendered	14.2	14,508	31,754
Other operating income		2,450	1,393
Supplies		(3,367)	(4,704)
Personnel costs	14.3	(5,393)	(8,586)
Other operating costs	14.4	(47,736)	(40,503)
Depreciation and amortisation charge		(942)	(1,351)
Excess provisions		120	231
Negative difference on consolidation		120	10,687
Profit from operations		101,827	100,034
Other profit	14.7	(142,159)	(479)
Net gains on sales of assets		3,418	364
Revaluation of investment property	8	310,181	286,212
Operating profit		273,267	386,131
Financial income	14.5	3,973	332
Financial costs	14.6	(21,094)	(20,921)
Impairment losses and net losses on disposals of financial instruments		(47)	(8)
Variation of fair value of financial instruments		242	-
Exchange differences		2	4
Financial profit		(16,924)	(20,593)
Profit before tax		256,343	365,538
Income tax	13	(7,480)	(6,564)
Net consolidated profit from continuing operations		248,863	358,974
Net profit for the year attributed to Parent Company		222,829	308,572
Net profit attributed to non-controlling interests		26,034	50,402
Basic earnings per share (Euros)		2.04	3.17
Diluted earnings per share (Euros)		2.04	3.17

The accompanying Notes 1 to 21 are an integral part of the consolidated income statement of the year ended 31 December 2017

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Comprehensive Income Statement for the year ended 31 December
2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

(Thousand euros)	2017	2016
Year's profit	248,863	358,974
Other comprehensive income		
<i>Other comprehensive income to be recognised in profits of subsequent years (net of tax)</i>		
Net Gain/(loss) on cash flow hedges	9,535	(12,273)
Total other comprehensive income to be recognised in profits of subsequent years, net of tax	9,535	(12,273)
<i>Other comprehensive income which will not be recognised in profits of subsequent years (net of tax)</i>		
Revaluation of land and buildings	1,944	5,558
Total other comprehensive income which will not be recognised in subsequent years, net of tax	1,944	5,558
Other comprehensive income of the year, net of tax	11,479	(6,715)
Net comprehensive income for the year	260,342	352,259
Comprehensive profit for the year attributed to the Parent Company	233,156	303,246
Comprehensive profit attributed to non-controlling interests	27,186	49,013

Notes 1 to 21 in the attached consolidated report form an integral part of the consolidated comprehensive income statement for the year ended 31 December 2017

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Statement of changes in equity for the year ended

31 December 2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

(Thousand euros)	Note	Share Capital	Share premium	Shareholder contributions	Legal reserves	Reserves	Profit attributable to Parent Company shareholders	Treasury shares	Cash flow hedges	Interim dividend	Revaluation of Tangible Assets	Non-controlling interests	Total equity
Balance at 31 December 2015		82,590	777,666	540		17,178	66,681	(1,088)	(3,701)			78,582	1,018,448
Total recognised Inc. & exp. in the period		-	-	-	-	-	308,572	-	(10,884)	-	5,558	49,013	352,259
Distribution of profit		-	-	-	-	66,681	(66,681)	-	-	-	-	-	-
Share capital increase	11	26,580	213,848	-	-	1,037	-	-	-	-	-	(10,056)	231,409
Transaction costs	11	-	(8,705)	-	-	-	-	-	-	-	-	-	(8,705)
Treasury share portfolio	11	-	-	-	-	(40)	-	(1,089)	-	-	-	-	(1,129)
Distribution of dividends	11	-	-	-	-	-	-	-	-	(17,000)	-	-	(17,000)
Minority shareholder contributions	11	-	-	-	-	-	-	-	-	-	-	7,431	7,431
Dividend distrib. to minority shareholders	11	-	-	-	-	-	-	-	-	-	-	(8,633)	(8,633)
Share premium distribution	11	-	(10,394)	-	-	-	-	-	-	-	-	-	(10,394)
Other equity variations		-	(6,158)	-	-	3,044	-	-	-	-	-	-	(3,114)
Balance at 31 December 2016		109,170	966,257	540		87,900	308,572	(2,177)	(14,585)	(17,000)	5,558	116,337	1,560,572
Total recognised income and expenses		-	-	-	-	-	222,829	-	8,383	-	1,944	27,186	260,342
Distribution of profit	11	-	-	-	3,795	270,620	(308,572)	-	-	17,000	-	-	(17,157)
Treasury share portfolio	11	-	-	-	-	64	-	(200)	-	-	-	-	(136)
Dividend distrib. to min. shareholders	11	-	-	-	-	-	-	-	-	-	-	(1,358)	(1,358)
Non-controlling acquisitions	11	-	-	-	-	2,998	-	-	(237)	-	-	(142,183)	(139,422)
Other equity variations		-	381	-	-	(1,098)	-	-	-	-	-	25	(692)
Balance at 31 December 2017		109,170	966,638	540	3,795	360,484	222,829	(2,377)	(6,439)		7,502	7	1,662,149

Notes 1 to 21 of the attached consolidated report form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Consolidated cash flow statements for the year ended

31 December 2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

(Thousand euros)	Note	2017	2016
CASH FLOWS FROM CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before tax		256,343	365,538
Adjustment to profit/(loss)			
Depreciation and amortisation charge (+)		942	1,351
Impairment losses (+/-)	9	89	263
Negative difference on consolidation		(120)	(10,687)
Gain/(loss) on derecognition and disposals of assets (+/-)	7 & 8	(3,418)	(567)
Change in provisions (+ / -)		95,120	(231)
Financial income (-)	14.5	(3,973)	(332)
Financial costs (+)	14.6	21,094	20,921
Change in fair value of investment property	8	(310,181)	(286,212)
Change in fair value of financial instruments		(242)	-
Other profit (+/-)	14.7	19,654	-
Adjusted profit/(loss)		75,308	90,044
Interest received (+)		171	332
Interest paid (-)		(19,302)	(17,580)
Income Tax collections and payments (+)		(1,562)	(3,353)
Increase / Decrease in current assets and liabilities			
(Increase) / Decrease in inventories		997	(694)
(Increase) / Decrease in accounts receivable		(10,597)	(18,591)
(Increase) / Decrease in other current assets		(399)	(5,540)
Increase / (Decrease) in accounts payable		37,171	(4,592)
Increase / (Decrease) in other current liabilities		22,767	(20,311)
Increase / Decrease in non-current assets and liabilities (+/-)		(3,880)	478
Total net cash flows from operating activities		55,140	20,193
2. CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investments in (-)			
Intangible assets		-	(8)
Property, plant and equipment		(3,605)	-
Investment property		(158,702)	(114,221)
Financial assets		-	(60,710)
Business unit		(2,886)	(55,674)
Other assets		(3,000)	-
		(168,193)	(230,613)
Divestments (+)			
Property, plant and equipment	7	2,400	-
Investment property		31,195	1,953
		33,595	1,953
Total net cash flows from investing activities		(134,598)	(228,660)
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments for equity instruments			
Proceeds from issuance of equity instruments (+)		-	221,979
Acquisition of treasury shares (+)		(136)	(1,129)
Other transactions with non-controlling interests (+)	1	(80,000)	7,431
Proceeds from and payments for financial liability instruments			
Bank borrowings issued (+)		49,241	78,908
Other borrowings (+)		-	7,517
Repayment and amortisation of bank borrowings (-)		(32,245)	(18,612)
Repayment of other borrowings (-)		(10,019)	(5,678)
Dividend payments and other instrument remuneration			
Dividends (-)		(17,999)	(25,633)
Premium distribution (-)	11	-	(10,394)
Other (-)		(516)	-
Total net cash flows from financing activities		(91,674)	254,389
4. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flows from continuing operations		(171,132)	45,922
Cash and cash equivalents at beginning of period from continuing operations		266,612	220,690
Cash and cash equivalents at end of period		95,480	266,612

Notes 1 to 21 of the attached consolidated report form an integral part of the consolidated cash flow statement for the year ended 31 December 2017

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Notes to the consolidated annual accounts for the year ended 31 December 2017

1. INTRODUCTION AND GENERAL COMPANY INFORMATION

Hispania Activos Inmobiliarios SOCIMI, S.A. and Subsidiaries (hereinafter “the Group” or “Hispania Group”) is a consolidated group of companies that mainly engages in the following:

- The acquisition and development of urban real estate for subsequent rental.
- Holdings in listed real-estate investment trusts (SOCIMI) or in other non-resident entities in Spain that have the same corporate purpose as SOCIMI and are subject to a similar regime as the one for SOCIMI with respect to mandatory profit distribution policy enforced by law or the Articles of Association.
- Holdings in other entities that are resident or non-resident in Spain and whose corporate purpose is the acquisition of urban real estate for subsequent rental and which are subject to the same regime as the one for SOCIMI with respect to the mandatory profit distribution policies enforced by law or by the Articles of Association and which comply with the investment requirements for these companies; and
- Shareholdings or other equity instruments in collective real-estate investment vehicles regulated by Collective Real Estate Investment Vehicle Law 35/2003 of 4 November.

The Group may also carry out real estate business of all kinds and, therefore, the acquisition, holding, management, operation, renovation, disposal and encumbering of all manner of real estate assets and the acquisition, holding, investment, transfer or disposal of shareholdings and debt instruments (whether it is senior, ordinary or subordinated debt, secured by a mortgage or not) in all manner of companies, particularly those with the same or similar corporate purpose, at all times within the limits set out by the SOCIMI regime.

The Group’s Parent is Hispania Activos Inmobiliarios SOCIMI, S.A (“the Parent”) which is a public limited liability company on calle Serrano, número 30, 2º izquierda, Madrid, which was incorporated on 23 January 2014 with the company name Azora Hispania, S.A. and since 5 May 2016 operates under its current company name Hispania Activos Inmobiliarios SOCIMI, S.A.

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On 1 April 2014, Hispania Real, S.A. (subsequently known as Hispania Real SOCIMI, S.A.U. hereinafter, “Hispania Real”) was incorporated, having then merged in June 2016 with the Parent Company. On account of the merger in which the Parent Company took over its subsidiary Hispania Real, the absorbing company has acquired, by universal succession all the assets and liability items of the absorbed company. On 7 May 2014 a request was made to include this company in the SOCIMI Tax Regime, beginning 1 January 2014 (See Note 4.11). The corporate address of the aforementioned company was in calle Serrano, number 30, 2º izquierda, Madrid.

On 8 July 2014, the Parent Company acquired 90% of the shares of Oncisa, S.L., having changed its company name on 13 November to Hispania Fides, S.L. (hereinafter “Hispania Fides”). On 23 December 2016 the deed of the merger between the aforementioned company and the Parent Company was entered in the Mercantile Register of Madrid.

On 2 June 2015, the then subsidiary Hispania Real acquired 100% of the shares of Hespérides Bay, S.L.U. (hereinafter, “Hespérides Bay”). On 24 September 2015, a request was made to include this company under the SOCIMI Tax regime, applicable as of 1 January 2015. The address of the company is Calle Serrano, número 30, 2º izquierda, Madrid.

On 26 June 2015, the companies Hospitia, S.L.U. and Dunas Bay Resorts, S.L.U. (currently known as Hispania Hotel Management, S.L.U. hereinafter, “Hispania Hotel Management”), were created, with Hispania Activos Inmobiliarios SOCIMI, S.A. currently being the Sole Shareholder of both companies. The corporate address of both companies is Calle Serrano 30, 2º izquierda, Madrid.

On 16 July 2015, the subsidiary Hospitia, S.L.U. acquires 100% of the shares of the company Leading Hospitality, SL, a company which was in voluntary bankruptcy from 9 February 2015, a situation which was finally resolved after the Judgment of approval of the Agreement of Creditors dated 12 December 2016 after being confirmed by the Commercial Court in the month of April 2017 and compliance with said arrangement of creditors according to the diligence of the Mercantile Registry dated 12 July 2017 being notified. At the end of the fiscal year we are waiting for the judge to issue the order to conclude the bankruptcy, which will formally end the process.

On 14 April 2015, the then sole shareholder of Bay Hotels & Leisure SOCIMI, S.A. (hereinafter, “BAY”), Barceló Corporación Empresarial, S.A. together with some of its subsidiaries (Barceló companies) concluded an investment agreement with the then Group company, Hispania Real, as investor, by virtue of which the Barceló companies had to contribute certain properties and hotel businesses to BAY through several corporate transactions in order to allow, once certain conditions were met, the entry of Hispania Real as main shareholder of BAY (hereinafter, “the Investment Agreement”).

On 15 October 2015, the then subsidiary Hispania Real, acquired 80.5% of the share capital of BAY from the Barceló companies. On 9 December 2015 a resolution was adopted to increase the share capital of BAY by EUR 32,850 thousand through the creation of 32,849,500 new shares with a par value of EUR 1 each, fully subscribed and paid in through cash contributions. The issue price for the new shares was EUR 2,956 per share, consisting of a par value of EUR 1 and a share premium of EUR 1,956. This transaction resulted in Hispania Real and the Barceló companies attaining interests in BAY of 76% and 24% respectively, leaving Barceló Hotels

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Mediterráneo, S.L. (hereinafter “BHM”) as a minority shareholder. In addition, on 10 December 2015 BAY acquired all of the shares in Bay Hotels Canarias, S.L.U. (hereinafter, “BHC” and formerly Barceló Hotels Canarias S.L.) from the Barceló companies together with all the shares in Poblados de Vacaciones, S.A.U. (hereinafter “PDV”). On 18 September 2015 BAY reported its inclusion in the SOCIMI Tax Regime, applicable as of 1 January 2015. On 21 March 2016, the companies PDV and BHC reported their inclusion in the SOCIMI Tax Regime applicable as of 1 January 2016.

On 22 December 2017, the Parent Company Hispania Activos Inmobiliarios SOCIMI, S.A. acquired from the Barceló entities 23.9% of the share capital of BAY for a total amount of Euros 139,422 thousand, of which Euros 59,422 remain outstanding at 31 December 2017 (see Note 12.2). As a result of this transaction, the parties have agreed to terminate the Shareholders’ Contract regarding BAY and to novate certain terms of the Investment Contract entered into in the context of the participation of Hispania in the share capital of BAY. The Parent Company has established a right of pledge over the 22,314,828 shares purchased, as a guarantee of fulfilment of certain obligations assumed in said transactions, which must be met both by Hispania and by BAY, as the case may be, on or before 28 February 2018.

On 18 July 2016, BAY acquired 100% of Later Deroser, S.L. (hereinafter, “Later”). On 21 July 2016 BAY acquired 100% of Inversiones Inmobiliarias Oasis, S.L.U. (hereinafter, “Oasis”). On 22 September 2016, the companies Later and Oasis were included in the SOCIMI Tax Regime, applicable as of 1 January 2016. The corporate address of both companies is Calle Serrano 30, 2º izquierda, Madrid.

On 19 November 2015 the Parent Company acquired all of the shares in Eco Resort San Blas, S.L. (hereinafter, “Eco Resort”), which owns Hotel Sandos San Blas Nature Resort & Golf (hereinafter, “Hotel San Blas”). On 5 September 2016 the company Eco Resort made a request to be included in the SOCIMI Tax Regime effective as of 1 January 2016. On 13 November 2017, the Parent Company carried out the sale of all of its shares in Eco Resort to BAY, thus holding indirect control of this company at 31 December 2017.

On 2 February 2016, the then dependent company Hispania Real acquired 100% of the shares of Club de Tennis Maspalomas, S.L.U. which owns a plot of land in Fuerteventura. On 31 March 2017, the company reported its inclusion in the SOCIMI Tax Regime effective 1 January 2017.

On 9 June 2016, the Parent Company acquired 100% of the shares of Real Estate San Miguel, S.A. in Ibiza (hereinafter, “Real Estate San Miguel”) which in turn owns all of the shares of the company Europroyectos Pitiusos, S.L. (hereinafter, “Europroyectos Pitiusos”).

On 20 October 2016 the Parent Company acquired all of the shares of Mangareva Development, S.L.U (hereinafter, “Mangareva”). The subsidiary company owns a plot of land in Madrid with a real estate project consisting of the construction of two office buildings for rental, once completed. The completion of the buildings is scheduled for 30 March 2019.

On 6 June 2016 the Parent Company entered into a private purchase agreement of the shares in Sahara Propco, S.L.U (hereinafter, “Sahara Propco”). This purchase was subject to conditions precedent, that were met on 30 December 2016, when the effective transfer of ownership of the shares in Sahara Propco took place. On 31 March 2017 the dependent company informed of its inclusion in the SOCIMI Tax Regime effective 1 January 2017.

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On 7 April 2017, the Parent Company acquired all of the shares of the company Milenial Business 21, S.L.U. (“Milenial”) and 10% of the shares of the company Topaz Eurogroup, S.L. (“Topaz”). The dependent company Milenial owns the remaining 90% of the shares of Topaz. Topaz owns a plot of land in the municipality of Corralejo (Fuerteventura).

On 28 June 2017, the dependent company BAY acquired all of the shares of the company Armadores de Puerto Rico, S.A.U. This company owns a plot of land in Lanzarote on which a hotel is to be built.

These companies and the Parent Company make up the scope of consolidation at 31 December 2017.

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Company	Parent	Address	Primary business	Direct	Indirect	Auditor	Consolidation method	Functional currency
Eco Resort San Blas, S.L.U	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	-	99.6%	EY	Global	Euro
Hespérides Bay, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	100%	-	EY	Global	Euro
Hospitia, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	100%	-	EY	Global	Euro
Hispania Hotel Management, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Rental, industry or management exploitation and administration of hospitality establishments	100%	-	EY	Global	Euro
Bay Hotels & Leisure SOCIMI, S.A.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	99.6%	-	EY	Global	Euro
Leading Hospitality, S.L.U.	Hospitia, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services,	-	100%	EY	Global	Euro
Poblado de Vacaciones, S.A.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	-	99.6%	EY	Global	Euro
Bay Hotels Canarias, S.L.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	-	99.6%	EY	Global	Euro
Club de Tennis Maspalomas, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Rental, industry or management exploitation and administration of hospitality establishments and related sports activities	100%	-	EY	Global	Euro
Real Estate San Miguel, S.A.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services,	100%	-	EY	Global	Euro
Europroyectos Pitiusos, S.L.U.	Real Estate San Miguel, S.A.U	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services,	-	99.6%	EY	Global	Euro
Later Deroser, S.L.U	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Purchase, sale and non-financial lease of all manner of real estate	-	99.6%	EY	Global	Euro
Inversiones Inmobiliarias Oasis Resort, S.L.U	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Development, acquisition and operation of hotel businesses.	100%	-	EY	Global	Euro
Mangareva Development, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Development of construction and purchase and sale of real estate,	100%	-	EY	Global	Euro
Sahara Propco, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Private purchase and sale of real estate	100%	-	EY	Global	Euro
Milenial Business 21, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Holding	100%	-	EY	Global	Euro
Topaz Eurogroup, S.L.	Milenial Business 21, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Purchase, sale, lease of rustic, agricultural and urban land. Private construction, development, purchase, sale and rentals	10%	90%	EY	Global	Euro
Armadores de Puerto Rico, S.A.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Purchase, sale, administration and non-financial lease of all manner of real estate	-	99.6%	-	Global	Euro

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The list of companies that are included in the scope of consolidation at 31 December 2016 and their main characteristics are as follows:

Company	Parent	Address	Primary business	Direct	Indirect	Auditor	Consolidation method	Functional currency
Eco Resort San Blas, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	100%	-	EY	Global	Euro
Hespérides Bay, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	100%	-	EY	Global	Euro
Hospitia, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	100%	-	EY	Global	Euro
Hispania Hotel Management, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Rental, industry or management exploitation and administration of hospitality establishments.	100%	-	EY	Global	Euro
Bay Hotels & Leisure, S.A.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	76%	-	EY	Global	Euro
Leading Hospitality, S.L.U.	Hospitia, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services	-	100%	EY	Global	Euro
Poblado de Vacaciones, S.A.U.	Bay Hotels & Leisure, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	-	76%	EY	Global	Euro
Bay Hotels Canarias, S.L.U.	Bay Hotels & Leisure, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and development of urban real estate for subsequent rental	-	76%	EY	Global	Euro
Club de Tennis Maspalomas, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Rental, industry or management exploitation and administration of hospitality establishments and related sports activities	100%	-	EY	Global	Euro
Real Estate San Miguel, S.A.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services	100%	-	EY	Global	Euro
Europroyectos Pitiusos, S.L.U.	Real Estate San Miguel, S.A.U	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, hotel, restaurant and hospitality-related services	-	100%	EY	Global	Euro
Later Deroser, S.L.U	Bay Hotels & Leisure, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Purchase, sale and non-financial lease of all manner of real estate	-	76%	-	Global	Euro
Inversiones Inmobiliarias Oasis Resort, S.L.U	Bay Hotels & Leisure, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Development, purchase and exploitation of any hospitality business	-	76%	Deloitte	Global	Euro
Mangareva Development, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Development of constructions and purchase and sale of real estate	100%	-	-	Global	Euro
Sahara Propco, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Private purchase and sale of real estate	100%	-	EY	Global	Euro

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The shares representing the share capital of Hispania Activos Inmobiliarios SOCIMI, S.A. have been listed on the electronic trading platforms in Madrid, Barcelona, Bilbao and Valencia since 14 March 2014.

On 21 February 2014, the Parent Company entered into a management agreement with Azora Gestión, S.G.I.I.C., S.A. (hereinafter, the “Manager”) to delegate the ordinary management of the Group to the Manager for a period of six year and, accordingly, at the date of these Annual Accounts, the Parent Company does not have any staff. However, as a result of the inclusion in the Group of certain hotels under management, the group has staff related to the operation of such hotels until their repositioning is complete and the management is transferred to the operator.

The remuneration of the Manager for the services provided under the Management Agreement is divided into:

- A share pertaining to the Base Fees, payable to the Manager at the end of each quarter and equal to (*):
 - a) One fourth (1/4) of 1.25% per annum of the first EUR 1,200,000 thousand of the EPRA NAV of the quarter in question;
 - b) One fourth (1/4) of the 1% per annum on the amount over and above EUR 1,200,000 thousand of EPRA NAV of the quarter in question;

(*). During financial year 2016 and until 50% of net funds received from the capital increase were committed, the EPRA NAV of such net funds generated a Base Fee of one fourth (1/4) of 0.625% per annum of such funds.

- A variable component pertaining to the Incentive Fees, which does not depend on accounting references or unrealised gains of the Group, but on the funds actually distributed to the shareholders as cash flows by the Parent Company (or directly received by the shareholders in the event of a sale of Parent Company shares in a situation of change of control) as follows:

- The Manager shall only be entitled to receive the Incentive Fees once the shareholders have obtained an accumulated annual return of 10% of the gross funds contributed to the Parent Company.

Once this return has been achieved, any additional return shall be distributed by equal halves (50%) between the Manager and the Shareholders.

Once the Manager has received the equivalent of 20% of the total return, any additional return shall be distributed as follows: 80% for the shareholders and 20% for the Manager.

In addition, in certain cases of early termination of the Management Agreement, the Manager shall be entitled to payment of compensation.

The Management Agreement regulates the operations and objectives of the Parent Company, setting an initial investment period, which was extended to 31 December 2017, by approval of the General Shareholders’ Meeting held on 6 April 2017.

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Additionally, the Management Agreement sets forth that before the third anniversary of the admission to trading or of the end of the investment period, the Manager shall prepare and present to the Board of Directors of the Parent Company a report containing the proposal to maximise the value for the shareholders (Valuation Proposal). This proposal will consist of the transfer of the entire portfolio and the distribution of the funds obtained to the shareholders during the period ending on the sixth anniversary to its admission to trading or extension of the life of all or part of the portfolio and to continue to manage it thereafter.

In this regard, on 27 February 2017 and in accordance with what is set forth in the Management Agreement, the Board of Directors of the Parent Company received the Valuation Proposal from the Manager, confirming the plan that had been initially established in the Management Agreement, consisting of the sale of all the assets contained in the Parent Company's portfolio and the ensuing distribution among its shareholders, both of the net funds from such sales and any other remaining shareholder equity of the Parent Company; all the foregoing prior to 14 March 2020 (the date which coincides with the sixth anniversary of the admission to trading of the Parent Company shares). Consequently, the Board of Directors of the Parent Company, in accordance with what is required in said management agreement, notified the shareholders accordingly on 28 February 2017.

Within the established plan of execution of this Valuation Proposal, the Manager considers using a number of mechanisms designed to optimise the sale value of the assets of the Group, as well as the minimisation of costs and potential tax impacts arising from the execution of said Valuation Proposal, including the direct sale of assets (whether individually or grouped in portfolios), the sale of holding company shares or, as the case may be and strictly subject to stock market regulations, the active search for purchase offers of all of the shares of the Parent Company. In this context, the Manager, as part of its ordinary activity, continuously analyses asset portfolio transfer alternatives. In the event of such alternatives becoming third party agreements, the materialisation of such agreements would require the approval of the Group's Management Bodies as well as of the General Shareholders' Meeting of the Parent Company, in accordance with what is set forth in the Capital Companies Act.

In addition, with a view to returning value to the shareholders, and when possible and from among other different alternatives, distributions of dividends, the return of capital or reserves, the purchase of shares on the open market and/or share repurchase actions, will be considered.

As a result of the Group's activities, it does not have any environmental expenses, assets, provisions or contingencies that might have a material effect on its equity, financial position or results. Therefore, there are no specific environmental disclosures in these consolidated annual accounts.

The Group's consolidated annual accounts for the financial year ended on 31 December 2016 were approved by the General Meeting of Shareholders of the Parent Company on 6 April 2017.

On 11 May 2016, the inclusion of the Parent Company in the SOCIMI Tat Regime, applicable as of 1 January 2016, was reported.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

a) Basis of presentation

The consolidated annual accounts of Hispania Activos Inmobiliarios SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2016 were prepared on the basis of the accounting records of the Parent and the entities composing the Hispania Group, and have been approved by the Directors of the Parent Company in the Board Meeting held on 26 February 2018.

The attached consolidated annual accounts present the consolidated equity and the consolidated financial position of Hispania Activos Inmobiliarios SOCIMI, S.A. and its subsidiaries at 31 December 2017 and the consolidated results of its operations, as well as the changes in consolidated equity and the consolidated cash flows for the year ending on said date.

The consolidated annual accounts for the year ended 31 December 2017 have been prepared by the Directors of the Parent in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and issued by the Regulation Commission (hereinafter, EU-IFRS) that are obligatory for the years beginning on or before 1 January 2017 taking into consideration all the mandatory accounting policies and measurement bases, as well as the Spanish Code of Commerce, the Spanish Limited Liability Companies Law and the Spanish Stock Market Law (CNMV).

In addition, as of the inclusion of the Parent in the SOCIMI Tax Regime, Law 11/2009 of 26 October, modified by Law 16/2012 of 27 December, regulating listed real estate investment trusts (SOCIMI) and the remaining mercantile legislation, are of application.

However, since the accounting policies and measurement bases used to prepare the Group's consolidated annual accounts at 31 December 2017, may differ from those used by certain group companies, adjustments and reclassifications required to standardise these policies and measurement bases were made on consolidation, bringing them into line with EU-IFRS. In order to ensure the uniform presentation of the various items composing the consolidated annual accounts, the accounting policies and measurement bases used by the Parent were applied to all the companies included within the scope of consolidation.

b) Adoption of International Financial Reporting Standards

b.1) Standards and interpretations approved by the European Union and applied for the first time this year

The accounting policies used to prepare these consolidated annual accounts are the same as those applied to the consolidated annual accounts for the year ended 31 December 2016, since one of the changes to the standards or interpretations that are applicable for the first time this year has an impact on the Group's accounting policies.

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b.2) Adoption of standards and interpretations issued by the IASB not applicable in the period

The Group intends to adopt any standards, interpretations and amendments the standards issued by the IASB, whose application is not mandatory in the European Union at the date of preparation of these consolidated annual accounts, when they enter into force and if applicable. Although, the Group is currently analysing the effect of the above based on the analyses to date, the Group considers that their first-time application shall not have a material effect on the consolidated annual accounts.

c) Functional currency

These consolidated annual accounts are presented in the functional currency of the Group (euros) since this is the currency of the main economic area in which the Group operates.

d) Responsibility for the information and accounting estimates and judgements made

The information contained in these consolidated annual accounts is the responsibility of the Parent's directors. The Parent has made estimates supported by objective information in order to measure certain assets, liabilities, income, expenses and obligations reported herein. Estimates and measurement bases refer basically to:

- The market value of property and investment property (Notes 7 and 8).
- The calculation of provisions and potential contingent liabilities associated with the variable payments or contract incentives entered into by the Parent Company (Note 15).
- Compliance with the requirements of the SOCIMI tax regime (Note 4.11).
- Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets (Note 16).
- The fair value of derivative financial instruments.

Although these estimates were made on the basis of the best information available at the date of preparation of these consolidated annual accounts, events that take place in the future might make it necessary to change these estimates (upwards or downwards), which would be made prospectively, according to IAS 8, recognising any effects of the changes in the estimate in the consolidated statement of comprehensive income.

e) Consolidation principles

The main consolidation principles and measurement bases used by the Group to prepare the consolidated annual accounts have been as follows:

1. The consolidated annual accounts were prepared on the basis of the accounting records of Hispania Activos Inmobiliarios SOCIMI, S.A. and the companies under its control, The Parent is considered to exercise control when it holds effective control in accordance with point 6 below.

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2. The results of the subsidiaries for the period have been consolidated from the effective date of their acquisition or incorporation.
3. All accounts receivable and payable and other transactions between consolidated companies were eliminated on consolidation.
4. The annual accounts of the subsidiaries are adjusted as necessary to bring the accounting policies used into line with the policies used by the Group's Parent.
5. The interest of non-controlling shareholders is stated at the proportion of the fair value of the recognised identifiable assets and liabilities. Holdings of non-controlling interests in:
 - a. The equity of its investees is presented in "Equity- Non-Controlling Interests" in the consolidated statement of financial position.
 - b. The results for the period are presented in "Comprehensive Profit or Loss attributable to Non-Controlling Interests".
6. The following consolidation methods have been applied to the Group companies:

Full consolidation:

- Applied to subsidiaries which are defined as all companies in which the Group is able to control financial and operating policies, a position which is generally accompanied by an ownership interest entitling it to more than half of the voting rights. The Group determines whether it controls another company by considering the existence and effect of potential voting rights that are exercisable or convertible at the end of the reporting period.
- Subsidiaries are recognised using the acquisition method of accounting, Acquisition cost is the fair value of assets delivered, the equity instruments issued or the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the scope of the non-controlling interests. Any excess of the cost of acquisition over the fair value of the Group's investment in the identifiable net assets acquired is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the consolidated statement of comprehensive income for the period.

At 31 December 2017 and 2016, the subsidiaries are all recognised using the full consolidation method.

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f) Comparative information

When comparing the figures in the consolidated statement of financial position and the comprehensive statement of income for 2017 and 2016, the impacts of the changes in the scope of consolidation must be taken into account (Note 2.g).

In order to adequately understand the information set out in these consolidated annual accounts, it should be taken into consideration that the Group, during this financial year has continued to be at an investment development phase.

g) Changes in the scope of consolidation

During 2017, the following changes in the scope of consolidation have taken place:

- On 7 April 2017, 100% of the shares of the company Milenial Business 21, S.L. and 10% of the shares of the company Topaz Eurogroup, S.L. were added to the Group. Dependent company Milenial owns 90% of the remaining shares of Topaz.
- On 28 June 2017 100% of the shares of Armadores de Puerto Rica, S.A.U. were added to the Group.

The effect of the variations in the scope of consolidation on the main headings in the consolidated statement of financial position at 31 December 2017 is as follows:

(Thousands of Euros)	31 December 2017		31 December 2017
ASSETS		LIABILITIES AND EQUITY	
		Reserves	
		Profit for the period	(98)
		EQUITY	(98)
Real estate investments	13,340	Deferred tax assets	16
Equity Instruments	(13,194)	NON-CURRENT LIABILITIES	16
NON-CURRENT ASSETS	146		
Inventories	1		
Trade debtors and other receivables	2		
Receivables from Government Agencies	8		
Other current financial assets	80	Trade creditors and other payables	337
Short term accruals	2	CURRENT LIABILITIES	337
Cash and equivalents	16		
CURRENT ASSETS	109	CURRENT LIABILITIES	337
TOTAL ASSETS	255	TOTAL LIABILITIES AND EQUITY	255

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During financial year 2016 a number of variations in the scope of consolidation took place:

- On 2 February 2016, 100% of the shares of Club de Tenis Maspalomas were added to the Group.
- On 9 June 2016, 100% of the shares of Real Estate San Miguel and its subsidiary Europroyectos Pitiusos were added to the Group.
- On 18 and 21 July 2016, 100% of the shares of Later and Oasis became part of the Group.
- On 20 October 2016, 100% of the shares of Mangareva were added to the Group.
- On 30 December 2016, 100% of the shares of the company Sahara Propco were added to the Group.

The effect of the changes in the scope of consolidation on the main headings in the consolidated statement of financial position at 31 December 2016 is as follows:

(Thousand euros)	31 December 2016		31 December 2016
ASSETS		LIABILITIES AND EQUITY	
		Reserves	294
		Profit for the period	24,533
		Valuation adjustments	-
		Non-controlling interests	-
		EQUITY	24,827
Intangible assets	196	Non-current provisions	-
Property, plant and equipment	37,537	Non-current bank borrowings	-
Investment property	197,265	Hedging derivatives	-
Equity instruments	(213,384)	Other non-current financial liabilities	344
Non-current financial assets	1,437	Deferred tax liabilities	19,940
Deferred tax assets	5,440	Non-current accruals and deferred income	-
NON-CURRENT ASSETS	28,491	NON-CURRENT LIABILITIES	20,284
		Bank borrowings	-
Inventories	35	Hedging derivatives	-
Trade and other receivables	2,285	Other current financial liabilities	(15,125)
Receivables from government agencies	7,024	Trade and other payables	3,986
Other current financial assets	74	Personnel remuneration payable	12
Current prepayments and accrued income	6	Payables to government agencies	12,502
Cash and cash equivalents	8,753	Customer prepayments	182
		Current prepayments and accrued income	-
CURRENT ASSETS	18,177	CURRENT LIABILITIES	1,557
TOTAL ASSETS	46,668	TOTAL LIABILITIES AND EQUITY	46,668

3. ALLOCATION OF PROFIT OF THE PARENT

The proposal to distribute the losses for the year ended 31 December 2017, formulated by the Parent Company's Directors and expected to be approved by the General Meeting of Shareholders, consists of allocating all of them to the negative Results account from previous years, for their reimbursement in 2018 against issue premium.

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3.1 Interim dividend of financial year 2016

On 24 November 2016, the Board of Directors of the Parent Company, taking into consideration the profit forecast for the year, approved an interim dividend of the 2016 profit of EUR 17,000 thousand. This dividend was paid on 30 November 2016. The dividend amount is below the maximum limit established in the legislation in force, with regard to the distributable profits since the close of the previous year:

(Thousand Euros)	2016
Profit after tax from the ten-month period ending 31 October 2016	26,394
Posting to legal reserves	(2,639)
Negative results from previous years	(6,158)
Dividend proposed	(17,000)
	597

In addition, BAY Hotels & Leisure paid interim dividends reduced the non-controlling interest balance EUR 8,633 thousand at 31 December 2016 (See Note 11).

The provisional accounting statement prepared by the Directors which shows the existence of sufficient liquidity in the Parent Company for payment of dividends will be as follows:

(Thousand Euros)	
Cash available at 31 October 2016	109,990
Forecast receivables until dividend payment date	
Operating transactions	2,382
Financing and investment transactions	-
Forecast payables until dividend payment date	
Operating transactions	(2,430)
Financing and investment transactions	(9,457)
Forecast liquidity before payment of interim dividend	100,485
Payment of dividend	(17,000)
Liquidity forecast after payment of interim dividend	83,485
Forecast receivables after dividend payment	
Current operating, financing and investment transactions	148,098
Non-current transactions	-
Forecast of payables after dividend payment	
Current operating, financing and investment transactions	(87,783)
Non-current transactions	(38,462)
Liquidity forecast at November 2017	105,338

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4. MEASUREMENT BASES

The main measurement bases used to prepare the consolidated annual accounts, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union and the interpretations in force when preparing the consolidated annual accounts are as follows:

4.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is the aggregate of the consideration transferred, measured at the fair value on the date of acquisition and the amount held by the non-controlling interest in the acquiree, if any. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. The related costs of acquisition are posted as incurred under the heading "operating costs".

When the Group acquires a business, it assesses the financial assets and liabilities assumed in order to correctly classify them in accordance with contractual terms, economic conditions and other relevant conditions at the acquisition date. This includes the separation of the embedded derivatives in host contracts by the acquiree.

For business combination achieved in stages, the acquirer's previously held interest in the acquiree is remeasured at fair value at the acquisition date and any resulting gain or loss is recognised in the consolidated statement of comprehensive income.

Any contingent consideration which must be transferred by the acquirer will be recognised at fair value at the acquisition date, Contingent consideration classified as financial assets or liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value, recognising the changes in the consolidated statement of comprehensive income.

Goodwill is initially recognised at cost. Goodwill is the excess of the aggregate of the consideration transferred, the amount for non-controlling interests recognised and any previously held share of the net value of acquired assets and assumed liabilities. If the fair value of the acquired net assets exceeds the value of the consideration transferred, the Group re-assesses the amount to ensure that all of the assets acquired and all obligations assumed have been identified correctly and it reviews the procedures applied to measure the amounts recognised at the acquisition date. If the re-assessment shows that the fair value of the net assets acquired is higher than the aggregate of the consideration transferred, the difference is recognised as a gain in the consolidated statement of comprehensive income.

After initial recognition, goodwill is subsequently recognised at cost less any accumulated impairment losses. For the purpose of impairment tests, after the date of acquisition, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

When goodwill is part of a cash-generating unit and some of the operations within that unit are disposed of, the goodwill associated with the disposed operations is included in the

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carrying amount of the operations when calculating the resulting gain or loss. Goodwill disposed of in this manner is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4.2 Property, plant and material

Property, plant and equipment is recognised at cost less accumulated depreciation and/or less any accumulated impairment losses. Those costs include the replacement of a portion of property, plant and equipment and the interest on non-current construction projects, if the criteria for recognition are met. When a significant portion of property, plant and equipment must be replaced at intervals, the Group applies depreciation separately based on the specific useful lives of those assets. After a large repair the relevant cost is recognised in the carrying amount of the asset concerned as a replacement if the criteria for recognition are met. All other repair and maintenance costs are recognised in the income statement when incurred.

Land and buildings are measured at fair value less the accumulated depreciation of buildings and any impairment losses recognised at the revaluation date. Revaluations are applied with sufficient regularity to ensure that the carrying amount for the revalued asset does not significantly differ from its fair value.

Any surplus due to revaluation is recognised in other comprehensive income and the revaluation of assets is recorded under equity. In the event that a revaluation surplus is reversed with respect to the same asset that was previously recognised as a loss, the increase is recognised in the income statement. A decline in value is recognised in the income statement except in the case where the decrease cancels out the surplus existing for the same asset for which a valuation adjustment was recorded.

Value adjustments are transferred to reserves annually in the amount of the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Accumulated depreciation at the revaluation date is also offset against the gross carrying amount of the asset and the net amount is adjusted to the restated value of the asset. At the time an asset is derecognised, the valuation adjustments concerning the specific asset being eliminated is transferred to reserves.

At the end of each period, the Group calculates the fair value of its assets in accordance with IAS 16. This fair value is calculated based on an appraisal by an independent expert (CB Richard Ellis Valuation).

The appraisal was conducted in accordance with the Valuation and Assessment Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS), and discounted cash flow method was primarily used (see Note 4.3).

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4.3 Investment property

Investment property is recognised at fair value at the reporting date and it is not depreciated. Investment property includes land, buildings or other structures held to earn rental income or for capital appreciation as a result of increases in market prices in the future.

Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

Investment property under construction is transferred to "Investment Property" when the assets are ready for operation.

When the Group recognises the cost of a replacement asset as an increase in the fair value of the original asset representing the fair value, the Group reduces the fair value of the replaced asset by recognising the related effect in "Changes in the Value of Investment Property" in the consolidated statement of comprehensive income. Should it not be possible to identify the fair value of a replaced asset, it will be recognised by increasing the fair value of the property and subsequently measuring it on a regular basis using the appraisals by independent experts as a reference.

The properties were appraised on an individual basis, taking into account each of the leases in force at the end of the period. Buildings that contain areas that have not been leased were measured on the basis of estimated future income less a period for marketing.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is calculated using as a reference the appraisals by independent experts at the date of preparation of the consolidated statement of financial position (CBRE Valuation Advisory, S.A.) and, therefore, at the end of each period the market value reflects the market conditions of the investment property at that date. The appraisal reports by independent experts only contain the usual warnings and/or limitations on the scope of the results of the appraisals, which refer to acceptance of the information provided by the Company as whole and correct. The appraisals were performed in accordance with the Professional Valuation Standards of the Royal Institute of Chartered Surveyors.

The main methodology used to calculate the fair value of the Group's investment property in 2017 is the discounted cash flows methodology, which is based on a projection of estimated future cash flows from the investment property using a suitable discount rate to calculate the present value of these cash flows. This rate considers the current market conditions and it reflects all of the forecasts and risks associated with cash flows and investments. The residual value of the asset over the final year of the projected cash flows is calculated by applying a net yield for outflow.

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Other valuation methodologies were also used to a lesser extent, such as the residual static capitalisation approach or the income capitalisation approach, as well as the comparison method for undeveloped land.

Details of the net yields considered at 31 December are as follows:

<i>Yields (%)</i>	31 December 2017	31 December 2016
Offices measured using the Discounted Cash Flow Method (Exit Yield)	4.75% - 7.00%	5.00%-7.25%
Offices measured through Capitalisation (Initial Yields)	4.58% - 5.10%	5.30%-5.25%
Offices measured through Capitalisation (Equivalent Yield)	5.00% - 5.70%	5.20%-6.10%
Hotels measured using Discount Cash Flow Method (Exit Yield-Fixed income)	5.20% - 7.50%	5.75% - 8%
Hotels measured using Discount Cash Flow Method (Exit Yield-Variable Income)	6.25% - 8.00%	6.50% - 8.75%
Residential property measured using Discount Cash Flow Method (Exit Yield)	4.40%	4.40%

The measurement of the residential assets does not consider a net exit yield since it was estimated that they will be sold upon expiry of the current leases, except in the case of the Hispanidad residential complex, for which net exit yields are considered.

The 0.25% change in the yields and the 10% change in the rent income have the following impact on the appraisals used by the Group to determine the value of its assets recognised under the heading “Investment property and Property, Plant and Equipment” in the accompanying consolidated statement of financial position. Below are sensitivity analyses for all assets valued by an independent expert. There are some assets that have not been valued using the discounted cash flow method, namely those which at 31 December 2017 were subject to commitments to sale, amounting to Euros 37,500 thousand (see Note 19).

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Sensitivity of the appraisal to quarter-point changes in the yields	Thousand Euros		
	Appraisal	0.25 point decrease	0.25 point increase
2017			
Offices measured using the Discounted Cash Flow Method (Exit Yield)	363,660	10,720	(9,800)
Offices measured through Capitalisation (Initial Yields)	29,100	1,650	(1,350)
Offices measured through Capitalisation (Equivalent Yield)	114,050	5,500	(5,250)
Hotels measured using Discount Cash Flow Method (Exit Yield)	1,589,720	67,598	(63,277)
Residential property measured using Discount Cash Flow Method (Exit Yield)	22,140	925	(830)
Residential property valued using discounted sale price flow			
Hotel land valued using comparison method	16,170	n/a	n/a
Hotels valued using residual method	29,800	n/a	n/a
Offices valued using residual method	59,000	n/a	n/a
2016			
Offices measured using the Discounted Cash Flow Method (Exit Yield)	363,790	10,810	(10,095)
Offices measured through Capitalisation (Initial Yields)	72,700	3,750	(3,310)
Offices measured through Capitalisation (Equivalent Yield)	34,900	1,600	(1,500)
Hotels measured using Discount Cash Flow Method (Exit Yield)	1,243,630	50,695	(47,430)
Residential property measured using Discount Cash Flow Method (Exit Yield)	18,450	850	(750)
Residential property valued using discounted sale price flow	211,100	n/a	n/a
Hotel land valued using comparison method	1,300	n/a	n/a
Hotels valued using residual method	12,120	n/a	n/a
Offices valued using residual method	50,000	n/a	n/a
Sensitivity of the appraisal to 10% changes in rent	Thousand Euros		
	Appraisal	10% decrease	10% increase
2017			
Offices measured using the Discounted Cash Flow Method (Exit Yield)	363,660	(24,765)	24,675
Offices measured through Capitalisation (Initial Yields)	29,100	-	-
Offices measured through Capitalisation (Equivalent Yield)	114,050	(8,700)	8,400
Hotels measured using Discount Cash Flow Method (Exit Yield)	1,589,720	(204,208)	204,249
Residential property measured using Discount Cash Flow Method (Exit Yield)	22,140	(2,290)	2,285
Residential property valued using discounted sale price flow	210,750	n/a	n/a
Hotel land valued using comparison method	16,170	n/a	n/a
Hotels valued using residual method	29,800	n/a	n/a
Offices valued using residual method	59,000	n/a	n/a
2016			
Offices measured using the Discounted Cash Flow Method (Exit Yield)	363,790	(33,470)	32,610
Offices measured through Capitalisation (Initial Yields)	72,700	-	-
Offices measured through Capitalisation (Equivalent Yield)	34,900	(3,000)	3,000
Hotels measured using Discount Cash Flow Method (Exit Yield)	1,243,630	(156,600)	155,950
Residential property measured using Discount Cash Flow Method (Exit Yield)	18,450	(2,200)	2,200
Residential property valued using discounted sale price flow	211,100	n/a	n/a
Hotel land valued using comparison method	1,300	n/a	n/a
Hotels valued using residual method	12,120	n/a	n/a
Offices valued using residual method	50,000	n/a	n/a

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Fluctuations of 5% in the sales prices of residential assets would have an effect on the methods used by the Group to calculate the value of these assets, resulting in an increase of EUR 9,440 thousand (EUR 11,263 thousand at 31 December 2016) and a decrease of EUR 11,780 thousand (EUR 11,193 thousand at 31 December 2016), depending on whether the sale price were to rise or fall, respectively, at the above rate.

4.4 Leases

Leases are classified as financial leases when the economic conditions of the lease agreement indicate that the substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Group's leases are operating leases.

Operating leases

Income and expense from operating leases are recognised in the consolidated statement of comprehensive income for the period in which they arise. The acquisition cost of the leased assets is presented in the consolidated statement of financial position based on the nature of the asset, increased by the directly recognised agreement costs which are recognised over the term of the lease by applying the same method used to recognise income from leases.

Income and expense from operating leases are recognised in the consolidated statement of comprehensive income for the period in which they arise.

Any payment received or made upon concluding an operating lease will be treated as a prepayment received or made that will be taken to the income statement over the term of the lease as the benefits of the leased asset are provided or received.

4.5 Financial Instruments (excluding derivative financial instruments)

Financial assets

Initial measurement

Financial assets are initially measured at the fair value of the consideration given plus directly attributable transaction costs.

Subsequent classification and measurement

The Group's financial assets are classified as follows:

- Available-for-sale financial assets are measured at fair value. Any changes in fair value are recognised directly in equity until the asset is disposed of or has become impaired (of a stable or permanent nature), at which point the accumulated gains or losses recognised in equity to date are recognised in the consolidated statement of comprehensive income.
- Loans and other receivables: includes loans granted to third parties and associates which have been recognised at their nominal amount and classified based on their maturity date. Loans and receivables also include the non-current deposits and

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guarantees relating mainly to deposits made in accordance with current legislation at Official Agencies, i.e. deposits received from lessees.

- Non-derivative financial assets: includes current and non-current fixed-income securities generally held to maturity and recognised at amortised cost. Current fixed-income securities are recognised under "Other Current Financial Assets." Interest income is recognised in the period earned using a financial criterion.

Financial liabilities

Financial liabilities include basically bank borrowings and are recognised at amortised cost.

Amounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently carried at amortised cost.

Financial liabilities are derecognised when the obligations that gave rise to them cease to exist. When the Group exchanges debt instruments with a third party for which the conditions are substantially different, it derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the consideration paid including the attributable transaction costs are recognised in the consolidated statement of comprehensive income for the year.

The Group considers that the conditions of the financial liabilities are substantially different when there is more than a 10% difference between the present value of cash flows discounted under the new terms using the original effective interest rate, including any fees paid net of any fees received, and the present discounted value of the cash flows remaining on the original financial liability.

4.6 Receivables

The balances receivable are recognised at the recoverable value, i.e. less any adjustments made to cover balances of a certain age which are in a situation that could reasonably give rise to their classification as a doubtful debt. At 31 December 2017 the Group did not have any significant bad debts that had not been written down.

4.7 Cash and cash equivalents

"Cash and Cash Equivalents" include the cash, demand deposits and other short-term highly liquid investments that can be turned into cash quickly and have a minimum risk of changes in their value.

4.8 Derivative financial instruments

The Group uses financial derivatives to manage its exposure to changes in interest rates. All the derivative financial instruments whether designated as hedges or not have been recognised at fair value, i.e. the fair value for the quoted instruments or, in the case of unquoted instruments, valuations based on appraisal models of options or discounted cash flows. The following measurement bases were used to recognise each of the following:

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- Cash flow hedges: Upward or downward changes in the value of the effective portion of the transactions that qualify for hedge accounting are recognised, net of tax, directly in equity until the committed or expected transaction arises at which point it is reclassified to the income statement. Any upward or downward changes that might arise in the ineffective portion are recognised directly in the consolidated statement of comprehensive income.
- Recognition of instruments not allocated to any liability or that are not recognised as a hedge for accounting purposes: any upward or downward changes in the fair value of these financial instruments are recognised directly in the consolidated statement of comprehensive income.

The Parent's Directors estimated the credit risk for the derivative portfolio, with no significant effect having arisen at 31 December 2017.

Hedge accounting is no longer applicable when the hedging instrument matures, is sold or exercised or no longer qualifies for hedge accounting. Any accumulated gains or losses on the hedge instrument recognised in equity are unrealised until the transaction is completed. On the completion date the Group's accumulated gain or loss in equity is transferred to the consolidated statement of comprehensive income for the period.

4.9 Current and non-current classification

The ordinary operating cycle is defined as the period from the acquisition of the assets used to carry on the Group's lines of business to the date that they are turned into cash or cash equivalents. The Group's main business is real estate and the ordinary operating cycle for this business is considered to be the calendar year. Accordingly, assets and liabilities that mature within twelve months are classified as current and assets and liabilities maturing over twelve months are classified as non-current.

Bank borrowings are classified as non-current when the Group has the irrevocable duty to repay them over a period of over twelve months from the end of the reporting period.

4.10 Provisions and contingent liabilities

The Parent's directors made a distinction between the following when preparing the consolidated annual accounts:

- Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of economic resources, but which are uncertain as to their amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group.

The consolidated statement of financial position includes all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated statement of financial position,

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but rather are disclosed in the consolidated notes to the extent that they are not considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as a finance cost on an accrual basis.

The payment receivable from a third party on settlement of the obligation, provided there are no doubts regarding the collection of such a payment, is recognised as an asset, except in the event of a legal relationship whereby part of the risk has been externalised, and for which the Parent Company is thus not held liable; in this case, the payment will be taken in to account to estimate the amount, as the case may be, of the provision to be made.

The Incentive Fees which the Manager will be paid in accordance with what is set forth in the Management Agreement, is considered to be a provision at 31 December 2017. The accounting treatment of Incentive Fees is explained in Note 15.

4.11 Income Tax

As set forth below, all companies in the Hispania Group are included under the special tax regime for SOCIMIs (Spanish Real Estate Investment Trusts), except for Milenial Business 21, Topaz Eurogroup, Mangareva, Hospitia, Leading Hospitality, Hispania Hotel Management, Real Estate San Miguel, Europroyectos Pitiusos and Armadores de Puerto Rico.

General Regime

The income tax expense is recognised in the consolidated statement of comprehensive income, unless it arises as a result of a transaction on which the gain or loss is recognised directly in equity, in which case the income tax expense is also recognised in equity. The income tax expense represents the sum of the current tax expense and the changes in the recognised deferred tax assets and liabilities. The income tax expense for the year is calculated on the basis of the current tax base, which is different from the net profit/(loss) recognised in the consolidated statement of comprehensive income because it excludes taxable income and deductible expenses from prior years and certain other non-taxable and non-deductible items. The Group's current tax liability is calculated using tax rates that have been approved by the date of the consolidated statement of financial position.

SOCIMI Regime

The Parent company opted to apply, as of 1 January 2016, the special tax regime for real estate investment trusts (SOCIMIs), having informed the Tax Authorities of this option on 11 May 2016.

On 7 May 2014, the then subsidiary Hispania Real had already informed of its option to apply the special SOCIMI tax regime as of 1 January 2014.

In addition, the following subsidiaries have elected to apply the special tax regime for real estate investment trusts (SOCIMIs), having reported this on the following dates:

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- Bay Hotels & Leisure SOCIMI, S.A., informed the Tax Authorities of this option on 18 September 2015, applicable from 1 January 2015 onwards.
- Hespérides Bay, S.L.U., informed the Tax Authorities of this option on 29 September 2015, applicable as of 1 January 2015.
- Bay Hotels Canarias, S.L.U. and Poblado de Vacaciones, S.A.U, informed the Tax Authorities of this option on 17 March 2016, applicable as of 1 January 2016.
- Eco Resort San Blas, S.L.U. informed the Tax Authorities of this option on 5 September 2016, applicable as of 1 January 2016.
- Later Deroser, S.L.U and Inversiones Inmobiliarias Oasis Resort, S.L.U informed the Tax Authorities of this option on 5 September 2016, applicable as of 1 January 2016.
- Sáhara Propco, S.L.U. informed the Tax Authorities of this option on 31 March 2017, applicable as of 1 January 2017.
- Club de Tenis Maspalomas, S.L.U. informed the Tax Authorities of this option on 31 March 2017, applicable as of 1 January 2017.

In Spain a SOCIMI is similar to a real estate investment trust (REIT) in Europe. The purpose of these firms is the acquisition, remodelling and development of urban real estate for subsequent lease of at least three years. They are also permitted to hold shares in other property investment vehicles (such as other SOCIMI, real estate investment funds (FII), real estate investment firms (SII) and overseas real estate funds, etc.) and must distribute most of the income earned as dividends.

SOCIMI are regulated in Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December (SOCIMI Law).

The most important aspects of SOCIMI regulation are summarised as follows:

- a) Company elements. SOCIMI must have (i) public limited liability status, (ii) a minimum share capital of EUR 5 million and (iii) a single class of registered shares.
- b) Mandatory activity. SOCIMI must be mainly engaged in the acquisition, development or remodelling of urban real estate for its subsequent lease whether directly or indirectly via holdings in other SOCIMI, REIT, collective real estate investment vehicles (IICI) and other real estate investment firms under certain terms and conditions.
- c) Permitted assets. SOCIMI must have invested at least 80% of its assets in: (i) urban real estate for rental (in Spain or in another country with which Spain has signed an effective tax information exchange agreement) or land for development of this real estate, provided that the development begins within the three years after the acquisition (qualifying buildings); or (ii) shareholdings or other equity investments in other non-resident SOCIMI or non-resident REIT, unlisted SOCIMI, non-resident unlisted firms wholly owned by SOCIMI or REIT, IICI or other entities resident or

non-resident in Spain whose corporate purpose is the acquisition of urban real estate for its subsequent rental, regulated by the SOCIMI regime with respect to the policy required by law or by-law on dividend distribution and investment requirements policy ("Qualifying Investments" which together with the "Qualifying Buildings" are the "Qualifying Assets"). Only 20% of their assets may be comprised of real estate assets that do not meet these requirements.

- d) Source of income. In line with the above requirement, 80% of the income from SOCIMI for the tax period for each year, excluding the income from the transfer of Qualifying Assets once the holding period referred to in Paragraph (e) below has passed, must be earned on the leases of the Qualifying Buildings and/or dividends or profit sharing from "Qualifying Investments."
- e) Holding period. Qualifying Buildings acquired or developed by SOCIMI must be leased for a minimum of three years. For calculation purposes the period for which the buildings have been available through leases is added, to a maximum of one year. Qualifying Investments must also be held for at least three years.
- f) Distribution policy. Each year, SOCIMI are required to pay its unit holders (i) 100% of the profit obtained as dividends or profit sharing from Qualifying Investments, (ii) at least 50% of the profits from the transfer of Qualifying Assets at the end of the holding period described in paragraph (e) above (the rest of the profits must be reinvested in other Qualifying Assets within three years or, if there are no Qualifying Assets, the rest of the profits must be distributed after the aforementioned reinvestment period has elapsed); and (iii) at least 80% of the rest of the profit obtained.
- g) Admission to trading, SOCIMI shares must be listed on a regulated market or a multilateral trading system in Spain, an EU country or the European Economic Area (EEA) or a regulated market in any other country with which there is an effective exchange of tax information with Spain.
- h) Tax regime, SOCIMI are taxed at a rate of 0%, However, if the profits distributed to unit holders that hold at least 5% of the share capital are exempt from taxation or pay tax at a rate of 10% or less SOCIMI will pay tax on the full amount of the dividends or other profit sharing paid out to unit holders at a special rate of 19%.

A breach of the minimum holding period included in Paragraph (e) required for Qualifying Assets will result in: (i) in the case of Qualifying Buildings: tax on the total income earned by these buildings in all of the tax periods in which the special tax regime for SOCIMI would have applied, pursuant to the general regime and the general rate of corporation tax; and (ii) in the case of Qualifying Investments: tax on the portion of the income earned on the transfer in accordance with the general regime and the general rate of corporation tax.

SOCIMI receive tax relief of 95% on the amounts of property transfer tax and stamp duty payable for buy-to-let properties (or land acquired for the development of buy-to-let properties) provided that the minimum lease period for these assets, referred to in Paragraph (e) above, is met.

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Under Transitional Provision One of Law 11/2009 regulating listed public limited liability real estate investment firms, the latter may opt to pay tax under the special tax regime under the terms of Article 8 of this Law even when they do not meet the requirements therein, provided that these requirements are met within two years of the date of the decision to pay tax under this regime. Hispania Activos Inmobiliarios Socimi S.A. only meets some of the requirements established in the above Law at the date of these consolidated annual accounts. However, the directors consider that processes have been put into place to ensure that all of requirements are met prior to the end of this period.

Deferred taxes

Deferred tax assets or liabilities are taxes that are expected to be paid or recovered for the difference between the asset or liability balances accumulated in the financial statements and the corresponding tax bases used to calculate taxable profit. They are recognised using the balance sheet liability method, i.e. at the difference of the carrying amount and tax base of assets and liabilities.

The rest of the deferred tax assets and liabilities associated with the buildings in Spain calculated as a result of the application of fair value in accordance with IAS 40 and IAS 16 were calculated at the tax rate at which the deferred taxes are expected to be paid.

The accompanying consolidated statement of financial position includes tax assets that are expected likely to be recovered in a reasonable period of time.

Deferred tax liabilities are related to gains allocated to real estate investments or changes in the fair value of a real estate investment,

4.12 Income and expenses

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, based on the principles included in the conceptual IFRS framework the Group recognises the income earned and the total associated costs. Sales are recognised upon delivery and transfer of ownership of the assets.

Profits earned on dividends from financial assets are recognised when the unit holders are entitled to receive the dividends.

Costs passed on to lessees

The Company does not recognise costs passed on to lessees of its investment property as income.

In this regard, the direct operating costs relating to investment property that give rise to rental income in 2017, recognised under the heading “Operating profit” in the accompanying income statement total EUR 5,307 thousand (EUR 5,002 thousand in 2016). The amount of those costs associated with investment property that do not generate rental income was not significant.

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4.13 Consolidated statement of cash flows (indirect method)

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to insignificant risk of changes in value.
- Operating activities: the principal ordinary revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and borrowings and that are not part of operating activities.

4.14 Related party transactions

The Company carries out all related party transactions on an arm's-length basis. Transfer pricing is adequately documented and, accordingly, the Parent Company's directors consider that there are no significant risks that could give rise to material tax liabilities in the future.

4.15 Treasury shares

Treasury shares that have been repurchased are recognised at cost and are deducted from equity. The income statement does not recognise any loss or gain deriving from the purchase, sale, issue or redemption of the Group's treasury shares. Any difference between the carrying amount and the consideration paid, if reissued, is recognised under "Share premium".

4.16 Non-current assets held for sale and discontinued operations

Non-current assets and disposable groups are classified as held for sale if their carrying value is fundamentally recovered via a sale transaction instead of continued use thereof. Non-current assets and disposable groups classified as held for sale are valued at the lower value between the carrying value and fair value minus costs of sale. Costs of sale are the incremental costs that are directly attributable to the derecognition of the asset, excluding financial expenses and taxes.

The criterion for classification of assets as held for sale is deemed to be met only when the sale is highly likely and the asset or group is available, under its current conditions, for immediate sale. The stages to complete the sale indicate that significant changes are unlikely to occur or that the decision is unlikely to be cancelled. Senior Management must have committed to performing a plan to sell the asset and the sale is expected to be closed during the financial year following the date of classification thereof as held for sale.

Assets and liabilities classified as held for sale are classified separately as current items in the statement of financial position.

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A disposable group qualifies as a discontinued operation if it is a component of an entity that has either been sold or classified as held for sale and:

- It represents a business line or geographical area that is significant and independent from the rest.
- It forms part of an individual and coordinated plan to sale or in any other way dispose of a business line or a geographical area of the operation that is significant and can be deemed to be separate from the rest; or
- Is a dependent company acquired exclusively for resale purposes.

In the profit and loss statement, discontinued operations are shown separately from income and expenses of continued operations and included in a single line as a result of the year after tax from discontinued operations.

Note 19 includes the breakdowns of the classification of the Aurelio Méndez Building as a non-current asset held for sale at 31 December 2017. At 31 December 2017 this disposable group does not meet the discontinued operations criteria, having only provided a breakdown at year end of the non-current asset held for sale, as well as liabilities related thereto at that date.

5. EARNINGS PER SHARE

Earnings per share:

Earnings per share amounts are calculated by dividing the profit for the year attributable to the Parent's ordinary shareholders by the number of ordinary shares outstanding at the close of the period, not including treasury shares.

The detailed calculation of earnings (losses) per share is as follows:

	31 December 2017	31 December 2016
Profit for the year attributable to holders of equity instruments in the Parent Company (EUR thousand)	222,289	308,572
Number of outstanding shares (thousands)	108,972	108,981
Earnings per share (euros)	2.04	2.83

Basic:

Basic earnings per share are calculated by dividing the profit for the year attributable to the ordinary shareholders of the Parent by the weighted average number of outstanding ordinary shares during the period, excluding treasury shares.

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	31 December 2017	31 December 2016
Profit for the year attributable to holders of equity instruments in the Parent Company (EUR thousand)	222,289	308,572
Weighted average number of outstanding shares (thousand)	108,978	97,340
Basic earnings per share (euros)	2.04	3.17

Diluted:

Diluted earnings per share are calculated by dividing the profit for the year attributable to the holders of equity instruments in the Parent and the weighted average number of ordinary shares outstanding, taking into account the dilutive effects inherent to potential ordinary shares, i.e. as if all the ordinary potentially dilutive securities were converted.

The Parent Company does not have different classes of ordinary shares potentially subject to dilution.

6. SEGMENT REPORTING

Basis of segmentation

Segment reporting is based on the different areas of the Group's business.

The business lines described below were established on the basis of the Group's organisational structure at 31 December 2017 which was used to analyse the financial performance of the various operating segments.

The Group focuses its activities on the following major lines of business, which are the basis on which the Group presents the information on its operating segments:

- Investment activity in office properties.
- Investment activity in residential properties.
- Investment activity in hotel properties
- Management activity at hotel properties.

All the Group's activities are carried on in Spain.

Basis and methodology for business segment reporting

The segment reporting below is based on monthly reports prepared by Group managers and is generated using the same computer application as that used to obtain all of the Group's accounting information.

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The segment's ordinary revenue relates to the ordinary revenue directly attributable to the segment and income from sales of investment property. Ordinary revenue from each segment does not include interest or dividend income.

The expenses of each segment are calculated on the basis of the expenses arising from the segment's directly attributable operating activities and any losses on sales of investment property. The allocated expenses do not include interest or the income tax expense or general administration expenses relating to general services which are not directly allocated to each business segment and, therefore, cannot be distributed on a reasonable basis.

The assets and liabilities of the segments are directly related to their activity and operations.

The following table includes the segment information by activity:

Financial year 2017

Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Income from leases and services rendered	21,765	5,158	115,144	14,508	-	156,575
Other operating income	1,219	277	834	120	-	2,450
Operating costs	(3,941)	(2,809)	(9,639)	(13,419)	(26,568)	(56,375)
Net gain/(loss) on sales of assets. amortisation and impairment	-	-	(47,154)	-	(95,005)	(142,159)
Negative difference on consolidation	-	2,849	-	(336)	(37)	2,476
Financial costs	-	-	-	-	(47)	(47)
Financial income	-	-	120	-	-	120
Income from leases and services rendered	(5,763)	(2,180)	(12,568)	-	(583)	(21,094)
Other operating income	-	-	3,792	-	181	3,973
Variation in fair value of financial instruments	-	-	-	-	242	242
Exchange differences	-	-	-	-	2	2
Revaluation of investment property (Note 8)	55,962	19,075	235,144	-	-	310,181
Income tax	-	-	-	-	(7,480)	(7,480)
Total at 31 December 2017	69,242	22,370	285,673	873	(129,295)	248,863

Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Assets						
Intangible assets	-	-	185	1	-	186
Property, plant and equipment (Note 7)	-	-	-	65,220	-	65,220
Investment property (Note 8)	562,223	232,890	1,561,587	-	-	2,356,700
Other non-current assets	-	-	350	-	-	350
Non-current financial assets	3,826	505	9,195	90	2,633	16,249
Non-current accruals	-	-	8,857	-	-	8,857
Deferred tax assets	3,872	-	6,198	1,761	-	11,831
Inventories	656	-	114	48	-	818
Trade debtors and other current assets	6,691	694	51,146	1,284	109,216	169,031
Non-current assets held for sale (Note 19)	37,500	-	-	-	-	37,500
Total at 31 December 2017	614,768	234,089	1,637,632	68,404	111,849	2,666,742

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Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Liabilities						
Non-current provisions	-	-	-	739	95,000	95,739
Non-current financial liabilities	14,032	1,516	8,947	34	-	24,529
Current and non-current accruals and deferred income	-	-	8,167	-	-	8,167
Current and non-current bank borrowings	169,363	62,573	393,650	-	-	625,586
Hedging derivatives	3,336	1,083	17,571	-	-	21,990
Deferred tax liabilities	10,293	-	57,831	8,918	-	77,042
Current financial liabilities	1,184	739	78,602	412	-	80,937
Operating liabilities	309	329	35,048	1,417	12,269	49,372
Liabilities related to non-current assets held for sale (Note 19)	21,231	-	-	-	-	21,231
Total at 31 December 2017	219,748	66,240	599,816	11,520	107,269	1,004,593

Financial year 2016

Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Income from leases and services rendered	18,836	6,249	93,214	24,568	-	142,867
Other operating income	285	294	556	258	-	1,393
Operating costs	(3,906)	(2,448)	(5,134)	(21,226)	(20,848)	(53,562)
Net gain/(loss) on sales of assets, amortisation	-	382	(457)	(1,341)	(50)	(1,466)
Financial instrument impairment	-	-	-	-	-	(8)
Negative difference on consolidation	-	-	10,687	-	-	10,687
Financial costs	(4,904)	(2,284)	(12,944)	(425)	(364)	(20,921)
Financial income	-	-	-	-	332	332
Exchange differences	-	-	-	-	4	4
Revaluation of investment property (Note 8)	57,135	32,381	196,696	-	-	286,212
Income tax	(3,423)	-	(2,029)	(349)	(763)	(6,564)
Total at 31 December 2016	64,023	34,574	280,589	1,485	(21,697)	358,974

Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Assets						
Intangible assets	-	-	101	145	-	246
Property, plant and equipment (Note 7)	-	-	-	113,210	-	113,210
Investment property (Note 8)	518,697	229,550	1,140,171	-	-	1,888,418
Other non-current assets	-	-	350	-	-	350
Non-current financial assets	3,985	525	33,812	1,474	2,633	42,429
Deferred tax assets	3,614	-	6,319	1,798	-	11,731
Inventories	743	-	937	135	-	1,815
Trade receivables and other current assets	4,170	106	40,854	2,131	277,090	324,081
Total at 31 December 2016	531,209	230,181	1,222,274	118,893	279,723	2,382,280

Thousand euros	Offices	Residential	Hotels	Hotels under management	Other	Total Group
Liabilities						
Non-current provisions	-	-	-	719	-	719
Non-current financial liabilities	16,510	2,029	14,124	1,401	-	34,064
Current and non-current accruals and deferred income	-	-	8,849	-	91	8,940
Current and non-current bank borrowings	181,281	78,454	355,309	3,262	-	618,306
Hedging derivatives	5,934	1,670	24,083	-	-	31,687
Deferred tax liabilities	10,164	-	51,430	12,365	-	73,959
Current financial liabilities	5,721	-	9,037	1,509	-	16,267
Operating liabilities	-	-	4,823	5,780	27,163	37,766
Total at 31 December 2016	219,610	82,152	467,655	25,037	27,254	821,708

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7. PROPERTY, PLANT AND EQUIPMENT

Movements in this heading are as follows:

Thousand euros	Thousand euros		
	Hotels under management		End balance
	Cost	Accumulated amortisation	
Balance at 31 December 2015	64,200	-	64,200
Asset acquisition and recognition	6,240	-	6,240
Acquisitions from business combinations (Note 16)	37,787	-	37,787
Amortisation provision	-	(1,320)	(1,320)
Asset revaluation	6,303	-	6,303
Transfers	(1,320)	1,320	-
Balance at 31 December 2016	113,210	-	113,210
Asset acquisition and recognition	3,606	-	3,606
Asset derecognition	(1,832)	-	(1,832)
Amortisation provision	-	(885)	(885)
Asset revaluation	2,591	-	2,591
Amortisation transfer	(885)	885	-
Transfer to property investment (Note 8)	(51,470)	-	(51,470)
Balance at 31 December 2017	65,220	-	65,220

Main movements in the year ended 31 December 2017:

The main change in the year pertains to the transfers of the Guadalmina, Cartago and Club San Miguel Hotels which are now classified as property investments as they are no longer directly managed by the Group and are currently leased to third parties.

In addition, the Group has completed the sale of the Hotel Maza de Zaragoza for a price of Euros 2400 thousand, and the Group has earned a profit from this sale of Euros 569 thousand as shown in the profit and loss statement of 2017.

Main movements in the year ended 31 December 2016:

The main change in 2016 is the business combination of the company Real Estate San Miguel described in Note 16. Real Estate San Miguel owns three hotels in Ibiza currently operated by the company.

In addition, during 2016 the Group acquired 56 properties belonging to the building currently operated by the company Leading Hospitality, S.L.U. under the commercial name of Hotel Holiday Inn Bernabéu, for EUR 4,769 thousand.

The rest of the additions in the period were investment actions related to the assets owned by the Group for improvement and repositioning thereof in the market.

At the close of each period and in accordance with IAS 16 the Group calculates the fair value of property, plant and equipment. This fair value, calculated according to the valuations made by an independent expert (CB Richard Ellis Valuation) amounted to EUR 65,220 thousand euros (Euros 113,210 thousand at 31 December 2016), with the gross revaluation of property, plant and equipment amounting to EUR 2,591 thousand (6,303 thousand in the year ended 31 December 2016) (which have been recognised in the comprehensive income statement net of tax at EUR 1,944 thousand (EUR 5,558 thousand

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at 31 December 2016), recognised under the net equity heading “Revaluation reserves”. The valuation has been carried out in accordance with the valuation and appraisal standards published by the Royal Institute Chartered Surveyors (RICS) of Great Britain and in accordance with International Valuation Standards (IVS).

At the close of 2017, the Group company Leading Hospitality manages and operates under the name “Holiday Inn-Bernabeú” a total of 311 room units (307 room units in 2016) of which 313 comprise the community of owners.

The Group has acquired insurance policies covering the reconstruction cost of property, plant and equipment.

Other information

At 31 December 2017 no asset of the Group included in this heading is being used to secure any mortgage loan. At 31 December 2016, the Group recognised buildings with a carrying amount of EUR 1,840 thousand that secured mortgage loans totalling EUR 2,636 thousand.

During 2017 these hotels under management have generated income for services rendered amounting to EUR 14,508 thousand (EUR 24,504 thousand in 2016).

8. INVESTMENT PROPERTY

The movements under this heading have been as follows:

Thousand euros	Thousand euros			
	Offices	Residential	Hotels	End balance l
Balance at 31 December 2015	404,714	175,150	780,749	1,360,613
Acquisitions from business combinations (Note 16)	-	-	129,858	129,858
Asset acquisition and recognition	56,848	24,329	32,868	114,045
Asset derecognition	-	(2,310)	-	(2,310)
Asset revaluation	57,135	32,381	196,696	286,212
Balance at 31 December 2016	518,697	229,550	1,140,171	1,888,418
Transfers (Note 7)	-	-	51,470	51,470
Asset acquisition and recognition	25,313	12,644	134,802	172,759
Asset derecognition	(249)	(28,379)	-	(28,628)
Asset revaluation	55,962	19,075	235,144	310,181
Transfer to non-current assets held for sale (Note 19)	(37,500)	-	-	(37,500)
Balance at 31 December 2017	562,223	232,890	1,561,587	2,356,700

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Main movements in 2017:

The main acquisitions and recognitions of assets during financial year 2017, including non-recoverable expenses and taxes associated therewith, have been as follows:

- On 8 February 2017 the Group acquired the Hotel NH Málaga located in the historical quarter of Málaga, for EUR 23,602 thousand. The operation considers the extension of the hotel, increasing the amount to EUR 16,000 thousand.
- On 21 June 2017, the Group acquired the Hotel Fergus Tobago, situated in Palmanova (Mallorca), for EUR 21,067 thousand.
- On 16 June 2017, the Group acquired Hotel Selomar, located in Benidorm, for EUR 16,739 thousand.
- Three plots of land have been purchased to develop several hotel projects, for a joint amount of EUR 14,082 thousand and a plot of land to build apartments amounting to EUR 1,272 thousand.

During this year investments have been made in the assets owned by the Group towards their improvement and market repositioning, amounting to EUR 81,528 thousand, the main investments having been those made in the Hotels Dunas Don Gregory, Barceló Paradise Portinax and Barceló Occidental Ibiza, amounting to EUR 10,039, 8,014 and 3,611 thousand respectively. In the office and residential segments, the main investments have been made in the Aurelio Menéndez Building, in the development of the Helios offices and in the Isla del Cielo Residential Building, amounting to EUR 4,855, 8,731 and 4,805 thousand respectively.

In addition, the derecognitions in the year mainly pertain to the sale of homes in the Sanchinarro and Isla del Cielo residential complexes for a total sale price amounting to EUR 32,868 thousand (including costs associated with these sales amounting to EUR 1,673 thousand), from which the Group earned a profit of EUR 2,849 thousand.

On 31 December 2017 and as is described in Note 19, the Group has classified the Aurelio Menéndez office building as a non-current asset held for sale, for its carrying value which at that time amounted to EUR 37,500 thousand.

Main movements in 2016:

The main movements in the year are the business combinations described in Note 16.

The main acquisitions and recognitions of assets during 2016 were the following:

- On 2 February 2016, the Group acquired a plot of land in the municipality of Corralejo (Fuerteventura) for EUR 12,000 thousand, via the acquisition of all of the shares in the company Club de Tennis Maspalomas, S.L.U.
- On 18 March 2016, the Group acquired a residential complex with 91 housing units and 146 parking spaces located in the North West area of Madrid, for EUR 16,000 thousand.

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- On 20 October 2016, the Group acquired two plots of land in Madrid, having recognised investment property amounting to EUR 38,138 thousand, involving a real estate development consisting of the construction of two office buildings for rental, once completed. The delivery of the buildings is scheduled for 30 March 2019. At 31 December 2016 the works have not yet begun.

In addition, during 2016 new assets were recognised by the Group which are the following by asset type: EUR 18,704 thousand in Offices, EUR 8,329 thousand in Residential and EUR 19,355 thousand in Hotels. The main investments were made in the office buildings Príncipe de Vergara and Torre 30 (previously known as Edificio NCR) amounting to EUR 2,533 and 7,803 thousand respectively, in the residential buildings Sanchinarro and Complejo Residencial Isla del Cielo, amounting to EUR 4,110 and 3,615 thousand respectively, as well as in the Hotels Meliá Jardines del Teide and Suite Hotel Atlantis Fuerteventura Resort amounting to EUR 1,983 and 8,913 thousand respectively. These recognitions are mainly associated with investments for the improvement and market repositioning thereof.

During the period 20 residential units were sold from the residential complex in Majadahonda (Madrid) and 1 residential unit in Complejo Residencial Isla del Cielo, for a total price of EUR 2,877 thousand, generating a final profit for the Group from the sale thereof of EUR 567 thousand.

At the end of each period, the Group calculated the fair value of its investment property in accordance with IAS 40, The fair value, calculated on the basis of the appraisals of independent experts (CB Richard Ellis Valuation), amounted to EUR 2,409,770 thousand at 31 December 2017 (1,894,780 thousand at 31 December 2016 (EUR 1,361,020 at the close of the year ended on 31 December 2016) and, therefore, gave rise to changes in the value of the investment property, once the linearisation of the rent and accruals recognised in the balance sheet were deducted, totalling EUR 310,181 thousand (EUR 286,212 thousand at 31 December 2016) which were recognised in the consolidated statement of comprehensive income under the heading “Value changes in investment property”. The appraisal was conducted in accordance with the Valuation and Assessment Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS).

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Operating leases

At the end of 2017, the Group was owed the following minimum payments from lessees as stated in the leases in force, excluding the communal expenses passed on to the lessees, future increases in the CPI and discounting of contractually agreed-upon income:

Thousand Euros	31 December 2017	31 December 2016
Up to one year	81,769	69,759
Between one and five years	270,458	189,183
More than five years	355,767	301,100
Total	707,994	560,042

Other information

The investment properties are leased to third parties via operating leases.

The income from those lease agreements amounted to EUR 142,067 thousand (111,113 thousand in 2016).

The costs associated with the assets included under investment property totalled EUR 14,720 thousand (EUR 10,462 thousand in 2016).

All of the Group's investment property is located in Spain.

At 31 December, the details of the gross surface area and percentage occupancy of the office and residential lines of business are as follows:

31 December 2017	Square metres				% Occupancy
	Gross surface area available for rent				
	Madrid	Barcelona	Málaga	Other	
Offices	142,952 (*)	39,506	4,288	186,746	87%
Residential	43,846	19,324	-	63,170	49%**
Total surface area	186,798	58,830	4,288	249,916	
% weight	75%	24%	2%	100%	

(*) During 2016 a plot of land in the Community of Madrid was acquired, with an associated office construction project, The Surface are of this land amounts to 33,124 square metres.

(**) Occupation of 89% excluding assets that are not in commercialization.

31 December 2016	Square metres				% Occupancy
	Gross surface area available for rent				
	Madrid	Barcelona	Málaga	Other	
Offices	142,952 (*)	39,506	4,288	186,746	82%
Residential	47,628	22,658	-	70,286	85%
Total surface area	190,580	62,164	4,288	257,032	
% weight	74%	24%	2%	100%	

(*) During 2016 a plot of land in the Community of Madrid was acquired, with an associated office construction project, the Surface area of this land amounts to 33,124 square metres.

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The hotel assets of the Group are fully occupied at the close of financial years 2017 and 2016, except for the land acquired during this year on which several hotel projects are due to be developed and a hotel asset that is currently closed for overall refurbishment.

The Group has mortgages on certain investment property assets at 31 December 2017 to secure loans for a nominal amount of EUR 635,833 thousand (626,443 thousand in 2016). The fair value of these investment properties amounts to EUR 1,809,010 thousand at 31 December 2017 (EUR 1,601,010 thousand at 31 December 2016).

The Group has obtained insurance policies to cover the replacement value of investment property.

The Group recognises investment commitments concerning investment property totalling EUR 44.6 million at 31 December 2017 (EUR 22.6 million in 2016).

No finance costs had been capitalised at 31 December of 2017 or 2016.

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9. FINANCIAL ASSETS

The details of the financial assets at 31 December is as follows:

	Equity instruments		Loans, derivatives and other financial assets		Total	
	2017	2016	2017	2016	2017	2015
Thousand euros						
Non-current financial assets						
Available for sale assets	350	350	-	-	350	350
Loans and other receivables	-	-	16,249	42,429	16,249	42,429
	350	350	16,249	42,429	16,599	42,779
Current financial assets						
Loans and other receivables	-	-	57,712	44,368	57,712	44,368
	-	-	57,712	44,368	57,712	44,368
	350	350	73,961	86,797	74,311	87,147

These amounts are included in the following items in the statement of financial position:

	Equity instruments		Loans, derivatives and other financial assets		Total	
	2017	2016	2017	2016	2017	2016
Thousand euros						
Non-current financial assets						
Equity instruments	350	350	-	-	350	350
Other financial assets	-	-	4,202	32,105	4,202	32,105
Guarantees	-	-	12,047	10,324	12,047	10,324
	350	350	16,249	42,429	16,599	42,779
Current financial assets						
Other current financial assets	-	-	9,931	5,549	9,931	5,549
Trade and other receivables	-	-	47,781	38,819	47,781	38,819
	-	-	57,712	44,368	57,712	44,368
	350	350	73,961	86,797	74,311	87,147

Equity instruments

In 2014 the Parent Company acquired a non-controlling interest in the company Guadalmina Golf, S.A. for EUR 350 thousand.

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Loans and other receivables

Other current and non-current financial assets

This non-current heading primarily consisted at 31 December of 2016 of the guarantees received by the Barceló companies relating to most of the deferred tax liabilities recognised in the business combinations involving the acquisition of the hotels owned by the companies BAY, BHC and PDV in the amount of EUR 24,655 thousand. As a result of the acquisition of 23.9% of the BAY shares by the Parent Company described in Note 1, the Investment Agreement between the shareholders of BAY was novated, establishing, among other conditions, that the company will eventually receive, in exchange for waiving this guarantee, the amount of EUR 5,000 thousand, stipulated to be paid on 28 February 2018. Consequently, the Group has derecognised the portion that at 31 December 2017 is not guaranteed, amounting to EUR 19,654 thousand, recognising the pertaining loss in the income statement under the heading of “Other Results” (see Note 14.7).

On the other hand, EUR 3,000 thousand are included under in this heading by way of prepayment made on the purchase option entered into for the acquisition of seven hotels located in the Balearic and Canary Islands.

In addition, this heading mainly includes the receivable held with the company Dunas Resorts, S.L. The total amount payable by this entity at 31 December 2017 totals EUR 1,420 thousand (EUR 7,250 thousand at 31 December 2016), maturing on 31 March 2018. The loan has been recognised as current and non-current according to said agreed deferral, as EUR 1,420 thousand as current at 31 December 2017 (1,933 and 5,317 thousand, respectively, recognised as current and non-current at 31 December 2016 respectively).

Guarantees

The amount recognised under this heading includes the amounts deposited with the relevant Government Agencies with respect to the security deposits received in the lease agreements entered into by the Group.

Trade and other receivables

At 31 December this heading mainly relates to trade receivable for leases on investment property amounting to EUR 35,844 thousand (EUR 30,988 thousand in 2016) and to the linearisation of the rents of contracts which maintain scaled rents or rent-free periods amounting to EUR 11,002 thousand (EUR 6,013 thousand in 2016).

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Valuation adjustments

Trade and other receivables are presented net of impairment adjustments recognised during the year. The movements in those adjustments were as follows:

	2017	2016
	Thousand euros	
Initial balance	311	228
Allocations (Note 14.4)	174	355
Reversals (Note 14.4)	(85)	(141)
Provisions applied to purpose	(20)	(131)
End balance	380	311

10. CASH AND CASH EQUIVALENTS

This heading records the current accounts held by the Group that earn interest at market rates and deposits of EUR 2000 thousand (EUR 124,609 thousand at 31 December 2016) maturing in the short-term and convertible into cash at the Group's option.

The Group has agreements in which the current accounts have been pledged as security in relation to financing contracts. It may draw down and use the balance of the current accounts in its ordinary activities unless notification of early termination of the secured obligations has been given. In addition, at the close of 2016, it maintained guarantees provided on current accounts resulting from Group operations amounting to EUR 6,000 thousand, which were cancelled in 2017.

The Group's cash and liquid assets are generally held at highly creditworthy financial institutions.

11. NET EQUITY

At 31 December 2017, the Parent's share capital comprised 109,169,542 (109,169,542 shares at 31 December 2016) fully subscribed and paid shares with a par value of EUR 1 each. All of the shares are represented by book entries and bear the same rights.

Capital increases carried out in 2016:

An increase in the capital of the Parent Company of EUR 25,775 thousand was agreed on 11 May 2016 via the issue and circulation of 25,775,002 new shares each of a par value of 1 euro. On 28 May 2016 the pre-emptive subscription period came to an end, with all 25,775,002 new shares having been subscribed on 3 June 2016 and fully paid up on 6 June 2016 at the agreed price of EUR 8.95 per share, amounting in total to EUR 230,686 thousand, with 1 euro being par value and 7.95 euros the share premium. Trading began on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia on 9 June 2016. The costs of this issue amount to EUR 8,566 thousand.

As mentioned in Note 1 above, in the merger by takeover process of the company Hispania Fides, the shares that the non-controlling interest (Grupo Ilunion, S.L.) owned therein were

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exchanged for new issue shares in the Parent Company, having received 804,540 shares of a par value of 1 euro each. These new shares were issued with a share premium of EUR 11.10796 per share. Consequently, the issue premium of these new shares amounted to EUR 8,937 thousand. The costs of this issue amounted to a total of EUR 139 thousand. The Parent Company requested the admission to official trading of the new shares issued by virtue of the capital increase on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, and via the electronic trading platform (Mercado Continuo) where the Company shares currently in circulation are listed.

Premium distribution approved in 2016:

During 2016 the payment of dividend charged to the share premium was approved, amounting to EUR 10,394 thousand, paid on 5 July 2016.

In addition, part of the issuance premium, amounting to EUR 6,158 thousand, was used to offset previous years' negative results.

Distribution of Parent Company results

On 24 November 2016, the Board of Directors of the Parent Company approved the distribution of an interim dividend amounting to 17,000 thousand euros. Additionally, the Ordinary General Meeting of Shareholders held on 6 April 2017 approved the distribution of dividends amounting to 17,157 thousand euros.

In accordance with the communications made on the number of company shares to the Spanish National Stock Market Commission, the shareholders owning significant shares of the share capital of the Parent Company, both direct and indirect and corresponding voting rights, at 31 December 2017 and at 31 December 2016 are as follows:

31 December 2017

Shareholder name and address:	% voting rights attributed to shareholders		% voting rights held via financial instruments	Total voting rights
	% Direct	% Indirect		
Soros Fund Management LLC	-	16.68	-	16.68
Fmr Llc	-	7.01	-	7.01
Bw Gestao De Investimentos Ltda	-	3.64	-	3.64
Tamerlane, S.A.R.L.	5.99	-	-	5.99
Bank of Montreal	-	3.014	-	3.014
Blackrock Inc.	-	3.28	0.01	3.29
AXA Investment Management Group	-	3.03	-	3.03

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31 December 2016

Shareholder name and address:	% voting rights attributed to shareholders		% voting rights held via financial instruments	Total voting rights
	% Direct	% Indirect		
Soros Fund Management LLC	-	16.56	-	16.56
Fmr Llc	-	7.64	0.11	7.64
Bw Gestao De Investimentos Ltda	-	3.62	-	3.62
Tamerlane, S.A.R.L.	5.95	-	-	5.95
Bank of Montreal	-	3.25	-	3.25
Blackrock Inc.	-	3.26	-	3.26
Fmr Co., Inc.	6.08	-	0.11	6.08
Novo Viseu Fundo De Investimento Multimercado	3.62	-	-	3.62
Qp Sfm Capital Holdins Limited	12.61	-	-	12.61
Qpb Holdings Ltd	3.94	-	-	3.94
Blackrock Inc.	3.25	-	-	3.25
Thames River Capital Llp	3.2	-	-	3.25
Row Fund	-	5.95	-	5.95

The Parent is not aware of any other shareholdings of less than the indicated percentages that allow notable influence over the Company.

Legal reserve

Pursuant to the consolidated Spanish Companies Act, companies must transfer 10% of profits for the year to a legal reserve until it is equivalent to at least 20% of the share capital.

The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, the legal reserve can only be used to offset losses when it is equivalent to more than 20% of share capital or there are no other reserves available for this purpose.

Shareholder contributions

On 17 February 2014 Azora Altus, S.L. decided to make a monetary contribution to the Parent's equity, amounting to EUR 540 thousand in cash.

Parent Company treasury shares

On 30 June 2015 the Parent Company entered into a liquidity agreement with entity Beka Finance, S.V., S.A. seeking to favour the liquidity of transactions and stability of the listed price of its shares. This liquidity agreement was terminated on 1 November 2016,

The transactions carried out since that date have been made directly by the Parent Company of the Group.

The Parent Company has 198,006 treasury shares at 31 December 2017 (188,212 treasury shares at 31 December 2016) for a total amount of EUR 2,377 thousand (EUR 2,177 thousand at 31 December 2016).

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The sale and purchase transactions of treasury shares have generated losses of EUR 64 thousand in 2017 (the Parent Company obtained at 31 December 2016 a profit of EUR 40 thousand).

Non-controlling interests

Details of the heading “Non-Controlling Interests” at 31 December 2017 and 31 December 2016 are as follows:

	Thousand euros		
	Hispania Fides, S.L. (*)	Bay Hotels & Leisure SOCIMI, S.A. (**)	Total
Balance at 31 December 2015	10,056	68,526	78,582
Profit/(loss) for the year	-	50,402	50,402
From cash flow hedging instruments	-	(1,389)	(1,389)
Acquisition of non-controlling interests	(10,056)	-	(10,056)
Non-controlling interest contributions	-	7,431	7,431
Distribution of dividends to non-controlling interests	-	(8,633)	(8,633)
Balance at 31 December 2016	-	116,337	116,337
Profit/(loss) for the year	-	26,034	26,034
From cash flow hedging instruments	-	1,152	1,152
Acquisition of non-controlling interests	-	(142,183)	(142,183)
Distribution of dividends to non-controlling interests	-	(842)	(842)
Other distributions to non-controlling interests	-	(516)	(516)
Other	-	25	25
Balance at 31 December 2017	-	7	7

(*) 10% share owned by Grupo Ilunion, S.L. in 2016 (formerly Corporación Empresarial Once, S.A.)

(**) 24% owned by Barceló Hotels Mediterráneo, S.L. until 22 December 2017, when Hispania acquired 23.9%.

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Adjustments to equity for changes in the value of financial instruments

This heading in the attached consolidated statement of financial position includes the net amount of the changes in value of derivative financial instruments designated as cash flow hedges.

The changes in the balance of this heading during the year are as follows:

	Thousand euros				
	Initial balance	Acquisition of Non-Controlling Interests	Income/ (expenses)	Transfers to profit and loss account (Note 14.6)	End balance
2017					
Cash flow hedges	(14,585)	(237)	517	7,866	(6,439)

	Thousand euros			
	Initial balance	Income/ (expenses)	Transfers to profit and loss account (Note 14.6)	End balance
2016				
Cash flow hedges	(3,701)	(17,912)	7,028	14,585

12. FINANCIAL LIABILITIES

Details of financial liabilities at 31 December are as follows:

Thousand euros	Bank borrowings		Derivatives and other		Total	
	2017	2016	2017	2016	2017	2016
Non-current financial liabilities						
Loans and payables	598,403	595,066	24,529	34,064	622,932	629,130
Hedging derivatives	-	-	13,865	23,254	13,865	23,254
	598,403	595,066	38,394	57,318	636,797	652,384
Current financial liabilities						
Loans and payables	27,183	23,240	129,403	37,967	156,586	61,207
Hedging derivatives	-	-	8,125	8,433	8,125	8,433
	27,183	23,240	137,528	46,400	164,711	69,640
	625,586	618,306	175,922	103,718	801,508	722,024

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These amounts are included in the following items in the balance sheet:

Thousand euros	Bank borrowings		Derivatives and other		Total	
	2017	2016	2017	2016	2017	2016
Non-current financial liabilities						
Non-current bank borrowings	598,403	595,066	-	-	598,403	595,066
Hedging derivatives	-	-	13,865	23,254	13,865	23,254
Other non-current financial liabilities	-	-	24,529	34,064	24,529	34,064
	598,403	595,066	38,394	57,318	636,797	652,384
Current financial liabilities						
Bank borrowings	27,183	23,240	-	-	27,183	23,240
Hedging derivatives	-	-	8,125	8,433	8,125	8,433
Other current financial liabilities	-	-	80,937	16,267	80,937	16,267
Trade and other payables	-	-	47,857	20,889	47,857	20,889
Personnel remuneration payable	-	-	134	376	134	376
Customer prepayments	-	-	475	435	475	435
	27,183	23,240	137,528	46,400	164,711	69,640
	625,586	618,306	175,922	103,718	801,508	722,024

12.1 Bank borrowings

Details of bank borrowings maturing on 31 December 2017 and 2016 are as follows:

	Thousand euros								
	Current	Non-current						Total non-current	Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years			
2017									
Bank borrowings:									
Loans from third parties	25,914	27,685	31,629	40,525	123,985	386,095	609,919	635,833	
Interest in third party debt	1,269	-	-	-	-	-	-	1,269	
Arrangement cost on borrowings	-	(3,477)	(1,659)	(1,560)	(1,415)	(3,405)	(11,516)	(11,516)	
Total	27,183	24,208	29,970	38,965	122,570	382,690	598,403	625,586	

	Thousand euros								
	Current	Non-current						Total non-current	Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years			
2016									
Bank borrowings:									
Loans from third parties	21,772	24,457	26,048	29,951	38,875	488,473	607,804	629,576	
Interest in third party debt	1,468	-	-	-	-	-	-	1,468	
Arrangement cost on borrowings	-	(3,434)	(1,646)	(1,589)	(1,498)	(4,571)	(12,738)	(12,738)	
Total	23,240	21,023	24,402	28,362	37,377	483,902	595,066	618,306	

Loans and interest payable to third parties

During 2017 the Group has obtained new mortgages loans amounting to EUR 34,920 (EUR 11,800 thousand in 2016) and has novated existing mortgage loans for an additional amount of EUR 15,000 thousand. In 2016 it also used additional financing from loans already granted at the end of the previous year amounting to EUR 67,429 thousand.

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Most of the loans accrue an interest indexed to Euribor plus a spread.

Details of the various loans recognised by the Group at 31 December 2017 and 2016 by asset type are as follows:

2016		(Thousand euros)				
Company	Asset	Outstanding amount	Non-current	Current	Accrued finance costs (Note 14,6)	Finance costs on derivative interest (Note 14,6)
Hispania Activos	Offices	171,586	167,055	4,531	2,980	1,675
Hispania Activos	Residential	63,418	58,112	5,306	1,295	626
Hispania Activos	Hotels	21,850	21,188	662	389	181
Hesperides Bay	Hotels	86,550	82,144	4,406	1,169	441
Subgrupo Bay	Hotels	292,429	281,420	11,009	5,227	4,668
		635,833	609,919	25,914	11,060	7,591
Interest outstanding		1,269	-	1,269	-	-
Arrangement costs on borrowings		(11,516)	(11,516)	-	1,760	-
Total		625,586	598,403	27,183	12,820	7,591

(*) Includes financial expenses pertaining to bank borrowings related to non-current assets classified as held for sale at 31 December 2017 (Note 9), accrued over the year.

2016		(Thousand euros)				
Company	Asset	Outstanding amount	Non-current	Current	Accrued finance costs (Note 14,6)	Finance costs on derivative interest (Note 14,6)
Hispania Activos	Offices	184,028	182,547	1,481	2,985	1,523
Hispania Activos	Residential	79,539	74,284	5,255	1,487	582
Hispania Activos	Hotels	22,351	21,850	501	411	251
Hesperides Bay	Hotels	65,900	64,550	1,350	1,101	391
Subgrupo Bay	Hotels	253,779	244,372	9,407	5,104	4,051
Eco Resort	Hotels	20,846	20,201	645	324	230
Leading Hospitality	Hotels	2,636	-	2,636	437	n/a
Leading Hospitality	Non-mortgage loans and credit facilities	497	-	497	-	n/a
		629,576	607,804	21,772	11,849	7,028
Outstanding interest		1,468	-	1,468	-	-
Arrangement costs on borrowings		(12,738)	(12,738)	-	1,705	-
Total		618,306	595,066	23,240	13,554	7,028

At 31 December 2017 the Group has no available lines of credit maintained (EUR 7,000 thousand at 31 December 2016), and no amount whatsoever has been drawn down at year-end.

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Financing operations carried out in 2017

The Group's main financing operations carried out in 2017 were the following:

BAY Subgroup Loans

On 22 December 2015, the company ECO Resorts obtained a mortgage loan from a bank of EUR 21,490 thousand, maturing on 23 December 2025. This contract was novated on 21 November 2017, adding a new tranche of EUR 15,000 thousand, with a grace period until March 2021 and with the same term and interest rate and terms as the aforementioned initial loan.

On 14 December 2017, the company BAY Hotels & Leisure obtained a second ranking mortgage loan on one of the hotels owned by the company amounting to EUR 12,920, maturing on 31 March 2027, of which EUR 65 thousand of principal had been amortised by the end of the year.

Hespérides Bay Loan

On 21 December 2017, Hespérides Bay obtained a mortgage loan on the hotels owned by this company, amounting to EUR 22,000 thousand. The loan matures on 30 November 2030 and accrues a market interest rate.

Financing operations carried out in 2016

Parent Company loans

On 6 April 2016, the Group obtained a mortgage loan for a total amount of EUR 7.8 million, maturing on 30 April 2021.

In addition, in December 2016, the second drawdown of a mortgage loan obtained in 2015 was made, for a total of EUR 1.2 million.

On 1 June 2016 the Group obtained a mortgage loan of EUR 4 million, maturing on 16 April 2030.

Hespérides Bay Loan

On 25 November 2015, the company of Grupo Hespérides Bay obtained a mortgage loan totalling EUR 67,500 thousand, maturing on 30 November 2030. At 31 December 2015, the Group had drawn down one million euros. During 2016, the Group drew down the second and third tranches, totalling EUR 66,250 thousand, with no amount outstanding at the close of the year. At 31 December 2016, EUR 1,350 thousand were repaid, leaving an outstanding amount of EUR 65,900 thousand.

Other information

At 31 December 2017 certain Group loans totalling EUR 407,460 thousand (EUR 402,916 thousand at 31 December 2016), established certain financial ratios to be met by the Group throughout the term thereof. In the event of non-compliance, the lenders could request the early repayment of the principal. At the close of 2017, the Group met the financial ratios

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and/or obligations associated with the loans received, and failure to comply with any of them is not expected in the short term (at 31 December 2016 the Group also met the financial ratios and obligations associated with the loans received).

Arrangement costs on borrowings

The financial cost accrued at 31 December 2017 by way of repayment of the arrangement costs of Group borrowings amounted to EUR 1,760 thousand (EUR 1,705 thousand at 31 December 2016). During 2017, and as a result of the new loans assumed, debt arrangement costs have amounted to EUR 659 thousand.

Guarantees provided

The Group must provide certain guarantees during its normal course of business and to finance its operations, but the estimation is that the guarantees provided will not give rise to any additional liability in these consolidated annual accounts.

12.2 Derivatives and other

Details of the financial liabilities classified in this category at 31 December are as follows:

	Thousand euros	
	2017	2016
Non-current		
Sureties and deposits received as a result of leases	14,118	12,821
Non-current borrowings	10,411	21,243
Hedging derivatives	13,865	23,254
	38,394	57,318
Current		
Sureties and deposits received as a result of leases	421	428
Current deposits	3	5,100
Current borrowings	61,019	3,633
Other current financial liabilities	19,494	7,106
Sundry payables	47,857	20,889
Personnel remuneration pending payment	134	376
Customer prepayments	8,075	435
Hedging derivatives	8,125	8,433
	145,128	46,400

Current and non-current borrowings

The heading “Current and Non-current payables” includes, on the one hand, the loan entered into on 7 July 2014 between Corporación Empresarial Once, S.A. (currently Grupo Ilunion, S.L.) and the acquired company Hispania Fides (Note 1), by virtue of which the parties agreed that the lender would grant long term financing to Hispania Fides for EUR 10,000 thousand- At 31 December 2017, the amount outstanding amounts to EUR 5,000 thousand (EUR 7,500 thousand at 31 December 2016). The maturity date of the loan was set at 60 months as of the date the loan became available, that is, 7 July 2019. The loan will incur annual interest from the drawdown to the maturity date, having accrued a financial cost in the year of EUR 189 thousand (EUR 264 thousand in 2016), of which EUR 73 thousand (EUR 109 thousand at 31 December 2016) were outstanding at the end of the year.

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On 14 and 20 July 2016 BHM granted the BAY Group company loans respectively amounting to EUR 1,920 and 5,598 thousand. The term of the loans will be of 5 years, accruing variable interest indexed to EURIBOR. At 31 December 2017 the loan has been paid and cancelled in full, with no amount whatsoever outstanding thereunder (EUR 7,518 outstanding at 31 December 2016).

In addition, this heading includes the deferred payments and guarantee withholdings of the various acquisitions of Group company shares carried out in the year, amounting to EUR 5,411 thousand in the long term (EUR 6,225 thousand at 31 December 2016) and EUR 650 thousand in short term (EUR 2,950 thousand at 31 December 2016).

On the other hand, the Group has an outstanding debt at 31 December 2017 amounting to EUR 59,422 thousand with Barceló, by way of the second payment for the acquisition of 23.9% of the shares in the company Bay Hotels & Leisure SOCIMI, S.A. described in Note 1. This debt is recognised as current, its payment date being 28 February 2018.

Other current financial liabilities

The heading “Other current financial liabilities”, and as part of the transactions described in Note 1, mainly includes accounts payable amounting to EUR 15,000 thousand with Barceló entities.

Miscellaneous creditors

The outstanding balance at 31 December 2017 mainly consists of the debt outstanding with Barceló entities pertaining to the special incentive accrued following the formalisation of the agreement of termination of the shareholders’ agreement of the Grupo BAY company amounting to EUR 27,500 thousand plus corresponding indirect taxes.

At 31 December 2017 the debt with Azora Gestión S.G.I.I.C., S.A.U. amounting to EUR 5,346 thousand (EUR 4,467 thousand at 31 December 2016) is also outstanding (see Note 14.8) and other invoices to be received pertaining to the Group’s current transactions.

Hedging derivatives

The breakdown of cash flow hedging instruments by interest rate risk at 31 December 2017 is as follows:

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				Thousand euros			
				Notional		Fair value	
Company	Asset	Fixed rate/sp read	Variable interest rate	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Parent Company	Offices	(*)	EUR 3m	167,290	180,040	(3,231)	(5,828)
Parent Company	Residential	(*)	EUR 3m	65,180	69,451	(1,053)	(1,639)
Parent Company	Hotels	(*)	EUR 3m	21,850	22,351	(356)	(583)
Hespérides Bay	Hotels	(*)	EUR 3m	57,120	58,310	(612)	(1,320)
Subgrupo Bay (**)	Hotels	(*)	EUR 3m	264,574	253,779	(15,781)	(20,516)
Eco Resort (**)	Hotels	(*)	EUR 3m	-	20,845	-	(820)
				576,014	604,776	(21,033)	(30,706)

(*) Spreads range between 0,366% and 1,910%.

(**) Eco Resort at 31 December 2017 belongs to Subgrupo Bay.

The years in which the cash flows from the swap are expected to occur (since they are settled monthly) and affect the profit and loss account are as follows:

2017	Thousand euros								
	Current	Non-current						Total non-current	Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years			
Hedging derivative	7,168	5,896	3,619	1,929	1,060	1,361	13,865	21,033	
Total	7,168	5,966	3,650	1,930	1,040	1,361	13,865	21,033	

2016	Thousand euros								
	Current	Non-current						Total non-current	Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years			
Hedging derivative	7,452	6,817	5,842	4,427	2,998	3,170	23,254	30,706	
Total	7,452	6,817	5,842	4,427	2,998	3,170	23,254	30,706	

During 2017 the Group transferred EUR -7,591 thousand (-EUR 7,028 thousand in 2016) from equity to the income statement due to the effect of the interest rate hedges. These amounts were recorded under finance costs together with the hedged item. At 31 December 2017 a total of EUR 957 thousand remain outstanding (EUR 981 thousand at 31 December 2016) for interest accrued over the year.

In addition, the Company has recognised net losses amounting to EUR 275 thousand in the income statement due to the inefficiency of hedges (no balance at 31 December 2016 for this item) (Note 14.6).

13. TAX SITUATION

The income tax expense for the period is calculated on the basis of the current tax base, which is different to the net profit/(loss) recognised in the consolidated statement of comprehensive income because it excludes taxable income and deductible expenses from

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prior years and certain other non-taxable and non-deductible items. The Group's current tax assets and liabilities are calculated using tax rates that have been approved as of the date of the consolidated statement of financial position.

The balance with government agencies in the consolidated statement of financial position is as follows:

	31 December 2017	31 December 2016
	Thousand Euros	
Deferred tax assets	11,831	11,731
Receivables from government agencies	13,544	11,998
Value Added Tax and Special Canary Island Tax (IGIC)	12,586	10,912
Current tax assets	477	334
Withholdings and interim payments	481	752
Total balance receivable	25,375	23,729
Deferred tax liabilities	77,042	73,959
Payables to government agencies	906	16,066
Corporate Income Tax payable	416	419
VAT and IGIC payable	326	2,573
Withholdings payable	64	10,822
Social Security payable	84	2,252
	16	
Total balance payable	77,948	90,025

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Income Tax

Details of the reconciliation between the carrying profit before tax and the tax base following temporary differences are as follows:

	31 December 2017				Total
	Thousand euros				
	Income statement SOCIMI Regime		Total statement of changes in equity		
	SOCIMI Regime	General Regime	SOCIMI Regime	General Regime	
Result before taxes	237.727	18.617	9.535	2.591	268.470
Permanent differences					
Consolidation adjustments	(162.305)	(4.769)	-	-	(167.074)
Other permanent differences	(1.286)	(34)	-	-	(1.320)
Temporary differences					
Other temporary differences	(5.181)	(40)	(9.535)	(2.591)	(17.347)
Offset of tax loss carryforwards	-	(5.549)	-	-	(5.549)
Final tax base	68.955	8.225	-	-	77.180

	31 December 2016				Total
	Thousand euros				
	Income statement SOCIMI Regime		Total statement of changes in equity		
	SOCIMI Regime	General Regime	SOCIMI Regime	General Regime	
Result before taxes		365.539		(5.326)	360.213
Permanent differences					
Consolidation adjustments		(249.870)		-	(249.870)
Other permanent differences		(5.784)		5.326	(458)
Temporary differences					
Other temporary differences		(14.931)		-	(14.931)
Offset of tax loss carryforwards		2.219		-	2.219
Final tax base		97.173		-	97.173

The breakdown of “Tax on Profit” of the consolidated income statement for the periods ending 31 December 2017 and 2016 is as follows:

	31 December 2017	
	Thousand euros	
	Income Statement	Equity
Income Tax expense	2.460	-
Change due to current tax assets	(100)	-
Differences between carrying amount and tax base of property, plant and equipment	-	647
Differences between carrying value and tax base of investment property	5.036	-
	84	-
Income Tax	7.480	647

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	31 December 2016	
	Thousand euros	
	Income statement	Equity
Income tax expense	430	-
Change due to current tax assets	3,705	-
Tax-loss carryforwards and other temporary differences recognised	-	745
Differences between carrying amount and tax base of investment property	2,429	-
Income tax	6,564	745

According to legal provisions in force, tax settlements cannot be considered to be final until inspected by the tax authorities or the statute of limitations, currently four years, has elapsed.

The Group companies and the Parent Company have all the taxes applicable to them over the last four years (or since incorporation, if subsequent). In the opinion of the Directors of the Parent Company and their tax advisors, there are no significant tax contingencies that could arise in the event of an inspection due to possible different interpretations of the tax legislation applicable to the Company's operations.

The reconciliation between income tax expense/(revenue) and the result of taxing the total recognised income and expenses at the applicable rates is as follows:

Thousand euros	31 December 2017		
	Income Statement	Equity	Total
Profit before tax	256.344	12.126	268.470
	-	-	-
Theoretical tax payable (0% tax rate in 2016)	5.036	647	5.683
Gains on assets not included under the SOCIMI regime	(100)	-	(100)
Variations in deferred tax assets in companies not subject to the SOCIMI regime	2.460	-	2.460
Other	84	-	84
Effective tax expense/(income)	7.480	647	8.127

Thousand euros	31 December 2016		
	Income Statement	Equity	Total
Profit before tax	365.538	(6.715)	358.823
	-	-	-
Theoretical tax payable (tax rate 25% in 2016 and 28% in 2015)	-	-	-
Income taxed under SOCIMI regime	2.429	745	3.174
Temporary asset differences not capitalised	3.705	-	3.705
Tax bases not capitalised	430	-	430
Others	-	-	-
Effective tax expense/(income)	6.564	745	6.879

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The details and movements of the various deferred tax assets and liabilities are as follows:

	Initial balance at 31 December 2016	Write offs as per income statement	Additions as per income statement	Additions as per statement of changes in equity	Transfer to liabilities related to non-current assets held for sale	Balance at 31 December 2017
(Thousand euros)						
Deferred assets						
Tax loss and tax credit carryforwards recognised	11,731	-	100	-	-	11,831
Deferred liabilities						
Restatement of assets	(73,959)	1,769	(6,805)	(647)	2,600	(77,042)
Total	(62,228)	1,769	(6,705)	(647)	2,600	(65,211)

	Initial balance	Additions from business combinations	Per income statement	For statement of changes in equity	Balance at 31 December 2016
(Thousands of euros)					
Deferred assets					
Tax loss and tax credit carryforwards recognised	8,024	7,412	(3,705)	-	11,731
Deferred liabilities					
Restatement of assets	(53,544)	(17,241)	(2,429)	(745)	(73,959)
Total	(45,520)	(9,829)	(6,134)	(745)	(62,228)

Deferred tax assets relate to the tax loss and tax credit carryforwards that the Group expects to recover within a reasonable period of time and to the positive temporary differences available for offset of the negative temporary differences arising on recognition of investment property at market value should they arise.

Additions to deferred tax assets mainly pertain to temporary liability differences arising from the recognition of investments in real estate and property, plant and equipment at market value, based on the best analysis of the asset divestment process determined by the Manager to allow most assets to qualify for the SOCIMI Tax Regime and/or enables reduction of future tax charges.

The decreases in deferred tax liabilities in the year 2017 mainly come from those deferred tax liabilities which had been recorded after the business combination of the Grupo BAY company carried out in 2015. In that business combination, the Group had registered a deferred liability amounting to 1,622 thousand euros. In the non-monetary contribution made by Barceló, the latter had accepted the special tax regime of Chapter VII of Title VII of the Corporation Tax Law but had partially renounced the deferral regime of two of the five hotels contributed (Occidental Pueblo Menorca and Hotel Cala Viñas) without doing so for the remaining three (Occidental Ibiza, Hamilton and Ponent Playa). Therefore, for these three hotels the tax value (historical value) differs from the book value (fair value). The deferred tax liability amounting to 1,622 thousand euros corresponds mainly to 25% of this difference. As mentioned in Note 1, on 22 December 2017, following the purchase by the Parent Company of the shares held by the Grupo Barceló of BAY, the Investment Contract was renewed, in which it was established, among other aspects, that the

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mentioned Deferred Taxes which were generated in non-monetary contributions of certain hotels in 2015 will be settled.

In addition, the investment contract establishes that the temporary difference which originated this deferred tax liability would disappear if BHM sold the BAY shares received in exchange for the hotels contributed before BAY sold the properties. Therefore, at the time BHM transferred BAY's shares, it should pay for the said deferred capital gain, that is, for the difference between the book value and the fiscal value of the shares, so that the deferred tax liability is not produced in the BAY head office if not assumed by BHM. For this reason, the Group has proceeded to withdraw the deferred associated deferred liabilities amounting to 1,622 thousand euros on 31 December 2017.

In addition, the amount of deferred tax liabilities not recognised at 31 December 2017, arising from taxable temporary differences arising from asset acquisitions that have not been considered to be business combinations, have amounted to EUR 1,640 thousand.

At 31 December 2017 and 31 December 2016 the details of the Parent Company's tax-loss carryforwards yet to be offset, after deducting those applied during the year, are as follows:

(Thousand euros)		
Year generated	2017	2016
2012	12,957	15,265
2013	1,856	1,856
2014(*)	42,096	42,096
2015(*)	18,604	18,604
Total	75,513	77,822

(*) Tax carryforwards generated following inclusion of the companies Hispania Real and Hispania Fides in the SOCIMI Tax Regime.

The tax-loss carryforwards yet to be offset by the rest of the companies in the Group are as follows:

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(Thousand euros)			
	Year generated	2017	2016
Group companies			
	2001	12	12
	2002	302	303
	2003	149	149
	2004	-	-
	2005	131	137
	2006	223	222
	2007	259	259
	2008	2,980	2,429
	2009	13,826	11,756
	2010	3,225	3,225
	2011	3,485	3,484
	2012	22,384	12,814
	2013	5,544	6,827
	2014	1,867	1,871
	2015	5,736	6,112
	2016	16,939	-
Total		77,062	49,600

14. INCOME AND EXPENSES

14.1 Rental income

The amount recognised under this heading at 31 December 2017 relates to rent income arising from the Group's business activity.

Net business revenue from the Group's ordinary activities is mainly concentrated in Madrid, Barcelona, Balearic Islands, Canary Islands and Andalusia, detailed as follows by business:

Activities	Thousand euros	
	2017	2016
Office building leases	21,765	18,836
Residential leases	5,158	6,249
Hotel leases	115,144	86,028
Total	142,067	111,113

Geographic markets	Thousand euros	
	2017	2016
Barcelona	7,313	8,670
Madrid	21,692	18,613
Canary Islands	84,793	64,689
Balearic Islands	19,095	13,656
Andalusia	9,377	5,485
Total	142,067	111,113

14.2 Services rendered

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The amount of EUR 14,508 thousand (31,754 thousand in 2016) in services rendered mainly relates to hotel and hotel management services of hotels under management.

14.3 Personnel Costs

Personnel costs are as follows:

	Thousand euros	
	2017	2016
Wages and salaries	(3,777)	(6,593)
Social Security paid by the Company	(1,549)	(1,993)
Severance payments	(67)	-
Total personnel costs	(5,393)	(8,586)

Group personnel mainly relate to employees engaging in hotel operations involving assets directly managed by the Group which have been classified as property, plant and equipment (see Note 7).

14.4 Other operating costs

Operating costs are broken down as follows:

	Thousand euros	
	2017	2016
Leases	1,584	874
Repairs and maintenance	3,328	3,061
Independent professional services	26,155	19,879
Insurance premiums	830	783
Banking and similar services	169	199
Advertising, propaganda and public relations	426	373
Supplies	3,008	2,564
Other services	3,375	4,604
Taxes	8,772	7,952
Changes in provisions for commercial operations (Note 9)	89	214
Total Other operating costs	47,736	40,503

The amount recognised under this heading is net of income accrued as a result of passing on expenses in the amount of EUR 5,307 thousand (EUR 5,002 thousand at 31 December 2016).

Independent professional services relate mainly to the management fee of Azora Gestión, S.G.I.I.C., S.A. of EUR 19,818 thousand (EUR 15,113 thousand in 2016).

14.5 Finance income

As a result of the completion of the creditors' arrangement of the dependent company Leading Hospitality in 2017, the Group has recognised financial income from the releases applied to the arrangement debts amounting to EUR 3,003 thousand.

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In addition, the rest of the amount recognised under this heading relates mainly to the interest earned on the Group's current account balances and fixed term deposits totalling EUR 490 thousand (EUR 332 thousand in 2016). EUR 2,086 thousand in 2015).

14.6 Financial costs

The breakdown of the finance costs is the following:

	Thousand euros	
	2017	2016
Loan origination expenses (Note 12.1)	1,760	1,705
Finance cost due to interest payable to credit institutions (Note 12.1)	11,060	11,849
Derivative interest	7,591	7,028
Hedge inefficiency (Note 12.2)	275	-
Other	408	339
Total	21,094	20,921

14.7 Other results

Following the acquisition of 23.9% of the shares of the Bay Hotels & Leisure SOCIMI, S.A. by the Parent Company to the Barceló group, both parties agreed to terminate the contract between the shareholders of the aforesaid company and the settlement of the special incentive to be paid to the Barceló entities included in said contract amounting to 27,500 thousand euros. The payment of this amount has been postponed and will be paid on 28 February 2018.

Additionally, and due to the agreements described in Note 9, the loss of 19,654 thousand euros corresponding to the cancellation of the guarantees which had been granted in the past year by the Barceló entities described in said note has been recorded.

On the other hand, this section includes the long-term provision of the Incentive Fee of Azora Gestión S.G.I.I.C, S.A. which on 31 December 2017 was recorded for the amount of 95,000 thousand euros as described in Note 15.

14.8 Related party transactions and balances

The Group has related party transactions associated with the fixed and variable management fee of Azora Gestión, S.G.I.I.C. of EUR 19,818 thousand (EUR 15,113 thousand in 2016) and of EUR 95,000 thousand respectively, of which EUR 5,346 thousand (EUR 4,467 thousand at 31 December 2016) and EUR 95,000 thousand remain outstanding at 31 December 2017.

In addition, the Group has had transactions pertaining to management services with Azzam Gestión Inmobiliaria S.L. amounting to EUR 349 thousand (EUR 532 thousand in 2016) of which EUR 96 thousand remain outstanding at 31 December 2017 (EUR 100 thousand at 31 December 2016).

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14.9 Profit/(loss) by company

The contributions by each company included in the scope of consolidation to the consolidated profit/(loss) for the period are as follows:

	31 December 2017	31 December 2016
	Thousand Euros	
Hispania Activos Inmobiliarios SOCIMI S.A.	(39,627)	88,110
Hespérides Bay, S.L.U.	22,626	30,673
Hospitia, S.L.U.	(389)	(454)
Hispania Hotel Management, S.L.U.	(363)	1,278
Leading Hospitality, S.L.U.	4,816	(404)
Subconsolidado Bay	156,461	209,708
Eco Resort San Blas, S.L.U. (*)	20,091	11,653
Club de Tenis Maspalomas, S.L.U.	109	(200)
Real Estate San Miguel, S.A.U.	3,742	1,357
Europroyectos Pitiusos, S.L.U.	(26)	2
Mangareva Development, S.L.U.	185	8,269
Sahara Propco, S.L.U.	81,258	8,982
Milenial Business 21, S.L.U.	(1)	-
Topaz Eurogroup, S.L.U.	(19)	-
Total	248,863	358,974

(*) The P&L earned by the company Eco Resort San Blas from 13 November to 31 December 2017 is included as part of the P&L of the subconsolidated company Bay (see note 1).

15. NON-CURRENT PROVISIONS

The breakdown of non-current provisions is as follows:

	31 December 2017	31 December 2016
	Thousand Euros	
Provision for variable remuneration payable to the Manager (Notes 14.7 and 14.8)	95,000	-
Other	739	719
Total	95,739	719

The Management's goal is that the profitability obtained since the flotation of Hispania until the end of the divestment period should exceed the internal rate of return established in the Management Agreement by 10%, which would mean that the Parent Company would have to assume the payment of Incentive Fees.

In accordance with what is set forth in the Management Agreement, the Incentive Fees shall only accrue against cash distributions received by the shareholders. Consequently, in no case will the Manager receive any payment for this item based on book calculations.

The distributions of funds may take place either by payment of dividends or by the return of the funds obtained from divestments. These divestments may be carried out via the sale

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of assets or via the sale of Parent Company shares, provided that this leads to a change of control thereof. Such distributions can take place throughout the effective term of the Management Contract, which expires on 14 March 2020.

The Management considers that, at the date of these annual accounts, and although there are still future factors and uncertainties beyond its control whose quantitative and time variations might significantly affect the amount of Incentive Fees, an outflow of funds for the Parent Company is likely to take place in the future, thus having recognised a provision of EUR 95,000 thousand.

This provision has been calculated on the basis of the following assumptions: (i) distributions of funds that have already been made by the date of these annual accounts, (ii) EPRA NNNNAV at 31 December 2017, (iii) dividends and other distributions expected to take place during 2017, (iv) future dividends (estimated as dividends expected in 2017 plus inflation).

Given that the payment of Incentive Fees can take place at any time during the effective period of the Management Agreement, the value of the provision has been estimated using the Expected Value Method in accordance with the valuation rule described in Note 4.10. For this purpose, six-monthly alternative scenarios from June 2018 until the end of the agreement have been considered, having allocated an equal probability to each date. Finally, the expected value obtained has been restated to present value using a pre-tax discount rate based on the cost of equity.

In this regard, the Management will continue to review these calculations at the end of each financial year, in principle applying a similar methodology, provided there are no reasons causing the Management to consider a change of methodology to improve the fairness of the calculation.

16. BUSINESS COMBINATIONS

2016:

During 2016 the following business combinations were carried out:

Acquisition of Real Estate San Miguel, S.A.U

On 9 June 2016 the Parent Company acquired 100% of the shares in the company Real Estate San Miguel, S.A.U, that owns three hotels in Ibiza and which in turn owns all of the shares representing the share capital of Europroyectos Pitiusos, S.L.U.

The assets and liabilities resulting from this acquisition and their consolidation into the Consolidated Annual Accounts are as follows:

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(Thousand euros)	Market value recognised in the acquisition
Intangible fixed assets	150
Property, plant and equipment	37,787
Deferred tax assets	209
Inventories	131
Trade receivables	860
Government Agencies	556
Other financial assets	43
Cash	1,251
Total Assets	40,987
Debts with credit institutions	(4,904)
Non-current debts	(3,178)
Other financial liabilities	(42)
Provisions	(53)
Suppliers	(990)
Personnel	(5)
Government Agencies	(299)
Customer prepayments	(1,111)
Deferred tax liabilities	(7,421)
Total liabilities	(18,003)
Total net assets at market value	22,984
Non-controlling interests	
Goodwill	477
Purchase price	23,461

Through this acquisition the Group has acquired Hotel Cartago, Club San Miguel and Hotel Galeón owned by Real Estate San Miguel, S.A. and 12 apartments owned by Europroyectos Pitiusos, S.L.

The goodwill of EUR 477 million mainly arises from the difference between the market value of the net assets and liabilities and the acquisition price of the company. The Group has recognised an impairment loss for all the goodwill, recognising the expense in the “Other profit/(loss)” heading on the consolidated income statement.

The profit contributed by this combination at 31 December 2016 amounted to EUR 1,359 thousand.

The Parent Company, in accordance with what was agreed in the sale agreement, has deposited EUR 2,500 thousand of the purchase price as a guarantee of performance of potential payment obligations which might arise for the sellers, of which EUR 1,300 thousand remain outstanding at 31 December 2017, correctly recognised in the heading “Other financial liabilities- Current and non-current debt” (EUR 2,500 thousand at 31 December 2016).

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Acquisition of Later Deroser, S.L.U

On 18 July 2016, the BAY group company acquired 100% of the shares in Later Deroser, S.L.U for EUR 8,434 thousand.

The assets and liabilities resulting from this acquisition and their consolidation in the consolidated annual accounts are as follows:

(Thousand Euros)	Market value recognised in the acquisition
Intangible assets	1
Investment property	12,873
Deferred tax assets	398
Inventories	32
Customers	647
Other debtors	37
Other current assets	17
Cash	200
Total Assets	14,205
Non-current bank borrowings	(2,225)
Current bank borrowings	(200)
Other financial liabilities	(150)
Trade and other accounts payable	(970)
Deferred tax liabilities	(2,226)
Total liabilities	(5,771)
Total net assets at market value	8,434
Amount paid	8,434

At the time of its acquisition, Later owned all of the assets and rights in its equity and, in particular, those related to the hotel activity of the establishment located in Portinatx (Ibiza), known as “Complejo Paradise Beach” comprising 135 registered properties. Later is also the beneficial owner of 4 additional registered properties located opposite Complejo Paradise Beach and of 6 registered properties which form the apartment complex in Carrer de Ses Formigues.

As for the bank debt contributed, this relates to 5 mortgage loans with a financial institution which were cancelled at the time of the purchase by BAY for a total amount of EUR 2,488 thousand.

A number of deferred tax assets arose from this transaction as a result of the differences between the market and tax values of the real estate assets.

The profit contributed in 2016 by this combination amounts to EUR 954 thousand. It is not possible to quantify the impact of having carried out this combination on first January as the businesses received concentrated their activity on hotel operations which on the combination date became leased assets.

Acquisition of Inversiones Inmobiliarias Oasis Resort, S.L.U

On 21 July 2016, the BAY Group company acquired 100% of the shares in the company

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Inversiones Inmobiliarias Oasis Resorts, S.L. (hereinafter “Oasis”) for EUR 27,956 thousand.

The assets and liabilities resulting from this acquisition and their consolidation in the consolidated annual accounts are as follows:

(Thousand Euros)	Market value recognised in the acquisition
Intangible assets	59
Investment property	28,000
Deferred tax assets	1,147
Inventories	59
Trade and other accounts receivable	1,522
Prepaid expenses	42
Cash	1,669
Total Assets	32,498
Non-current provisions	(138)
Sureties and Deposits	(7)
Deferred tax assets	(1,147)
Current provisions	(38)
Trade and other accounts payable	(2,663)
Total Liabilities	(3,993)
Total net assets at market value	28,504
Negative consolidation difference	(548)
Amount paid	27,956

At the time of acquisition, Oasis owned all of the equity, rights and obligations related to the hotel activity of Hotel Oasis Resort, located on the Island of Lanzarote.

By acquiring the shares, BAY gains control over the activity and business of Oasis and over all of the assets and rights which make up the Company’s equity.

A number of deferred tax liabilities arise from this transaction resulting from the differences between market and tax values of the real estate assets.

The profit contributed by this combination in 2016 amounted to EUR 5,051 thousand. It is not possible to quantify the impact of having carried out this combination on first January as the businesses received concentrated their activity on hotel operations which on the combination date became leased assets.

Purchase of Sáhara Propco, S.L.U

On 6 June 2016, the Parent Company agreed the sale of Sahara Propco, S.L.U. via a private contract. This purchase was subject to conditions precedent, which were met on 30 December 2016, resulting in the effective transfer of the ownership of the company shares and the date on which the business combination was carried out.

Via this business combination the Group acquired four hotels in the Canary Islands.

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(Thousand euros)	Market value recognised in acquisition
Investment property	88,985
Deferred tax assets	5,583
Outstanding payments from shareholders	20,774
Cash	2
Total Assets	115,344
Current debt	(15,241)
Deferred tax liabilities	(6,348)
Total Liabilities	(21,589)
Total net assets at market value	93,755
Non-controlling interests	-
Negative consolidation difference	(10,139)
Purchase price	83,616

The profit contributed by this combination at 31 December 2016 amounted to EUR 8,982 thousand.

The Parent Company still owed the purchase price for this business combination, amounting to EUR 1,500 thousand, recognised in the heading “Other financial liabilities- Current debt” on 31 December 2016, which were paid in 2017.

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17. REMUNERATION AND OTHER BENEFITS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Directors' remuneration

The remuneration earned in 2017 by the current members of the Board of Directors of the Parent Company for wage and salaries, incentives, per diems and other by-law stipulated emoluments amounted to EUR 440 thousand (EUR 440 thousand in 2016). Details of this remuneration are as follows:

	31 December 2017	31 December 2016
Remuneration paid to directors	Thousand Euros	
Director remuneration ¹⁾	310	310
Additional remuneration to the Executive Committee	50	50
Additional remuneration to the Audit and Control Committee	50	50
Additional remuneration to the Appointment and Remuneration Committee	30	30
Total	440	440

¹⁾ Includes the remuneration of the Parent Company's non-voting Secretary

At 31 December 2017 and 2016 the Directors had not been granted any loans or advance payments, and they had not received any security pledged for obligations assumed by them. None of the members of the Board of Directors or persons related to them carry out any activities, either on their own behalf or that of a third party, that could give rise to effective actual or potential competition with the Company or which in any other manner would place the Directors in permanent conflict with the interests of the Company.

In 2017 the remuneration for natural persons representing the Parent Company in the boards of directors of the companies of which the Parent Company is the legal administrator has amounted to 0 euros (EUR 0 in 2016).

During 2017 the cost of insurance premiums of civil liability policies for the Directors to cover against damages caused while in office amounted to EUR 35 thousand (EUR 39 thousand in 2016).

Directors must report to the Board any direct or indirect conflict that could arise with respect to the Company's interests. If the conflict relates to a transaction, the director may not carry out that transaction without the approval of the Board.

During 2017 there were 2 occasions in which two of the Directors have abstained from intervening and voting in the deliberation of matters before the Board of Directors or its Committees (3 occasions in 2016).

The breakdown of the 2 cases in 2017 is as follows: (i) on one occasion it was due to matters relating to the strategic review of Hispania, and in the other (ii) relating to the acquisition operation of the Guadalmina Beach Club.

The breakdown of the 3 cases in 2016 was as follows: (i) on one occasion it was due to matters relation to a service engagement proposal, in another (ii) to the execution of transactions involving a company in which two of the directors had an interest and, finally,

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(iii) with regard to matters discussed by the Board of Directors on the Valuation Proposal presented by the Manager.

18. RISK MANAGEMENT POLICY

The financial risk management policies in the sector in which the Group operates are determined mainly through the analysis of investment projects, the management of the buildings and the state of the financial markets:

- Credit risk: the Group's credit risk is due mainly to the risk of lessees defaulting on their contractually agreed-upon rent payments. Each company manages this risk by screening lessees and the type of leases arranged which envisage upfront rental payments and legal and additional financial guarantees that will cover any non-payment. The Group also maintains current cash and deposits (Note 10) with highly creditworthy financial institutions.

-Liquidity risk: To date, this risk is considered as non-significant since the Group completed the first phase of the financing structure necessary to undertake its business plan. (See Note 21).
- Market risk: One of the main risks faced by the Group is market risk arising from buildings that are not occupied or unfavourable renegotiations when a lease expires. This risk would reduce the Company's income and have a negative effect on the value of the assets. This risk is mitigated at the Group through active property management aimed at obtaining the most value possible for the buildings by implementing an investment policy that will ensure the best possible positioning of these buildings and the screening of lessees.
- Interest rate risk: At 31 December 2017, the Group has external financing mainly accruing at a variable rate indexed to the Euribor (see Note 12). The amount drawn down from that financing at 31 December 2017 amounted to EUR 646,794 thousand (including EUR 10,961 thousand that at 31 December 2017 have been classified as liabilities related to non-current assets held for sale in Note 19) (EUR 629,576 thousand at 31 December 2016), for which there were cash flow hedges that would cover part of the interest rate risk for a notional amount of EUR 586,837 thousand (including EUR 10,824 thousand pertaining to the notional of the derivative acquired for the Aurelio Menéndez office building, classified at 31 December 2017 as a liability related to non-current assets held for sale) (EUR 604,776 thousand at 31 December 2016). Therefore, provided that the same levels had been drawn down at the aforementioned date, a variation of 1% in the interest rate of reference would give rise to an annual change in the finance cost in the same direction, amounting to EUR 600 thousand (EUR 248 thousand at 31 December 2016).

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Fair value hierarchy

All assets and liabilities measured at fair value are classified into the following tiers in accordance with the inputs used in the measurement:

- Tier 1 Use of quoted prices for identical assets or liabilities in active markets (no adjustment)
- Tier 2 Use of inputs (that are not quoted prices in tier 1) that may be directly or indirectly observed.
- Tier 3 Use of non-observable inputs.

	Thousand euros			
	31/12/2017	Tier 1	Tier 2	Tier 3
Assets measured at fair value				
Property, plant and equipment	65,220	-	-	65,220
Investment property (*)	2,394,200	-	-	2,394,200
Liabilities measured at fair value				
Hedging derivatives (**)	21,208	-	21,208	-

(*) The amount in this item includes EUR 37,500 thousand that at 31 December 2017 have been classified as non-current assets held for sale (Note 19).

(**) The amount in this item includes EUR 175 thousand which at 31 December 2017 have been classified as liabilities related to non-current assets held for sale (see Note 19).

	Thousand euros			
	31/12/2016	Tier 1	Tier 2	Tier 3
Assets measured at fair value				
Property, plant and equipment	113,210	-	-	113,210
Investment property (*)	1,888,418	-	-	1,888,418
Liabilities measured at fair value				
Hedging derivatives (**)	30,706	-	30,706	-

The Group does not have financial instruments whose fair value cannot be measured and there have been no transfers between the various tiers of the hierarchy of financial instruments measured at fair value at the close of 2017 and 2016.

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19. NON-CURRENT ASSETS HELD FOR SALE

On 23 June 2017 the Parent Company recorded a significant event when it reported that an agreement had been reached for the sale of its office building Aurelio Menéndez, for a total price of EUR 37,500 thousand. At 31 December 2017, the building met the conditions required to be available for sale, and accordingly the Directors of the Parent Company decided to classify the asset along with the liabilities related thereto as a disposable asset held for sale at the end of the financial year.

(thousands of euros)	31 December 2017
Property investment (Note 8)	37,500
Non-current assets held for Sale	37,500
Bank borrowings	(10,851)
Hedging derivatives	(180)
Deferred tax liabilities (Note 13)	(2,600)
Customer prepayments	(7,600)
Liabilities related to assets held for sale	(21,231)
Net assets directly associated with the disposable group	16,269

The Group has kept this asset mortgaged as a guarantee of a loan for a principal amount of Euros 10,961 thousand. The loan accrues interest at market rates. The Group has received EUR 7,600 thousand as a prepayment for said sale operation.

20. OTHER INFORMATION

20.1 Personnel structure

The breakdown of persons employed by the Group by category is as follows:

	Number of employees at end of the year			Average number of employees during the year	Average number of persons with disability employed
	Men	Women	Total		
31 December 2017					
Administrative staff	23	19	42	45	-
Production personnel	31	3	34	73	3
Total	54	22	76	118	3

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The new Capital Companies Act requirement described in article 260, requires companies to report the average number of employees in the year with a disability grade of 33% or above, indicating the categories to which they belong. Accordingly, the Group reports 3, (3 in 2016).

	Number of employees at end of the year			Average number of employees during the year	Average number of persons with disability employed
	Men	Women	Total		
31 December 2016					
Administrative staff	31	29	60	68	-
Production personnel	87	32	119	198	3
Total	118	61	179	266	3

As is mentioned in Note 14.3, Group personnel mainly engages in the operation of hotel services at the assets under the direct management of the Group, which have been classified as property, plant and equipment (see Note 7).

20.2 Audit fees

The audit fees accrued during the year for services provided by the accounts auditor are:

	2017	2016
	Thousands of Euros	
Auditing and related services	506	623
Auditing services	436	364
Other related services	30	9
Other verification services	40	250
Consulting services	80	32
Other services	80	32
Tax advisory services	-	-
Total	586	655

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20.3 Information regarding the average payment period for suppliers

The information regarding the average payment period for suppliers is as follows:

(Days)	2017	2016
Average payment period for suppliers	50	50
Ratio of transactions paid	60%	90%
Ratio of transactions outstanding	40%	10%

(Thousands of euros)	2017	2016
Total payments made	84,837	178,336
Total payments outstanding	55,893	18,778

20.4 Other commitments

The Group has a commitment with the Barceló Group to acquire the Barceló Marbella Hotel for a maximum amount of EUR 19,000 thousand plus indirect taxes, subject to compliance of the review process or due diligence on the Hotel. This purchase must be made before 28 February 2018.

21. SUBSEQUENT EVENTS

On 14 February 2018, the Group reported the exercise of the purchase option which it had signed in 2017 for the acquisition of seven hotels located in the Balearic and Canary Islands described in Note 9.

On 7 February 2018, the Group began to study the alternatives available to obtain exclusion from trading of the shares of the BAY group company of the M.A.B., including in particular the possibility of requesting a direct exclusion from this market or, in its absence, the possibility of undertaking a merger with the Parent Company. It was agreed to introduce a sustained purchase order in the market, at a price of seven euros and seventy-five cents (7.75 euros) per share addressed to all BAY shareholders other than the Parent Company.

On 20 February 2018, the purchase of 100% of the shares in the hands of the minority shareholders was executed through GVC Gaesco Beka, S.V., S.A., Hispania Activos Inmobiliarios SOCIMI, S.A. achieving 100% ownership of BAY.

On 26 February 2018, the Board of Directors of the Parent Company advised that it intends to approve a dividend distribution on account of the 2018 result for the amount of 45,000 thousand euros in the next Board to be held on 2 March 2018. The payment of the mentioned interim dividend would take effect on 5 March 2018.

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As of February 26, 2018, the Parent Company has signed with a number of national and international financial institutions a corporative financing without mortgage security with an agreed maturity between 4 and 5 years and for a maximum amount of 745,384 thousand euros. This corporative financing has the following facilities:

- (i) Facilities A1 and A2 immediately drawn down for a total amount of 250,000 thousand euros. This facility will be used for the payment of the acquisition of the 23.9% of the Bay shares and accessory payment for the settlement of the purchase option of seven hotels located in Balearic and Canary Island.
- (ii) Facility A3 immediately drawn down for a C. amount of 220,838 thousand euros. This facility will be used for the repayment of the amounts due related to the Bay Subgroup mortgage loan dated July 31, 2015.
- (iii) Facility B1 for a c. amount of 225,000 thousand euros. This facility will be used for the financing the capital expenditure of the group.
- (iv) Facility B2 for a c. amount of 50,000 thousand euros. This facility will be used to the Group corporate needs.

Facilities B1 and B2 will be available once facilities A1, A2 and A3 have been repaid. The Group intends to issue a corporate bond or an alternative financing in the next months to make repayment.

Financial contract establishes certain ratios which the Group has to ensure throughout the life of the contract.

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HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND DEPENDENT COMPANIES

Consolidated management report corresponding to the year ended 31 December 2017

1. Macroeconomic environment and analysis by activity sector

The European Commission (EC) has increased the growth rate of the Spanish Gross Domestic Product (GDP) for the fiscal year 2018 to 2.6%, after recording a year-on-year growth of 3.1% during 2017.

The European Commission has revised upwards its forecasts regarding Spain after observing an interannual growth of 0.8% in the third quarter of 2017 and 0.7% in the fourth quarter, growth from private consumption, investment in equipment and exports.

For 2019, the European Commission expects a 2.1% growth, pending the resolution of events in Catalonia.

Private consumption is still expected to remain as the main driver of Spanish GDP's growth, although it is expected to register a more normalised growth as job creation moderates.

Meanwhile, the European Commission expects that other factors which supported the family consumption's growth in recent years, lose some weight. Such as the improvement in financial conditions or exports that, despite their sustained growth, are expected to continue growing faster than exports.

The upward forecasts revision for Spain is contextualized in a solid and lasting expansion in the European Union, whose growth rates, both in the euro area and the EU, have exceeded expectations. These satisfactory results are expected to continue during 2018 and 2019, with growth rates of 2.3% and 2.0% in the euro area and in the EU, respectively.

In this context, Spain will continue to be one of the main drivers of growth in the EU, together with Germany, which will grow 2.3% in 2018 and 2.1% in 2019; France, is expected to grow by 2% this year and 1.8% in 2019; Netherlands that will increase its GDP by 2.9% in 2018 and 2.5% in 2019, and Italy that will increase by 1.5% and 1.2%, respectively.

Finally, the European Commission believes that the average inflation in Spain will be around 1.6% in 2018.

Hotel industry

During the 2017 fiscal year, the Tourist GDP registered a growth of 4.4%, that is eight years in a row of growth above that registered by the Spanish GDP. This sector represents more than 11.5% of the Spanish GDP, with 134 billion euro according to the global Exceltur 2017 report. Therefore, the tourism sector is the main driver of economic growth and employment generation in Spain. The positive tourist year 2017 translates into a 6.3% improvement in

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the results of Spanish tourism companies compared to 2016, according to Exceltur's tourist business climate survey.

On the other hand, according to an Irea report, hotel investment has reached 3.9 billion euro, exceeding by 79% the investment made in 2016 of 2.2 billion euro.

The number of tourists who arrived in Spain during fiscal year 2017 has increased by 9% compared to 2016, reaching a total of almost 82 million tourists. Among the 82 million tourists who arrived in Spain during this period, 87% did so for leisure and holiday purposes. Regarding the organisation of the trip, 71% of tourists choose not to purchase tourist packages, in line with the new paradigm of the industry by which the final tourist prefers to contract the different items of their trip separately (flights, accommodation, etc).

Additionally, it is worth noting the growth in total spending of foreign tourists during 2017, which has gone up by 12%, exceeding 86,8 billion euros. In terms of average expenditure per person, the figure stands at 1,062 euro, representing a 3.3% increase.

During 2017 there has been a significant increase in tourists from America, thus increasing the diversity of tourism in Spain. It should be noted that despite the referendum in the United Kingdom, British tourists have recorded a 6% growth compared to 2016 as well as an 8% increase in total spending compared to the previous year. On the other hand, the rest of the markets continue registering remarkable increases, like the Swiss market with a growth of 21%, the Nordic market with 14%, or the Russian market with 14%. Germany continues to be one of the main tourism originators for Spain, with increases of 6% and almost 12 million tourists.

There has been a certain recovery during the period of competing destinations in the Mediterranean, mainly due to the recovery of tourism from Asian countries in its surroundings and Eastern Europe. In Turkey, Russia's recovery represents 55% of the total recovery thanks to the lifting of the restrictions imposed on Russian tourists in 2016. Central European countries (main originators of tourism to Spain) continue registering a decrease in the number of tourists like Germany (-8%), or the United Kingdom (-3%) (Data by the Turkish National Institute).

According to the latest data reported by INE for 2017, a RevPar growth of 6% was observed in hotels in the Canary Islands and 8% in the Balearic Islands. These increases in profitability in holiday hotels, especially on the coast, are mainly due to an increase in prices, which recorded an average growth of 7% in the Canary Islands and in the Balearic Islands compared to the same period in 2016.

Office market

According to the JLL report, the office market has continued its upward trend during 2017, registering an inter-year increase of 21% in Spain in total leased surface. This increase is especially evident in Madrid and Barcelona, where the volume of contracts in 2017 has exceeded 630,000 sqm in Madrid which represents an inter-year increase of 28%, and 340,000 sqm in Barcelona, representing an inter-year increase of 4%.

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The office availability rate in Madrid and Barcelona has continued to fall, dropping to 10.3% in Madrid and 7.5% in Barcelona in the fourth quarter of the year, according to JLL data.

Prime rentals have continued to increase in both cities during 2017. According to the Savills Aguirre Newman report, continuing its upward trend, Madrid started increasing in 2013, reaching €30/sqm/month at the end of 2017, representing an inter-year increase of 7.4%. In Barcelona, the inter-year increase has been 12.9%, with average rents of €19/sqm/month.

According to the JLL report, from an investing point of view, a total investment of 2.2 billion euros was reached in 2017, almost 20% less than the previous year, basically due to lack of product. Meanwhile, yields have remained stable at 3.75% in Madrid and 4% in Barcelona.

Residential market

A total of 464,423 residences were sold in Spain during the financial year 2017, representing an increase of 14.6% compared to 2016.

According to the latest data reported by Idealista for financial year 2017, the sales price for housing in Barcelona was €4,284/sqm, reaching an inter-year rate of increase of 10.4%, while Madrid recorded an inter-year increase of 12.5%, reaching an average price of €3,285/sqm.

As for price development in the rental sector, the average price in Spain is €9.7/sqm/month, registering an annual increase of 18.4%. The annual increase in Madrid was 7.9%, recording an average rental rate of €15.5/sqm. As for Barcelona, it maintained its leading position as the most expensive city in Spain despite having recorded a 2.4% drop in prices, with an average rent of €17.50/sqm/ month.

2. Organisational structure and operation of the Group

The Group is managed externally based on the contract signed in 2014 with the company Azora Gestión SGIIC, S.A.

See section C of the Corporate Governance Report regarding the Structure of Group Management.

3. Evolution of the Group's activity

Main corporate operations

- On 7 April 2017, the Group's Parent Company acquired all of the shares of the company Milenial Business 21, SLU (hereinafter, "Milenial") and 10% of the shares of Topaz Eurogroup, SL (hereinafter "Topaz"). The subsidiary Milenial owns the remaining 90% of Topaz's interests. Topaz owns a piece of land in the municipality of Corralejo (Fuerteventura).

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- On 28 June 2017, the subsidiary BAY acquires all the shares of the entity Armadores de Puerto Rico, S.A.U. This company owns a plot of land in Lanzarote on which the construction of a hotel is planned.
- On 22 December 2017, the Parent Company of the Group acquired 23.9% of the shareholding in the share capital of BAY for a total amount of 139,422 thousand euros, of which the remainder has been outstanding. of payment 59,422 thousand euros on 31 December 2017. On the occasion of the transaction, the parties agreed to proceed with the termination of the Shareholder Agreement relating to BAY and to novate certain terms of the Investment Contract subscribed in the context of the entry of Hispania in the social capital of BAY. The Parent Company constituted a pledge in rem on the 22,314,828 shares acquired to guarantee the fulfilment of certain obligations assumed in such transaction, which must be fulfilled by both Hispania and BAY, as applicable, before or on the 28 February 2018

The main aspects to be noted in the Consolidated Financial Statements at the end of 2017 are:

- The Group's investment activity, which involved the acquisition of assets during the year, which led to an increase in the GAV (Gross Value of Assets) of the group of 88 million. The main assets acquired in 2017 were the following: NH Málaga, Terrenos Las Mirandas, Terrenos La Mareta, Hotel Selomar, Hotel Fergus Tobago.
- The Group obtained a positive result after taxes of 248,863 thousand euros.

This result is a consequence of the profit obtained in the management of the Group's real estate assets, as well as:

- The revaluation of the Group's real estate assets demonstrated by the valuation carried out by CBRE based on the RICS methodology on 31 December 2017, which had a positive impact on the consolidated income statement in the amount of 310,181 thousand euros.
- The result from the sale of assets which has a positive impact on the consolidated profit and loss account in the amount of 3,418 thousand euros.
- The provision of the incentive fees of the managing company and the impact of the closing of the operation with the Barceló Group resulted in a negative impact of 142,154 thousand euros.

The operating expenses correspond to the management and operating expenses of the real estate assets, as well as to those of the operation of the Group, including the management fee and the estimate of the incentive commission in favour of Azora Gestión SGIIC, S.A. and the expenses associated with the investment processes which have not been incorporated as a higher value of said assets.

The financial result amounts to -16,924 thousand euros, comes mainly from the net of the Group's financing expenses, from the income from financial investments of the surplus

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cash, as well as the income from the withdrawal of the bankruptcy debt of the Group company. Leading Hospitality, S.L.U.

The Companies tax cost amounts to -7,480 million. This result is a consequence of the result of the year, the changes in deferred assets and liabilities of the Group companies that do not affect the Socimi regime, as well as the fiscal impact of the sale of assets which have not fulfilled the permanence period established in the Socimi regulation.

4. Foreseeable evolution of the market and the Group

Hotel industry

According to the Exceltur report of 2017, it is estimated that fiscal year 2018 will continue its upward trend. Despite the potential impact of the institutional conflict in Catalonia and the slight recovery of competing destinations in the Eastern Mediterranean region, international tourism demand in Spain will continue to grow during the next year against a backdrop of strengthening European economies, of the improvement of the economy of long distance markets (North America, Latin America and Asia) and increased air connectivity.

A new growth of Tourism GDP of 3.3% is estimated for 2018, exceeding once again the forecast for the Spanish economy with 2.4%. This growth of almost 100 basic point above the Spanish economy would be the ninth consecutive year in which Tourism GDP exceeds economic growth in Spain.

A positive economic scenario is also expected for Spanish households and companies, which will benefit Spanish tourist consumption in their travels. Most Spanish tourism entrepreneurs expect another improvement in their results and sales during 2018, with job creation and price recovery, although at more moderate rates than in 2017.

Office Market

According to the report by Savills Aguirre Newman, during 2018 more than 90,000sqm will be added to the market in Madrid on new construction surface, while the rehabilitation of more than 110,000sqm is expected, of which 63% are currently available. The good forecasts will continue in 2019 with an estimate of new stock of more than 220,000sqm and a rehabilitation of more than 110,000sqm with 64% available.

On the Barcelona side, the new offer will reach more than 300,000sqm over the next two years, already registering an occupancy commitment of 64% of the new surface available in 2018.

Residential industry

Based on the BBVA report on the real estate market, the purchase and sale of residences is expected to increase by about 6% during 2018, reaching almost 550,000 transactions.

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Construction activity will continue to respond to the positive development of the demand. An increase of construction permits of 16% is expected in 2018, translating into 92,000 new housing construction permits.

As for sales prices in 2018, an increase of around 5% is expected, given the still reduced offer of newly completed units.

5. Information about the average period of payment to suppliers

At the closing date, the Group had an outstanding amount of more than 60 days of 0 thousand euros.

6. Risk control and management systems

See section E of the Annual Corporate Governance Report for the year 2017 and Note 18 of the consolidated annual accounts of Hispania Activos Inmobiliarios SOCIMI, S.A.

7. Research and development activities

As a result of the activities of the Group and its structure, no research and development activities are carried out.

8. Own shares

See Note 11 to the accompanying consolidated annual accounts.

9. Subsequent events

See Note 21 to the accompanying consolidated financial statements.

10. Annual Corporate Governance Report

For the purposes of article 540 of the Capital Companies Act, it is noted that the Annual Corporate Governance Report for 2017 is part of this Management Report and is included in it as a separate section.

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC COMPANIES

ISSUER'S IDENTIFICATION DETAILS

YEAR-END DATE

31/12/2017

C.I.F. (SPANISH TAX IDENTIFICATION No)

A86919271

COMPANY NAME

HISPANIA ACTIVOS INMOBILIARIOS, S.A.

REGISTERED OFFICE

C/ SERRANO, 30 - 2º IZQ. 28001 MADRID

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ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table regarding company share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
23/12/2016	109,169,542.00	109,169,542	109,169,542

Indicate whether there are several classes of shares with different associated rights:

Yes

No

A.2 Breakdown of direct and indirect owners of significant shareholdings in your company at the end of the financial year, excluding board members:

Shareholder name or company name	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
BANK OF MONTREAL	0	3,290,794	3.01%
TAMERLANE, S.A.R.L.	6,542,530	0	5.99%
FMR LLC	0	7,653,876	7.01%
BW GESTAO DE INVESTIMENTOS LTDA	0	3,979,229	3.64%
SOROS FUND MANAGEMENT LLC	0	18,207,296	16.68%
BLACKROCK INC.	0	3,597,135	3.29%
AXA INVESTMENTS MANAGEMENT GROUP	0	3,312,204	3.03%

Name or company name of indirect shareholders	Via: direct owners of direct shareholdings	Number of voting rights
BANK OF MONTREAL	THAMES RIVER CAPITAL LLP	3,290,794
FMR LLC	FMR CO., INC	5,425,726
FMR LLC	OTROS	2,228,150
BW GESTAO DE INVESTIMENTOS LTDA	NOVO VISEU FUNDO DE INVESTIMENTO MULTIMERCADO	3.979.229
SOROS FUND MANAGEMENT LLC	QP SFM CAPITAL HOLDING LIMITED	13,872,174
SOROS FUND MANAGEMENT LLC	QPB HOLDINGS, LTD	4,335,122
BLACKROCK INC.	LENT SECURITIES	10,916
BLACKROCK INC.	BLACKROCK INC.	3,586,219
AXA INVESTMENTS MANAGEMENT GROUP	AXA INVESTMENTS MANAGEMENT GROUP	3,312,204

Indicate most significant movements in shareholding structure that have taken place during the financial year:

Shareholder name or company	Date of operation	Description of operation
AXA INVESTMENTS	25/02/2017	3% of share capital has been exceeded

A.3 Complete the following tables regarding members of the board of directors of the company holding company share voting rights:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JOAQUÍN AYUSO GARCÍA	13,125	0	0.01%
MR. RAFAEL MIRANDA ROBREDO	21,858	0	0.02%
MR. LUIS ALBERTO MAÑAS ANTÓN	13,125	0	0.01%
% total voting rights held by board of directors			0.04%

Complete the following tables regarding members of the board of directors of the company holding company share rights.

A.4 Indicate, as the case may be, the relationships of a family, commercial, contractual or corporate nature that exist between the holders of significant shareholdings, to the extent that the company is aware of such relationships, unless these are of little relevance or stemming from ordinary business operations:

A.5 Indicate, as the case may be, the relationships of a family, commercial, contractual or corporate nature that exist between the holders of significant shareholdings and the company and/or its group, unless these are of little relevance or stemming from ordinary business operations:

A.6 Indicate whether any shareholders' agreements have been reported to the company which may affect it according to what is set forth in articles 530 and 531 of the Capital Companies Act. If any, provide a brief description thereof and a list of shareholders bound by such an agreement:

Yes

No

Indicate whether the company is aware of the existence of any concerted actions between its shareholders. If any, please provide a brief description:

Yes

No

In the event of any amendment or break of such agreements or concerted actions having taken place, please mention this expressly:

No amendments or breaks of agreements or concerted actions have taken place

A.7 Indicate whether any natural or legal person exercises or might exercise control over the company in accordance with article 4 of the Securities Market Act. If any, please provide identification:

Yes

No

Observations

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

At the end of the financial year:

Number of direct shares	Number of indirect shares (*)	% total of share capital
198,006	0	0.18%

(*) Via:

Significant variations, in accordance with what is set forth in Royal Decree 1362/2007, that have taken place during the financial year:

Please explain significant variations
N/A

A.9 Details on the terms and conditions of the mandate in force of the shareholders' meeting to the board of directors to issue, repurchase or sell treasury shares:

On 6 April 2017 the General Meeting of Shareholders agreed to expressly authorise the Board of Directors to acquire treasury shares, in accordance with the limits and criteria set forth in the Capital Companies Act, subject to the following conditions:

- a) Acquisitions may be made directly by the Company or indirectly via Group companies, and may be formalised, once or on several occasions, via purchase/sale, swap or any other legally permitted transaction.
- b) The nominal value of the shares to be purchased, added, as the case may be, to the value of the shares already held, whether directly or indirectly, shall not exceed the maximum percentage legally permitted from time to time.
- c) The minimum purchase price of the shares shall be the nominal value thereof and the maximum price shall be the highest between (i) the weighted average price of the Company shares in the trading session immediately prior to that in which the transaction is to take place, as said price may be published in the Official Trading Gazette of the Madrid Stock Exchange, or (ii) 105% of the price of the Company shares in the continuous market at the time of acquisition.
- d) The maximum period of validity of the authorisation shall be five (5) years after reaching this agreement.

On the other hand, it was agreed to expressly authorise the Board of Directors to, in turn, delegate to the Executive Committee or any of the members of the Board of Directors, pursuant to what is set forth in Article 249 bis) of the Capital Companies Act, any delegable powers granted to them under this agreement.

In accordance with the terms agreed by the General Meeting, this authorisation shall extend to the potential acquisition of Company shares by any of its subsidiaries. In addition, it has been expressly set forth that treasury shares acquired pursuant to this authorisation may be used for sale or amortisation thereof.

A.9. bis Estimated floating capital:

	%
Estimated Floating Capital	99.82

A.10 Indicate whether there are any restrictions on the transferability of shares and/or any restriction on voting rights. Specifically report the existence of any kind of restriction which may hinder the taking of control by the company via the acquisition of its shares in the market.

Yes No

A.11 Indicate whether the general meeting has agreed to take neutralisation measures in the face of a takeover bid pursuant to what is set forth in Law 6/2007.

Yes No

If any, please explain approved measures and the terms in which the inefficiency of the restrictions will take place:

A.12 Indicate whether the company has issued shares that are not traded on a community regulated market.

Yes

No

As the case may be, please indicate the various share classes and, for each share class, the rights and obligations granted.

B GENERAL MEETING

B.1 Indicate and, if applicable, provide details of, the existence of any difference with the minimum quorum levels set forth in the Capital Companies Act with regard to the established general meeting quorum.

Yes

No

B.2 Indicate and, if applicable, provide details of, the existence of differences with the system set forth in the Capital Companies Act for the adoption of company resolutions:

Yes

No

Describe any differences from the system set forth in the Capital Companies Act.

B.3 Indicate rules applicable to the modification of articles of association of the company. Specifically, indicate majorities required for the modification of the articles of association as well as, as the case may be, any rules in place to protect shareholder rights in the event of a modification of the articles of association.

In order for the General Meeting to validly agree any modification of the Articles of Association, including capital increase and reduction, at first summons, the attendance of shareholders owning at least fifty percent of the voting capital subscribed will be required. At second summons, the attendance of twenty-five percent of the voting capital subscribed shall suffice. If the present or represented capital should exceed fifty percent, the agreement may be reached by absolute majority. However, when at second summons the attendance of shareholders representing twenty-five percent of the voting capital not reaching fifty percent shall require the vote in favour of two thirds of the capital, present or represented, in the General Meeting.

When the modification of the Articles of Association should involve obligations for the shareholders, the consent of the affected parties must be obtained for such an agreement to be reached.

Every Article or groups of Articles of the Articles of Association with their own autonomy shall be subject to separate voting.

In accordance with what is set forth in Article 286 of the Capital Companies Act, the directors or, if applicable, the shareholders presenting the proposal, must draft the full text of the statutory modification being proposed and a written report supporting said proposal. In addition, in accordance with what is set forth in Article 287 of the Capital Companies Act, they must clearly explain the items to be modified and mention the right of every shareholder to examine the full text of the proposed modification and report thereon at the corporate address, as well as request that said documents are delivered or sent free of charge. In addition, and in application of Article 518 of the Capital Companies Act, as of the publication of the summons notice to the date on which said General Meeting is held, the Company must uninterruptedly publish on the corporate website the full text of the proposed modification and supporting report.

B.4 Indicate the details of attendance to the general meetings held in the financial year to which this report refers and that of the previous year:

Date of General Meeting	Attendance details				
	% physical presence	% represented	% absentee ballot		Total
			Electronic ballot	Other	
05/05/2016	0.29%	71.98%	1.86%	0.00%	74.13%
06/04/2017	0.09%	69.70%	3.13%	0.00%	72.92%

B.5 Indicate whether there is any statutory modification that establishes a minimum number of shares to attend the general meeting:

Yes

No

Number of shares required to attend the general meeting	1,000
---	-------

B.6 Section removed.

B.7 Indicate the address and means of access within the company website to information on corporate governance and other information on general meetings that must be made available to the shareholders via the Company web page.

Corporate governance: <http://www.hispania.es/gobierno-corporativo/>
 Information on General Meetings: <http://www.hispania.es/junta-general-de-accionistas/>

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors set forth in the articles of association:

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table with the board members:

Name or company name of director	Representative	Director category	Office in Board	Date of first appointment	Date of last appointment	Election procedure
MR. JOAQUÍN AYUSO GARCÍA		Independent	DIRECTOR	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. RAFAEL MIRANDA ROBREDO		Independent	CHAIRMAN	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MS. M ^a CONCEPCIÓN OSÁCAR GARAICOECHEA		External	DIRECTOR	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. FERNANDO GUMUZIO IÑIGUEZ DE ONZOÑO		External	DIRECTOR	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. JOSÉ PEDRO PÉREZ-LLORCA		Independent	DIRECTOR	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. LUIS ALBERTO MAÑAS ANTÓN		Independent	DIRECTOR	18/02/2014	05/05/2016	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR. BENJAMIN D. BARNETT		Proprietary director	DIRECTOR	06/04/2017	06/04/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Total number of directors	7
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Indicate any dismissals that have taken place in the board of directors during the period subject to reporting:

C.1.3 Complete the following tables on the board members and their various categories:

EXECUTIVE DIRECTORS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Name or company name of significant shareholder which represents or has proposed its appointment
MR. BENJAMIN D. BARNETT	SOROS FUND MANAGEMENT LLC

Total number of proprietary directors	1
% of total directors	14.29%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director:

MR. JOAQUÍN AYUSO GARCÍA

Profile:

Mr. Joaquín Ayuso García holds an Engineering of roads, canals and ports Master (1980).

Mr. Joaquín Ayuso García has been a member of the Board of Directors of Ferrovial, S.A. since 2002 and currently deputy Chairman of said company. He has over 30 years' experience in the company, from Managing Director of building trade, Deputy Chairman of Cintra, S.A. and CEO of the Group.

Mr. Joaquín Ayuso García is also a Director of Bankia, S.A. and of National Express PLC, Chairman of the Board of AUTOPISTA de la Costa del Sol, S.A. (AUSOL), member of the Advisory Board of the "Benjamin Franklin" University Research Institute of North American Studies of the University of Alcalá de Henares of Madrid and of the Advisory Board of Transyt (Transport Research Centre of the E.T.S.I. Caminos, Canales y Puertos), member of the Management Board of the Círculo de Empresarios and member of the Advisory Board for Spain of A.T. Kearney, S.A. In addition, he has been a Director of Holcim España, S.A., BAA (UK), Budimex (Poland) and ETR 407 (Canada).

Name or company name of director:

MR. RAFAEL MIRANDA ROBREDO

Profile:

Mr. Rafael Miranda Robredo holds an industrial engineering degree from the University of Comillas (1973) and a Master's degree in business administration from the Instituto de Organización Industrial (E.O.I.).

He has longstanding business and institutional experience in Spain, Europe and Latin America, currently chairman of Acerinox S.A., as well as of the Asociación para el Progreso de la Dirección (APD), of the Spanish Board of the INSEAD of Fontainebleu and Honorary chairman of Eurelectric (Association of European electrical companies).

He is also a member of several Boards of Saica S.A., Brookfield Asset Management (Canada), A.T. Kearney and Banco de Sabadell Urquijo.

He has over 40 years' professional experience, including 23 years as Managing Director and Chief Executive Officer of Endesa, from 1987 to 2009. He has held senior management positions in Tudor S.A. (11 years) and Campofrio (3 years), having held throughout his professional career a large number of positions as Chairman and Director of companies and institutions in Spain, Europe and Latin America.

Name or company name of director:

MR. JOSÉ PEDRO PÉREZ-LLORCA

Profile:

Mr. José Pedro Pérez-Llorca y Rodrigo holds a Law degree (national degree award) from the Universidad Complutense de Madrid (1963).

Mr. José Pedro Pérez-Llorca y Rodrigo is a renowned arbitrator and attorney, having been involved in both national and international proceedings, and in transactions affecting both Spanish and multinational companies.

As a diplomat and legal counsel for the Parliament, Mr. José Pedro Pérez-Llorca y Rodrigo has played a significant role in Spanish political life, as member of parliament for UCD, Chairman of the Centrist Parliamentary Group in the Congress and one of the seven founding fathers of the Spanish Constitution. He has been Minister of the Government Presidency and Parliamentary Relations, Minister of Territorial Administration and Minister of Foreign Affairs. During this last period, he began negotiations for Spanish membership of the European Union and driver of Spanish membership of NATO.

After having retired from political life he created the law firm, Pérez-Llorca, in 1982, where he is currently active in arbitration law.

Mr. José Pedro Pérez-Llorca y Rodrigo is a member of a number of professional associations, including the Arbitration Court of the Official Chamber of Commerce and Industry of Madrid, the Civil and Mercantile Arbitration Court (CIMA), the International Chamber of Commerce (CCI), the Institute of Private Law of Amsterdam and the London Court of International Arbitration (LCIA). He is also the Chairman of the Board of Trustees of the Prado Museum.

Name or company name of director:

MR. LUIS ALBERTO MAÑAS ANTÓN

Profile:

Mr. Luis Alberto Mañas Antón holds a degree in Law and Economics (with national end of degree award) from the Universidad Autónoma de Madrid (1983). He also holds a Master's degree and doctorate (PhD) in Economics from the University of Chicago (1986).

Since 2006 Mr. Mañas has managed several companies within the Grupo Arbitrage providing consulting and advisory services to the financial, energy and fund management sectors. Of note are the advisory services provided since 2007 to the Mexican Government (Ministry of the Treasury and Public Credit) and to Pemex in the reform of the oil industry.

He is a Director of MAB listed companies such as Promocinver SICAV and ARCA Select SICAV and independent Director of the insurance company Santa Lucía, S.A., insurance and reinsurance company.

Mr. Mañas boasts almost 20 years' executive experience in Repsol, where he held positions such as Chief Financial Officer and member of the Executive Committee, and general manager of Planning. He previously worked as an economist in Washington for the International Monetary Fund and the World Bank, as well as in the Treasury Ministry of Spain.

Total number of independent directors	4
% total of board	57.14%

Indicate whether any director classified as independent receives from the company, or from its group, any amount or benefit other than the director's remuneration, or has or has had, during the last financial year, a business relationship with the company or any company within the group, whether on his own behalf or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

Not applicable

As the case may be, include a reasoned statement from the board on the reasons why said director is deemed to be able to perform his duties as an independent director.

OTHER EXTERNAL DIRECTORS

Identification of the other external directors and reasons why they may not be considered proprietary or independent and their relationships, whether with the company, its executives or its shareholders:

Name or company name of the director:

MS. M^a CONCEPCIÓN OSÁCAR GARAICOECHEA

Company, executive or shareholder with whom she has a relationship:

AZORA GESTIÓN, S.G.I.I.C., S.A.

Reasons:

Ms. María Concepción Osácar Garaicoechea is an indirect controlling shareholder of the parent company of Grupo Azora.

She is classified as Other External Directors given that, in accordance with what is set forth in Article 5.3 of the Regulations of the Board of Directors, she does not meet the criteria to be considered proprietary director (insofar as she does not represent a significant shareholder of the Company), Executive Director (insofar as she is not an employee of the Company or of the Grupo Hispania) or independent Director (insofar as she is related to the Management Company, Azora Gestión S.G.I.I.C., S.A.U.).

Name or company name of the director:

MR. FERNANDO GUMUZIO IÑIGUEZ DE ONZOÑO

Company, executive or shareholder with whom she has a relationship:

AZORA GESTIÓN, S.G.I.I.C., S.A.

Reasons:

He is an indirect controlling shareholder of the parent company of Grupo Azora.

He is classified as Other External Directors given that, in accordance with what is set forth in Article 5.3 of the Regulations of the Board of Directors, he does not meet the criteria to be considered proprietary director (insofar as he does not represent a significant shareholder of the Company), Executive Director (insofar as he is not an employee of the Company or of the Grupo Hispania) or independent Director (insofar as he is related to the Management Company, Azora Gestión S.G.I.I.C., S.A.U.).

Total number of other external directors	2
% of board	28.57%

Indicate any variations which, as the case may be, have taken place during the period in terms of each director's category:

C.1.4 Complete the following table with the information on the number of female directors during the last 4 financial years, as well as the status of such female directors:

	Number of female directors				% of total directors in each class			
	FY 2017	FY 2016	FY 2015	FY 2014	FY 2017	FY 2016	FY 2015	FY 2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Other External	1	1	1	1	50.00%	50.00%	50.00%	50.00%
Total:	1	1	1	1	14.29%	16.67%	16.67%	16.67%

C.1.5 Explain the measures that, as the case may be, would have been taken to ensure the inclusion in the board of directors of a number of women to achieve a balanced presence of men and women.

Explanation of measures

Both the Appointment and Remuneration Committee and the Board of Directors are aware of the importance of promoting equal opportunities for men and women and the appropriateness of including in the Board of Directors women who meet the criteria of capability, suitability and effective dedication for the position of Director.

In this regard, the Appointment and Remuneration Committee ensures that, when new vacancies arise or when new Directors are appointed, the selection procedures are devoid of implicit biases that might imply any kind of discrimination and, particularly, those they do not hinder the selection of female directors. In addition, the Regulations of the Board of Directors allocate to the Appointment and Remuneration Committee the duty to establish a representation target for the least represented gender in the Board of Directors and to draw up guidelines on how to achieve this target.

Thus, on 5 May 2016, and within the framework of the re-election of Company Directors, the General Meeting of Shareholders approved, at the proposal of the Board of Directors and following a report issued by the Appointment and Remuneration Committee, the re-election of Ms. María Concepción Osácar Garaicoechea as Company Director. In addition, Director Mr. Benjamin D. Barnett has been appointed at the proposal of one of the significant shareholders of the Company.

C.1.6 Explain the measures that, as the case may be, would have been agreed upon by the appointment committee to ensure that the selection procedures are devoid of implicit biases that hinder the selection of female directors and that the company deliberately seeks out and includes, among potential applicants, women who meet the required professional profile:

Explanation of measures

With regard to the selection of Directors, the Appointment and Remuneration Committee has the power to assess the competencies, knowledge and experience that must be met by the members of the Board of Directors, defining the functions and skills required by the candidates to fill each vacancy and evaluating the time and dedication required to perform such a duty with efficiency.

The Appointment and Remuneration Committee has also been charged with the duty to ensure that, when vacancies arise, or new Directors are appointed, the selection procedures are devoid of implicit biases that might imply any kind of discrimination and, in particular, that they do not hinder the selection of female Directors.

In this regard, on occasion of the re-election of six of the seven current Directors in financial year 2016 and the election of Mr. Benjamin D. Barnett as new Director in financial year 2017, the Board of Directors, along with the Appointment and Remuneration Committee, in the case of independent Directors, examined the suitability of the Company Directors taking into account the suitability of their professional profiles for the specificities of the business carried out by the Company, their experience and knowledge in terms of management, leadership and business strategy and, particularly in the case of re-elected Directors, their level of performance and actual dedication to date; all in the context of current and future targets of the Company and its Group. In the wake of this assessment, the re-election of the then existing Directors was proposed to the General Shareholders' Meeting held in 2016 and the election of Mr. Benjamin D. Barnett as new Director at the express request of Soros Fund Management LLC was proposed to the General Shareholders' Meeting held in 2017.

This shows that the selection of Company Directors is devoid of implicit biases hindering the selection of female Directors, based only on the competency and suitability of the candidate taking the needs of the Board of Directors into consideration.

When despite the measures which, as the case may be, have been adopted, the number of female directors is minimal or non-existent, explain the reasons for this:

Explanation of reasons

Not applicable, given that the number of female Directors is neither minimal nor non-existent.

C.1.6 bis Explain the conclusions reached by the appointment committee regarding the verification of compliance with the directors' selection policy, and specifically, on how this policy is promoting the 2020 target that the number of female directors accounts for at least 30% of all board members.

Explanation of conclusions

The Appointment and Remuneration Committee issues an annual report containing a summary of its activities during the financial year in question and an assessment of the performance of its duties, including a description of the Director selection processes that have taken place in the year and, therefore, an assessment of the selection policy thereof.

The selection policy of Company Directors, which is in line with best corporate governance practices in terms of appointments, clearly states its commitment to avoid any implicit biases that hinder the selection of female Directors who currently account for 14.29% of the members of the Board of Directors. In this regard, the policy includes the commitment to ensure that, by 2020, the number of female Directors accounts for at least 30% of all members of the Board of Directors. However, given that the liquidation of the Company is scheduled for 2020, this commitment is likely to be met or makes no sense.

C.1.7 Explain the way in which significant shareholders are represented in the board.

On 6 April 2017, the General Shareholders' Meeting of the Company, at the express request of Soros Fund Management LLC, agreed to appoint Mr. Benjamin D. Barnett, as proprietary Director; all in accordance with article 529 duodecies of the Capital Companies Act and with article 5.3. (b) of the Regulations of the Board of Directors, given that Mr. Barnett is currently an employee of a company related to said entity, acting as management company and representative of several funds, owning 16.68% of the capital of the Company on the date of Mr. Barnett's appointment.

C.1.8 Explain, as the case may be, the reasons why proprietary directors have been appointed at the request of shareholders owning less than 3% of the capital:

Indicate the denial of any formal requests for presence in the board from shareholders owning the same or a higher shareholding as those at whose request proprietary directors have been appointed. If any, explain the reasons for this denial:

Yes

No

C.1.9 Indicate whether any director has resigned from his/her position before the end of his/her term, whether he/she has explained the reasons for resignation and via what means and, in the event of having done so in writing to the entire board, please explain the reasons provided:

C.1.10 Indicate, if any, the powers delegated to the chief executive officer/s:

C.1.11 Identify, as the case may be, the members of the board holding positions as administrators or senior managers in other companies forming part of the group of the listed company:

Name of company name of director	Name of group company	Position	Does this position have executive functions?
MS. M ^ª CONCEPCIÓN OSÁCAR GARAIOCOECHA	BAY Hotels&Leisure, SOCIMI, S.A.	Chairperson	NO
MR. FERNANDO GUMUZIO IÑIGUEZ DE ONZOÑO	BAY Hotels&Leisure, SOCIMI, S.A.	Director	NO

C.1.12 List, if any, the directors of your company who are members of the board of directors of other entities listed on official securities markets other than those of your group, which have been disclosed to the company:

Name or company name of director	Name of group company	Position
MR. JOAQUÍN AYUSO GARCÍA	Bankia, S.A.	DIRECTOR
MR. JOAQUÍN AYUSO GARCÍA	Ferrovial, S.A.	VICE CHAIRMAN
MR. JOAQUÍN AYUSO GARCÍA	National Express, Plc (quoted in London)	DIRECTOR
MR. RAFAEL MIRANDA ROBREDO	Acerinox, S.A.	CHAIRMAN
MR. RAFAEL MIRANDA ROBREDO	Brookfield Asset Management quoted in Toronto y Nueva York.	DIRECTOR
MR. LUIS ALBERTO MAÑAS ANTÓN	Arca Select, S.I.C.A.V., S.A.	DIRECTOR
MR. LUIS ALBERTO MAÑAS ANTÓN	Promocinver, S.I.C.A.V., S.A.	DIRECTOR
MR. RAFAEL MIRANDA ROBREDO	Nicolás Correa, S.A.	DIRECTOR

C.1.13 Indicate and, as the case may be, explain, whether the company has established rules on the number of boards of which its directors may be included:

Yes

No

Explanation of the rules

In accordance with what is set forth in Article 29.4 of the Regulations of the Board of Directors, the Directors may not form part, in addition to the Board of Directors of the Company, of more than eight (8) Boards of Directors of companies.

For the purposes of calculation of the number of Boards referred to in the foregoing paragraph, the following rules shall be taken into consideration:

- a) those Boards of which a director forms part as proprietary Director proposed by the Company or any Company of its group, shall not be included;
- b) all Boards of companies forming one single decision-making body, whether or not then belong to the same group of Companies and whether as a result of shareholdings or contractual management agreements, shall be counted as one single Board;

c) all Boards of companies from one same group, as well as those of which he/she may form part as proprietary director of any group Company, even if the holding of the Company's capital or the level of control may not render it part of the group shall be counted as a single Board;

d) those Boards of asset-holding companies or whose which constitute vehicles or complements for the professional performance of the Director, his/her spouse or person with a similar degree of kinship, or closest relatives shall not be counted; and

e) those boards of companies whose purpose, albeit of a business nature, is complementary or ancillary to another activity which constitutes a leisure, assistance or third-party support or any other than does not imply true dedication to a business activity shall not be included in the calculation.

C.1.14 Section removed.

C.1.15 Indicate the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	370
Amount of rights accumulated by the current directors in terms of pension (thousands of euros)	0
Amount of rights accumulated by the former directors in terms of pension (thousands of euros)	0

C.1.16 Identify the senior management members who are not also executive directors, and indicate the total remuneration accrued in their favour during the year:

C.1.17 Indicate, if any, the identity of the members of the board who are also members of the board of directors of significant shareholder companies and/or group entities:

List, as the case may be, the relevant relationships other than those considered in the previous section, of the members of the board of directors relating them to significant shareholders and/or group entities:

Name or company name of the related director:

MR. BENJAMIN D. BARNETT

Name or company name of related significant shareholder:

SOROS FUND MANAGEMENT LLC

Description of relationship:

Mr. Benjamin D. Barnett is currently an employee of Soros Fund Management LLC, management company and representative of various funds, owning 16.68% of the share capital of the Company at 31 December 2017.

C.1.18 Indicate whether any modification has been made in the board regulations during the year:

Yes

No

C.1.19 Indicate the selection, appointment, re-election, assessment and dismissal procedures of the directors. Provide details of competent bodies, procedures to be followed and criteria to be applied to each procedure.

Appointment and re-election: In accordance with Article 35 of the Articles of Association, the Board shall be made up of a minimum of 5 members and a maximum of 15, the determination of the number of which shall pertain to the General Meeting. In this regard, according to Article 6.2 of the Board Regulations, the Board shall propose to the Meeting the number which, in accordance with the changing circumstances of the Company, is most suitable to ensure the due representativeness and efficient operation of the body. The appointment and re-election of the Directors pertains to the General Meeting, at the proposal of the Board or the Appointment and Remuneration Committee. However, pursuant to Article 34.3(e) of the Articles of Association and Article 4.3(e) of the Board Regulations, the Board has the power to appoint Directors by co-optation and to present proposals to the General Meeting regarding the appointment, ratification, re-election or dismissal of Directors (following a proposal from the Appointment and Remuneration Committee in the case of independent Directors or following a report from this Committee in the case of all other Directors) as well as for reporting the resignation of Directors. Directors appointed by co-optation shall hold office until the date of the next General Meeting or until the legal period for holding the General Meeting to approve of the previous year's accounts has elapsed.

Selection: The selection of candidates for the position of Director shall begin with an analysis of the Company's and the Group's needs in this regard, to be prepared by the Board of Directors with the advice of the Advisory Board of the Appointment and Remuneration Committee. According to Article 46.3(b) of the Articles of Association and Article 38.4(b) of the Board Regulations, the Appointment and Remuneration Committee is responsible for presenting to the Board any proposals for appointment, re-election or dismissal of independent Directors, for said Committee to designate them (co-optation) or accept the proposals for presentation to the General Meeting for decision, as well as report on the proposals for appointment, re-election or dismissal of all other Directors. In addition, within the scope of its competencies, they shall ensure that the candidates elected are persons of recognised solvency, competency and experience. On its part, and in accordance with what is set forth in 36.1 of the Articles of Association, the Board, in the exercise of its powers of proposal for appointment and re-election of the members of the Board committees, shall be obliged to keep a composition such that the external Directors account for a majority over the executive Directors; all notwithstanding the right to proportional representation legally recognised for all shareholders and the competencies of the General Meeting.

Term: In accordance with Article 37 of the Articles of Association, the directors shall hold office, except in the event of dismissal, resignation, death or disability, for a period of 2 years, eligible for re-election once or several times for equal periods, except for independent Directors, who may only be re-elected for 5 additional terms after the initial term. The appointment of Directors shall expire when, following expiration of the term, the next General Meeting is held or until the legal period for holding the General Meeting to approve of the previous year's accounts has elapsed.

Assessment: According to Article 34.3(i) of the Articles of Association and 4.3(i) of the Board Regulations, the Board, following a report from the Appointment and Remuneration Committee, is responsible for assessing the performance of the Board, its Chairman and its Committees. According to Article 46.3(a) of the Articles of Association and Article 38.4(a) of the Board Regulations, the Appointment and Remuneration Committee is responsible for assessing the competencies, knowledge and experience of the members of the Board as well as the time and dedication required to ensure the proper performance of their duties. Specifically, the candidates to the position of Director must meet the following criteria: a) They must meet the legal requirements for performance of the duties of company administration and be able to provide the necessary dedication for the exercise of such duties; b) They must be honourable and suitable persons with recognised professional solvency, competency, experience, qualification, training, availability and commitment to their duties, ensuring diversity of knowledge and gender; c) Directors are not required to be shareholders of the Company; d) They must be professionals with integrity, whose conduct and professional career are in line with the principles set forth in the Code of Conduct and the values of the Group.

Dismissal: As set forth in Article 17 of the Board Regulations, the Directors shall put an end to their office upon expiry of the term for which they were appointed, when decided by the Board in the exercise of its legally or statutorily granted powers and when they should resign from office. The Board shall not propose the dismissal of any independent Director before the end of the statutory term for which he/she has been appointed, except in the event of any other just cause, detected by the Board following a report from the Appointment and Remuneration Committee. Furthermore, the dismissal of independent Directors may be proposed following takeover bids, mergers and other similar corporate operations leading to a change in the capital structure of the Company when such changes in the Board structure are called for on the grounds of proportionality.

C.1.20 Explain the extent to which the annual evaluation of the Board has led to important changes in internal organisation and procedures applicable to its activities:

Description of modifications
In accordance what is set forth in Article 4.3 (i) of the Regulations of the Board of Directors and the Recommendation 36 of the Good Governance Guide of the CNMV, the Board of Directors is carrying out an evaluation of its activity during fiscal year 2017, by Spencer Stuart, as External Consultant. During the first meetings that have been held with the members of the Board of Directors, there have not foreseen significant recommendations that assume to carry out changes in the internal organization or procedures of the Board of Directors.

C.1.20.bis Describe the evaluation process and the areas evaluated that have been carried out by the board of directors assisted, as the case may be, by an external consultant, regarding the diversity of its composition and competencies, the operation and composition of its committees, the performance of the chairman of the board of directors and chief executive officer of the company and the performance and contribution of each director.

The self-assessment process of the Board of Directors, its Chairman and Delegate Committees during financial year 2017 has been carried out by Spencer Stuart, as External Consultant under the supervision and coordination of the Appointment and Remuneration Committee and the assistance from the Secretary of the Board of Directors. To this end, all Directors have been presented with internal self-assessment questionnaires that have been completed by all members of the Board of Directors and Delegate Committees.

The main aspects analysed in the meetings have been:

- Organization, composition and performance of the Board;
- Knowledge and involvement of the Board;
- Strategy;
- Organization and operation of the Commissions;
- Succession planning;
- Role of the Board of Directors in the crisis management;
- Evaluation of the President; and
- Evaluation of the Secretary.

The result of the Directors' meetings has highlighted the efficiency and adequate operation of the Board of Directors and Delegate Committees in the performance of their duties in 2017, as well as their President. There have not foreseen significant recommendations that assume to carry out significant changes in the performance of the Board of Directors.

C.1.20.ter List, as the case may be, the business relationship the consultant or any company of its group has with the company or any company in its group.

N/A

C.1.21 Indicate the cases in which the directors are obliged to resign.

In accordance with what is set forth in Article 17.3 of the Regulations of the Board of Directors, the Directors must offer up their positions to the Board and formalise, if deemed necessary by the Board, the pertaining resignation in the following cases:

- a) when they resign from the executive positions to which, as the case may be, their position as Director is linked;
- b) when they should be involved in any legally set forth situations of incompatibility or prohibition;
- c) when they are prosecuted for a presumed criminal act or are subject to disciplinary proceedings for a serious or very serious offence by the supervisory authorities;
- d) when their permanence in the Board may put Company interests at risk or when the reasons for which they were appointed should disappear. In particular, in the case of external proprietary Directors, when the Shareholder they represent should reduce its shareholding to a level that requires a reduction in the number of external proprietary Directors;
- e) in the event of significant changes in their professional situation or the conditions under which they were appointed Directors; and
- f) when for reasons attributable to the Directors, their presence in the Board should cause serious damage to the equity or reputation in the opinion of the Board.

C.1.22 Section removed.

C.1.23 Are reinforced majorities, other than the legal majorities, required for any kind of decision?

Yes

No

If so, please describe the differences.

C.1.24 Explain whether specific requirements exist, other than those regarding the directors, to be appointed chairman of the board of directors.

Yes

No

C.1.25 Indicate whether the chairman has a casting vote:

Yes

No

C.1.30 Indicate the number of meetings held by the board of directors with the attendance of all of its members. The total number shall consider any representations with specific instructions to be attendances:

Number of meetings with attendance of all directors	13
% attendance of total votes during year	100.00%

C.1.31 Indicate whether the individual and consolidated annual accounts presented for approval by the board have been previously certified:

Yes No

Identify, as the case may be, the person/s who has/have certified the individual and consolidated annual accounts of the company for preparation by the board:

Name	Capacity
AZORA GESTIÓN, S.G.I.I.C., S.A.	Management Company

C.1.32 Explain, if any, the mechanisms established by the Board of Directors to prevent the individual and consolidated accounts prepared by it are presented to the general meeting with qualifications in the audit report.

Article 37.5, paragraphs l), o), p), q) and r), of the Regulations of the Board of Directors establish that the Audit Committee shall have, notwithstanding any other duties that may be assigned from time to time by the Board, the following basic duties:

l) to act as the communication channel between the Board and the auditors, assess the results of each audit and oversee the responses from the management team to the adjustments proposed by the external auditor, and mediate in the event of discrepancies between the former and the latter with regard to the applicable principles and criteria in the presentation of financial statements, as well as examine the circumstances which, as the case may be, may have led to the resignation of the auditor;

o) to establish the relations with external auditors to receive information on any matters that might endanger its Independence, for examination by the committee, and any others related to the process of performance of the accounts audit, as well as any other communications set forth in accounts auditing legislation and technical auditing rules.

In any event, every year it must receive from the external auditors their statement of independence of the entity, the Management Company or companies directly or indirectly related thereto, as well as information on additional services of any kind provided to such entities by said auditors or Companies, or by the persons or entities related thereto in accordance with what is set forth in the accounts auditing legislation;

p) to supervise compliance with the audit contract, ensuring that the opinion on the Annual Accounts and main content of the audit report are drafted in a clear and accurate manner;

q) to supervise the process of preparation and presentation of the Company accounts and periodical financial information which, in accordance with the legislation in force, the Company must provide to the markets and its supervisory bodies, overseeing its preparation and publication process, reporting to the Board of Directors on this aspect prior to approval, as well as oversee compliance with legal requirements in this matter and the proper application of generally accepted accounting principles and report on proposals for the modification of accounting principles and criteria suggested by management.

In particular, to review, analyse and discuss the financial statements and other relevant financial information with senior management, internal and external auditors, in order to confirm that the information is reliable, understandable, relevant and has followed accounting criteria in line with those applied in the previous financial year;

r) to issue on a yearly basis, prior to the issue of the accounts audit report, a report expressing an opinion on the Independence of the accounts auditors or auditing firms. This report must in any event contain an opinion on the independence and efficacy of the internal audit function and the adequacy and integrity thereof, as an element of support for the Audit Committee.

Consequently, in accordance with said paragraphs, the Audit Committee shall be responsible for supervising the financial information of the Company prior to approval and presentation to the markets and supervisory bodies, overseeing its preparation process and integrity, and reporting thereon to the Board of Directors

prior to approval. Following the procedures in place and in the exercise of its functions, the Audit Committee carried out the review of the following reports:

- Annual financial report for 2017, in the meeting held on 22 February 2017.
- Quarterly declaration regarding the first quarter of 2017, in the meeting held on 9 May 2017.
- Six-monthly financial report pertaining to the first quarter of 2017, in the meeting held on 26 July 2017.
- Quarterly declaration pertaining to the third quarter of 2017, in the meeting held on 13 November 2017.

C.1.33 Is the Board Secretary a director?

Yes

No

If the secretary is not a director, please fill out the following table:

Name or company name of secretary	Representative
MR. JOAQUÍN HERVADA YÁÑEZ	

C.1.34 Section removed.

C.1.35 Indicate, if any, the mechanisms established by the company to preserve the Independence of external auditors, financial analysts, investment banks and rating agencies.

With regard to the Independence of the Company's external auditor, in accordance with Article 34 of the Regulations of the Board of Directors, the relations of the Board of Directors with the Company's external auditors are handled by the Audit Committee which, in accordance with what is set forth in Article 37.3 of the Regulations of the Board of Directors, will be mostly made up of independent Directors.

The main functions of the Audit Committee, according to Article 37 of the Regulations of the Board of Directors, include establishing the relations with the external auditors in order to receive information on any matters that may place their independence at risk and any others related to the accounts audit process, as well as any other communications set forth in the accounts auditing legislation and technical auditing rules.

In addition, the Audit Committee is in charge of proposing to the Board of Directors, for presentation to the General Shareholders' Meeting, the appointment of the external accounts auditors, as well as contracting conditions, the scope of their professional mandate and, as the case may be, their revocation or non-renewal, examining, in the event of resignation of the external auditor, any circumstances leading thereto.

In any event, every year the Audit Committee must receive from the accounts auditors or auditing firms the written confirmation of their independence from the Company, the Management Company or companies related directly or indirectly to either one, as well as the information on additional services of any kind provided to such entities by said auditors or auditing firms, or by the persons or entities related thereto in accordance with what is set forth in accounts auditing legislation.

As for the mechanisms established to ensure the Independence of the financial analysts, investment banks and rating agencies, the Company provides information to the market following the principles set forth in the Internal Conduct Regulations on matters relating to the Securities Markets, particularly with regard to the information being truthful, clear, quantified and complete, avoiding subjective valuations that may lead or might lead to confusion or deceit.

In order to materialise such principles in the relationship with financial analysts, investment banks and rating agencies, and at all times within the strictest compliance with the Securities Markets regulations, the Company has established a number of communication channels, including (i) personalised attention to analysts, investors and rating agencies; (ii) an electronic mail address in the corporate web page (www.hispania.es) and shareholder information telephone number (+34 91 310 63 70); (iii) physical and broadcast presentations; and (iv) sending of notices and news.

C.1.36 Indicate whether the Company has changed its external auditor during the year. If applicable, indicate outgoing and incoming auditor:

Yes

No

In the event of disagreements with the outgoing auditor, explain the content thereof:

C.1.37 Indicate whether the auditing firm carries out other work for the company and/or its group other than auditing, and in this case declare the amount of the fees received for such work and the percentage of all fees charged to the company and/or its group:

Yes No

	Company	Group	Total
Value of work other than auditing (thousands of euros)	40	40	80
Value of work other than auditing /Total amount invoiced by auditing firm (as a %)	17.54%	11.17%	13.65%

C.1.38 Indicate whether the audit report on the annual accounts of the previous year includes qualifications. If any, please indicate the reasons provided by the audit committee chairman to explain the content and scope of such qualifications.

Yes No

C.1.39 Indicate number of financial years during which the current auditing firm has uninterruptedly performed the audit of the company and/or group financial statements. In addition, indicate the percentage of the number of years audited by the current auditing firm over the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of uninterrupted financial years	4	4
Number of years audited by current auditing firm/number of years in which the company has been audited (expressed as %)	100.00%	100.00%

C.1.40 Indicate and, as the case may be, provide details, whether there is any procedure to enable the directors to benefit from external advice:

Yes No

Details of procedure

In accordance with what is set forth in Article 19 of the Regulations of the Board of Directors, external directors may request the engagement payable by the Company of legal, accounting, financial and other experts, in order to assist them in the performance of their duties. The engagement must necessarily relate to specific problems of a certain importance and complexity that might arise in the course of the performance of their duties.

The request for engagement must be made to the Company Chairman and may nonetheless be refused by the Board, provided it provides proof:

- that it is not necessary for the proper performance of the duties entrusted to the external Directors;
- that the cost is not reasonable in the light of the importance of the problem and the Company's assets and income;
- that the technical assistance sought can be adequately provided by Company experts and technicians; or
- that it may endanger the confidentiality of the information to be handled.

C.1.41 Indicate and, as the case may be, provide details of the existence of any procedure to enable the directors to have the necessary information to prepare the meetings of the management bodies sufficiently in advance:

Yes No

Details of procedure

In accordance with what is set forth in Article 21.1(a) of the Regulations of the Board of Directors, the Directors are obliged to adequately be informed and prepare the Board meetings and, as the case may be, those of the delegate committees to which they belong.

To this end, Article 13.2 of the Regulations of the Board of Directors sets forth that the summons to its meetings are sent at least five (5) days in advance, except in the event of urgency and called by the Chairman forty-eight (48) hours in advance. The summons, which shall always be sent except when absence is duly justified, will include the agenda of the meeting, shall be sent along or made available to the Director with any information deemed necessary.

In addition, Article 18 of the Regulations of the Board of Directors, for the purpose of satisfactorily meeting its information obligation, establishes that all Directors may request information on any aspect of the Company and examine its accounts, records, documents and other documentation. The right of information extends to investee Companies when possible.

The information provided to the Directors prior to the meeting is prepared specifically for such meetings and geared for this purpose. Likewise, in the opinion of the members of the Board of Directors, the information provided or made available is complete and provided sufficiently in advance for the proper preparation of the meetings.

C.1.42 Indicate and, as the case may be, provided details, whether the company has established rules obliging the directors to report and, as the case may be, resign in cases that might harm the prestige and reputation of the company:

Yes

No

Explain the rules

As set forth in Article 17.3 (b), (c), and (f) of the Regulations of the Board of Directors, the Directors may place their office at the disposal of the Board and formalise, if deemed appropriate, the pertaining resignation when:

- b) involved in any of the legally established cases of incompatibility or prohibition;
- c) prosecuted for an alleged criminal act or subject to disciplinary proceedings for a serious or very serious offence by the supervisory authorities; or
- f) for actions attributable to the Director, his remaining in the Board causes serious harm to the equity or reputation of the company in the opinion of the Board.

In order to avoid the abovementioned situations, as set forth in Article 29.3 of the Regulations of the Board of Directors, the Directors must inform the Company of any circumstances affecting them and might harm the prestige or reputation of the Company, particularly any criminal prosecutions in which they have been indicted and any prosecutorial events of relevance. Upon examining the situation presented, the Board of Directors may demand the resignation of the Director, who must abide by such decision.

C.1.43 Indicate whether any member of the board of directors has informed the company that he/she has been prosecuted or subject to a court hearing, for any of the offences listed in article 213 of the Capital Companies Act:

Yes

No

Indicate whether the board of directors has analysed the case. If this is the case, please provide a reasoned explanation of the decision reached regarding whether or not the director should remain in office or, as the case may be, describe the actions taken by the board of directors up to the date of this report or which it plans to take.

C.1.44 Provide details of significant agreements entered into by the company and which come into force, are modified or terminated in the event of a change in the control of the company following a takeover bid and the effects thereof.

On 21 February 2014, the Company and Azora Gestión S.G.I.I.C, S.A.U., entered into a management agreement (the "Management Agreement") for the purpose of delegating to the latter entity the ordinary management of the Company (such agreement having been subject to novations). In its current and novated version, the Management Agreement considers the Management Company's right to terminate the agreement in the event that one or several shareholders acting in a concerted manner should be forced to make an obligatory takeover bid under the terms of Royal Legislative Decree 4/2015, of 23 October, approving the recast text of the Securities Market Law and Royal Decree 1066/2007, of 27 July, on the system of public securities takeover bids.

In the event that the Management Agreement included in point C.1.44 above should be subject to early termination by the Management Company, for any of the causes for termination established or automatically due to breach by the Company of an essential term, the Management Company shall be entitled to be paid termination fees consisting of:

a) all of the Base Fees accrued to the end of the term of the Management Agreement:
The Base Fees shall be paid to the Management Company at the end of each quarter. The Base Fees shall be equal to one fourth (1/4) of the 1.25% per annum (0.3125% per quarter of the EPRA NAV of the pertaining quarter). As for the Base Fees, the Company has been informed of the Management Company's decision to unilaterally waive a share of the Base Fees to which it would be entitled in the following situations: (i) when the Company's last reported net asset value (NAV) should exceed 1.2 billion euros, the Base Fees payable to the Management Company for any such excesses shall be calculated as 1.00% per annum (0.25% per quarter); and (ii) when, on the last business day of the quarter in question, less than 50% of the funds obtained has been committed, the Base Fees payable to the Management Company for the Capital Increase shall be calculated on the basis of 0.625% per annum (0.15625% per quarter).

b) The Incentive Fees to which the Management Company would be entitled if all of the Company's assets at that date were sold and all the cash available were distributed among the shareholders (net of the share pertaining to the Management Company).

The incentive fee structure agreed does not depend on accounting references or unrealised gains of the Company but on profit that has materialised and been distributed among shareholders as cash flow. The incentive fee structure has been designed to ensure that: (i) the Manager shall only be entitled to receive the Incentive Fees once the shareholders have obtained an accumulated annual return of 10% of the gross funds contributed to the Parent Company, (ii) once this return has been achieved, any additional return shall be distributed by equal halves (50%) between the Manager and the Shareholders and (iii) once the Manager has received the equivalent of 20% of the total return, any additional return shall be distributed as follows: 80% for the shareholders and 20% for the Manager.

The Base Fee and the incentive fee shall be calculated by the Management Company. In case of discrepancy in the calculation of the incentive fee, the Company could review it by hiring an independent expert.

C.1.45 Identify in aggregate form and indicate, in detailed form, the agreements between the company and its senior management and employees that consider compensation, guarantee or golden parachute clauses, when these should resign or are unfairly dismissed or if the contractual relationship should come to an end as a result of a public takeover bid or any other kind of operation.

Number of beneficiaries: 0

Type of beneficiary:

There is no agreement

Description of the Agreement:

There is no agreement

Indicate whether these agreements must be reported and/or approved by the corporate or group bodies:

	Board of Directors	General Meeting
Body authorising the clauses	No	No

	Yes	No
Are the clauses reported to the general meeting?		X

C.2 Board of Directors' Committees

C.2.1 List all committees of the board of directors, their members and the proportion therein of executive, proprietary, independent and other external directors within them:

Executive Committee

Name	Position	Category
MR. RAFAEL MIRANDA ROBREDO	CHAIRMAN	Independent
MR. JOAQUÍN AYUSO GARCÍA	MEMBER	Independent
MR. FERNANDO GUMUZIO IÑIGUEZ DE ONZOÑO	MEMBER	Other external

% proprietary directors	0.00%
% independent directors	66.67%
% other external	33.33%

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

The Executive Committee is considered both in Article 44 of the Articles of Association and in Article 36 of the Board of Directors' Regulations, and is regulated as follows:

Organisation

The Executive Committee will be made up of the number of Directors as may be decided by the Board, with a minimum of three (3) and a maximum of five (5) Directors, most of them being independent external Directors. The appointment of members of the Executive Committee and delegation thereto of powers shall be made by the Board with the vote in favour of two thirds (2/3) of its members. The Chairman of the Board shall in any event form part of the Executive Committee. The meetings of the Executive Committee shall be chaired by the Chairman of the Board and, in the absence thereof, by the Director that the Executive Committee may designate from among its attending members.

The Director who is appointed member of the Executive Committee shall remain in office during the remaining term of office as Director, notwithstanding the power of revocation pertaining to the Board of Directors. In the event of re-election as Director of a member of the Executive Committee, said Director shall only continue to perform this function if expressly re-elected by agreement of the Board.

Operation

The Executive Committee shall meet as frequently as deemed necessary in the opinion of its Chairman, in order to perform its functions. It shall also meet when requested by at least two (2) of the Directors forming part of the Committee. The Executive Committee may reach agreements on any matter within the jurisdiction of the Board which, in the opinion of the Executive Committee, must be settled without delay, the only exceptions being those which, in accordance with the Law or the Articles of Associations, are not eligible for delegation.

The agreements of the Executive Committee shall be reached by absolute majority of its members, present or represented, in the meeting. In the event of a draw, the chairman of the Executive Committee shall not have a deciding vote.

The Chairman of the Executive Committee shall inform the Board of the matters discussed and agreements reached in its meetings at the first meeting of the Board following the Executive Committee meetings.

Responsibilities allocated

The Executive Committee shall have all the powers of the Board of Directors, except for those which legally or statutorily are not eligible for delegation. In particular, the approval of the majority of the members of the Executive Committee shall be required to reach decisions regarding:

- a) minority investments (but which enable the Company to acquire a significant influence) in the capital of real estate Companies or any other type of instrument related to real estate assets eligible to generate income flows by way of hybrid debt, mezzanine debt, subordinated and/or senior debt in real estate companies or those with guarantees over real estate assets;
- b) investments, divestments or external funding of assets where the value of such investments, divestments and funding exceeds 50 million euros but under 75 million euros;
- c) the engagement of third party services (including asset management services) where the price per contract exceeds 500,000 euros but is under 1,500,000 euros (or when it exceeds 3,000,000 euros but is under 5,000,000 euros in the event of engagement of third party services related to investments in improvement, repositioning, conservation or maintenance); and
- d) the creation, modification and cancellation of any deposit or guarantee not related to funding, when in excess of 2,000,000 euros but under 5,000,000 euros.

Indicate whether the delegate or executive composition reflects the participation in the board of the various directors according to category:

Yes

No

Audit Committee

Name	Position	Category
MR. LUIS ALBERTO MAÑAS ANTÓN	CHAIRMAN	Independent
MR. JOAQUÍN AYUSO GARCÍA	MEMBER	Independent
MR. JOSÉ PEDRO PÉREZ-LLORCA	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%
% other external directors	0.00%

Explain the functions allocated to this committee, describe the organisation and operation rules and procedures and summarise the most important actions over the year.

The Audit Committee is considered both in Article 45 of the Articles of Association and in Article 37 of the Regulations of the Board of Directors, and is governed as follows.

Organisation

The Audit Committee is formed by external Directors in the number determined by the Board, with a minimum of three (3) and a maximum of five (5). The members of this Audit Committee shall all be non-executive directors, mostly independent, appointed by the Board of Directors at the proposal of the Appointment and Remuneration Committee and designated, particularly the Chairman, on the basis of their knowledge and experience in matters of accounting, auditing or risk management. The Committee shall designate a Chairman from among its members. The Chairman shall be an independent external director. The Chairman must be replaced every four (4) years, and may be re-elected, once or several times, once a period of one (1) year has lapsed since his termination. A Secretary shall also be designated, as well as a Deputy Secretary, both able to be non-members. In the event of not making such designations, the Secretary and Deputy Secretary of the Board shall assume such functions.

Operation

The Audit Committee shall be called by the Chairman of the Committee, either of his own accord or else at the request of the Chairman of the Board or of two (2) members of the Committee. In any event the Audit Committee shall be called and shall meet, at least, once a quarter, in order to review all the regular financial information which, in accordance with the legislation in force, the Board must send to the securities exchanges authorities as well as the information to be approved and included by the Board in its annual public documentation.

Responsibilities: Those set forth in Article 37 of the Regulations of the Board of Directors.

Identify the director who is a member of the audit committee who has been designated taking into account his knowledge and experience in accounting, auditing or both and report on the number of years that the Chairman of this committee has held office.

Name of experienced director	MR. LUIS ALBERTO MAÑAS ANTON
Number of years of chairman in office	4

Appointment and Remuneration Committee

Name	Position	Category
MR. JOSÉ PEDRO PÉREZ-LLORCA	CHAIRMAN	Independent
MR. RAFAEL MIRANDA ROBREDO	MEMBER	Independent
MS. M ^a CONCEPCIÓN OSÁCAR GARAIOCHEA	MEMBER	Other External

% proprietary directors	0.00%
% independent directors	66.67%
% other external	33.33%

Explain the functions allocated to this committee, describe the organisation and operation rules and procedures thereof and summarise most important actions over the year.

The Appointment and Remuneration Committee is contained both in Article 46 of the Articles of Association and in Article 38 of the Board of Directors' Regulations and it is governed as follows:

Organisation

The Appointment and Remuneration Committee is formed by non-executive Directors, mostly independent, the number of which shall be determined by the Board with a minimum of three (3) and a maximum of five (5) members. The members of the Appointment and Remuneration Committee shall be appointed by the Board according to their knowledge, skills and experience.

The Appointment and Remuneration Committee will designate a Chairman from among its members. The Chairman will be an independent Director. The Chairman must be replaced every two (2) years, able to be re-elected once or several times for periods of equal maximum duration.

Operation

As for its operation, the Appointment and Remuneration Committee will meet every time it is summoned by the Chairman, who must do so whenever the Board or the Chairman should request the issue of a report or the adoption of proposals and, in any event, whenever deemed appropriate for the good performance of its duties. It shall be called by the Committee Chairman either of his own accord or else at the request of the Chairman of the Board or of two (2) members of the Committee.

Responsibilities: those set forth in Article 38 of the Board of Directors' Regulations.

C.2.2 Complete the following table with the information relating to the number of female directors included in the board of directors over the last four financial years:

	Number of female directors							
	FY 2017		FY 2016		FY 2015		FY 2014	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Appointment and Remuneration Committee	1	33.33%	1	33.33%	1	33.33%	0	0.00%

C.2.3 Section removed

C.2.4 Section removed.

C.2.5 Indicate, as the case may be, the existence of board committee regulations, the location where these are available for consultation and any modifications made thereto throughout the year. Also indicate whether any annual report on the activities of each committee has been voluntarily drafted.

The organisation and operation of the Board of Directors' committees are regulated in Articles 43 to 46 of the Articles of Association and in Articles 35 to 38 of the Regulations of the Board of Directors. Both documents are available for consultation on the company web page (www.hispania.es). The Regulations of the Board of Directors were modified in 2016 to allocate part of the competencies formerly assumed by the Audit Committee to the Appointment and Remuneration Committee. Thus, competencies (u), (v), (w), (x), (y), (z) and (bb) of point 6 of Article 37 (The Audit Committee) of the Board of Directors' Regulations were transferred to the Appointment and Remuneration Committee via their inclusion as points (s), (t), (u), (v), (w), (x) and (y) of section 5 of Article 38 (The Appointment and Remuneration Committee).

In accordance with what is set forth in the internal regulations of the Company, both the Board of Directors and the Audit Committee and the Appointment and Remuneration Committee have prepared an annual report on their activities.

C.2.6 Section removed.

D RELATED AND INTRA-GROUP TRANSACTIONS

D.1 Explain, as the case may be, the procedure for approval of related party and intra-group transactions.

Procedure for approval of related transactions

In accordance with what is set forth in Article 32 of the Board of Directors, the Board of Directors will be informed and, as the case may be, shall approve the transactions carried out by the Company, directly or indirectly, with directors, significant shareholders or those represented in the Board of Directors, or with persons related thereto, following a favourable report from the Audit Committee. In the event that, for reasons of urgency, the authorisation should be granted by the Group Management, this must be reported in the following Board meeting held. The Directors affected by the agreement may not delegate their vote and shall leave the meeting room during deliberations and voting thereon.

The above transactions shall be valued from a perspective of equal treatment and market conditions, and shall be reported in the regular public documentation to be provided by the Company according to the terms set forth in the Law.

Notwithstanding the foregoing, the authorisation from the Board of Directors shall not be necessary in the following cases:

- a) in the case of ordinary transactions carried out under standard conditions of little relevance, these being understood as transactions that do not require reporting to express a true image of the equity, financial situation and results of the Company;
- b) in the case of related transactions which simultaneously meet the three (3) following conditions:
 - a. carried out by virtue of contracts with standardised terms, applied en masse to many clients;
 - b. carried out at prices or rates generally set forth by the person acting as administrator of the goods or services in question; and
 - c. that their value does not exceed one percent (1%) of the annual income of the Company.

Notwithstanding the foregoing, in line with Article 32.3 of the Board of Directors' Regulations, Article 37.5(t) of the Board of Directors' Regulations includes the supervision of Related Transaction among the duties of the Audit Committee. In particular, it shall ensure that the market is provided with the information on such transactions, in accordance with what is set forth in Order 3050/2004, of the Treasury Ministry of Spain of 15 September 2004, and report any transactions that involve or might involve a conflict of interest and, in general, on the matters set forth in Article 32 of the Board of Directors' Regulations.

D.2 List any significant transactions in terms of amount or relevance carried out between the company or group entities, and significant shareholders of the company:

D.3 List any significant transactions in terms of amount or relevance carried out between the company or group entities, and the directors or senior managers of the company:

D.4 Report on significant transactions carried out by the company with other entities belonging to the same group, provided these are not eliminated in the process of drafting the consolidated financial statements and do not form part of the ordinary business transactions of the company in terms of purpose and conditions.

In any event, any intra-group transaction carried out with entities established in countries or territories considered to be tax havens must be reported:

D.5 Indicate the amount of the transactions carried out with other related parties.

23,267 (in thousands of euros).

D.6 Provide details on the mechanisms in place to detect, determine and settle potential conflicts of interest between the company and/or its group and its directors, senior managers or significant shareholders.

In accordance with the Policy on Conflicts of Interest and Related Transactions, the Audit Committee is obliged to supervise compliance with the regulations on conflicts of interest, and, in particular:

- a) Shall previously inform the Board of Directors of any related party transactions carried out in the Group.
- b) In the event of conflict of interest between several companies belonging to the Group, the Board of Directors shall be responsible for the final decision.
- c) Shall supervise and report to the Board of Directors that the market value applied to related transactions has been done in accordance with one of the methods used for calculation thereof as set forth in the Company Income Tax Law.
- d) Shall ensure that the market is provided with the information on related transactions, in accordance with what is set forth in Order 3050/2004, of the Treasury Ministry of Spain, of 15 September 2004, and shall report on any transactions that involve or might involve a conflict of interest.

In addition, the person who may be involved in any situation of conflict of interest must inform the Board of Directors and the Director of Regulatory Compliance, in accordance with what is set forth in the Internal Conduct Regulations.

Once the Group has become aware of a situation of conflict of interest, either of its own accord or following a report from the affected person, the following measures shall be applied:

- a) No additional information on the transaction or situation in question shall be provided to the affected person. In the event that the decision on the transaction or situation that has given rise to said conflict depends on the affected person, the decision-making process shall be modified.
- b) In the event that the transaction or situation that has given rise to a conflict of interest should be decided on by agreement of the Board of Directors or any of its Committees, the existence of the conflict of interest shall be explicitly mentioned when summoning the meeting in question, in the Agenda and recording said conflict of interest in the Minutes of the Meeting.
- c) The Director must leave the meeting during deliberation and voting on those matters in which he/she has a personal interest, and the votes of the Directors affected by the conflict shall be excluded when calculating the majority.

In addition, in the Annual Corporate Governance Report and in the management report, the Company shall inform of any situations of conflict of interest in which the Directors are involved.

In accordance with what is set forth in the Internal Conduct Regulations, any doubt as to the possible existence of a conflict of interest must be referred to the Regulatory Compliance Director before carrying out any action that might be understood as affected by said conflict of interest. The Regulatory Compliance Director, on the basis of the nature of information, shall decide whether or not to report this information to the Secretary of the Board of Directors, who, as the case may be, shall adopt the necessary measures and, if deemed necessary and provided it is applicable in accordance with the Board of Directors' Regulations, shall request a report from the Audit Committee.

In addition, the transactions carried out between the Company with its Directors or related parties must observe the rules set forth in section D.1 above.

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

Yes

No

List subsidiaries listed in Spain:

Listed subsidiary

BAY Hotels&Leisure SOCIMI, S.A.

Indicate whether the respective areas of activity and potential business relationships between them have been precisely defined, as well as those between the listed subsidiary and other group companies:

Yes

No

Define the potential business relationships between the parent company and the listed subsidiary, and between the latter and other group companies

The business relationships between the companies of the group are clearly defined in the BAY Hotels & Leisure SOCIMI, S.A., Informative Brochure, published in the MAB.

Identify the mechanisms in place to settle potential conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to settle potential conflicts of interest

The Companies have an internal conduct regulation that resolves the possible conflicts of interest that may be presented; resulting also, applying the provisions contained in articles 228 and 229 of the Law of Capital Companies in accordance to the obligations of information and abstention in case of conflict of interest.

In addition, to all the companies in the group, are applicable the mechanisms to detect, determine and resolve possible conflicts of interest between the Company and / or its group, and its directors, officers or shareholders significant as detailed in section D.6 of this Report.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company's Risk Management System, including tax risks.

Pursuant to what is set forth in Article 4.3. (l) of the Board of Directors' Regulations, Hispania has established a Risk Management Policy approved by its Board, with the following main objectives:

- To define the principles for identifying, analysing, assessing and reporting any risks associated with the strategy and operations of Hispania, ensuring a proper general framework for management of threats and uncertainties inherent to the business processes and the environment in which it operates.
- To define the guidelines to be followed in order to maintain risks within the tolerance limits established and provide elements to decide on acceptable levels of risk for Hispania.
- To periodically establish parameters to comply with the strategy defined by Hispania in accordance with available resources, focusing on (i) protecting the financial solidity, reputation and sustainability of Hispania; (ii) defending the rights of shareholders and of any other significant stakeholders of Hispania; and (iii) supporting the performance of transactions under the established conditions of quality and security.

In application of this Policy, the Risk Management System (SGR) was formalised in 2014, based on the COSO III methodological standard, which is the risk management methodology generally accepted in the market and which has been adapted to the needs of Hispania. This methodology enables the identification, creation, capture and sustainability of value of risk management at the various levels within the Group. Each year, every Area/Department identifies:

- Main processes and sub-processes.
- The key risks and controls associated with such process and sub-processes.
- Assessment of the risks and Group risk map.

In accordance with what is set forth in Article 37.5.(d) of the Regulations of the Board of Directors, the Audit Committee will periodically Review the internal risk control and management systems of the Company.

E.2 Identify the company bodies responsible for the preparation and execution of the Risk Management System, including tax risk.

Article 4.3(l.) of the Board of Directors' Regulations sets forth that the Board shall assume, not subject to delegation, all the powers legally reserved for its direct supervision, as well as any others required for the responsible exercise of the general supervisory function, particularly the approval of the Risk Management Policy.

This Policy approved by the Board of Directors established in its second paragraph that the SGR (Risk Management System) is a process that affects all levels of the Organisation and is carried out by all Areas/Departments in the Company. The main characteristics of SGR in Hispania are that the Board of Directors is responsible for its existence and that the Audit Committee is responsible for its supervision, via the Audit and Compliance Department. To this end, an assessment of compliance of key controls is carried out every year, identifying main areas for improvement.

E.3 Indicate main risks, including tax risk, which might affect the achievement of business targets.

In the performance of its activity, Hispania is exposed to a range of risks inherent to the various business lines it carries out. The risks are classified into various types, in accordance with the model in place:

1. Strategic Risks: related to business strategy and subject to priority management. These also include reputational risks, investment risks and information risks.
2. Operational Risks: related to the operational management and the value chain of each of the businesses in which the Group is active.
3. Compliance Risks: these affect internal and external regulatory compliance. They include those relating to Criminal Risk Prevention, fraud and information systems.
4. Financial Risks: associated with financial markets, cash generation and management, as well as tax risk.

The key risks in 2017 identified in Hispania, related to the achievement of business targets and according to risk category are:

- Strategic risks: reputational and corporate image,, negative performance of the real estate market, inadequate business development analysis, inadequate analysis and/or execution of divestment alternatives and inadequate planning and/or approval of investments/divestments.
- Operational risks: dependence on third parties and inadequate management of licences, insurance, business decisions and potential buyers / tenants.
- Compliance risks: breach of management contract or technical regulations and leakage of key information.
- Financial risks: Credit, and Liquidity risks.

E.4 Identify whether the entity has a risk tolerance level, including tax risk.

Hispania has uniform identification, assessment and prioritisation criteria for risks, based on risk tolerance as the key tool.

When assessing risks, these are analysed, assessing the likelihood of occurrence thereof given the controls in place to mitigate the risk and the possible impact thereof on the achievement of Hispania' strategic and operational objectives.

Key risks are those whose impact and probability exceed the risk tolerance level approved by the Board of Directors.

For every risk identified, Hispania must assign a person responsible for aligning the accepted risk and the tolerance thereof, as well as perform adequate monitoring via identified controls. Tolerance levels are regularly updated and, at least, every time modifications are made to the Group strategy.

E.5 Indicate which risks, including tax risk, have arisen during the financial year.

Risks that are inherent to the business model, the Group's activity and the market environment have arisen in the year, as a result of circumstances inherent to the business activity and the economic situation, although none has had a significant incidence on the Organisation.

E.6 Explain response and supervision plans for main risks in the entity, including tax risk.

During the yearly process of supervision and update of risks and controls, Hispania has identified areas for improvement designed to reduce the impact and probability of occurrence of the risks identified in the Risk Management System, including the key risks listed in point E.3, and to improve the level of preparation in the face of the risk.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING (SCIIF)

Describe the mechanisms comprising the risk management and control systems in relation to the financial reporting process (SCIIF) of your entity.

F.1 Entity's control environment

Indicate, and provide main characteristics, of at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of a proper and effective SCIIF; (ii) implementation thereof; and (iii) its supervision.

Article 4.3 (l.) of the Board of Directors' Regulations establishes that the Board shall assume, not subject to delegation, the powers legally reserved for its direct handling, as well as any others required for the responsible performance of the general supervisory function, particularly the approval of the Risk Management Policy and the regular monitoring of internal information and control systems.

Article 37.5. (m) of the Board of Directors' Regulations establishes that the Audit Committee shall carry out the function of regular Review of the internal control and risk management systems of the Company, particularly the proper design of the Internal Control System of Financial Reporting (SCIIF), so that the main risks are adequately identified, managed and reported.

In accordance with the Management Agreement entered into by Hispania with the Management Company, the latter is responsible for the daily management of the Company, and therefore the Management Company shall allocate the necessary personnel for performance of these functions. In its third paragraph, the Internal Control of Financial Reporting Policy approved by the Board of Directors identifies the functions and responsibilities of the SCIIF, and specifically that the Financial Management Area is responsible for establishing the design, implementation and global monitoring of the Group SCIIF.

The design, development and implementation of the Internal Control System of Financial Reporting (SCIIF) was carried out progressively over previous years, having been fully developed and operational by the end of 2017. The applicable processes in 2017 are: (i) Close and Consolidation; (ii) Treasury; (iii) Purchases; (iv) Sales; (v) Financing; and (vi) Taxation.

F.1.2. Indicate whether the following items exist, particularly regarding the financial information preparation process:

- Departments and/or mechanisms in charge: (i) of the design and review of the organisational structure; (ii) of clearly defining the lines of responsibility and authority, with a proper distribution of tasks and functions; and (iii) that sufficient procedures are in place for proper dissemination in the entity.

In its third paragraph, the Internal Control of Financial Information Policy approved by the Board of Directors identifies the organisational structure required to ensure monitoring via the delegation of this tasks to the Audit Committee. The Audit Committee must therefore ensure proper compliance with the responsibilities defined and allocated to the Management Company in the Management Agreement regarding the Company SCIF.

The Financial Management Department, among other functions, is responsible for (i) the design, implementation, assessment and global monitoring of the SCIF; (ii) reporting on the efficient operation of the SCIF; (iii) ensuring that the internal control policies and procedures required to guarantee reliability of the financial information preparation process exist and are correctly disseminated throughout the Group; and (iv) planning the key dates and reviews to be carried out by each responsible area.

- Code of conduct, approval body, extent of dissemination and instruction, principles and values included (indicating whether specific mentions are made to the transaction records and preparation of financial information), body responsible for analysing breaches and proposing corrective actions and penalties.

The Company has a Code of Conduct approved by the Board of Directors of Hispania, proposed by the Appointment and Remuneration Committee pursuant to Article 38.4.(s) of the Board of Directors' Regulations.

The Code of Conduct is available to Directors, Management Company employees and all other Stakeholders via the Company website (www.hispania.es). This Code includes the basic principles of conduct (regulatory compliance, collaboration principle, equal opportunities – non-discrimination, social and environmental responsibility, integrity and professional ethics, conflict of interests, internal control and corruption prevention, asset protection, use and security of information and personal data protection). The Code of Conduct includes a specific mention of financial information preparation: "Hispania shall establish an adequate control environment to assess and manage Group risks, particularly those relating to the Internal Financial Reporting Control System (SCIF) in order to ensure that all Hispania transactions are clearly and accurately reflected in the accounting files and records of the Company, as well as in financial reporting".

The Body responsible for ensuring compliance with, update and dissemination of the Code of Conduct is the Appointment and Remuneration Committee. An infringement of the rules and principles of Hispania shall be penalised in accordance with the legislation in force, notwithstanding any other administrative or criminal liabilities which, in the specific case, might also pertain, including termination of the contractual relationship. In any event, the disciplinary proceedings that may take place shall be governed by strict observance of the fundamental rights and warranties inherent to any disciplinary proceedings.

Lastly, it is worth mentioning that the Company has Internal Conduct Regulations for matters relating to the securities markets, updated and approved in September 2016 by the Board of Directors at the proposal of the Appointment and Remuneration Committee, to adapt it to the modification of the Market Abuse regulations in force. The Internal Conduct Regulations are applicable to (i) the Directors, the Secretary and, as the case may be, the Deputy Secretary of the Board of Directors of the Company and the boards of directors of the other companies within the Hispania Group; (ii) the External Advisers; (iii) any other person who may have access to Privileged Information or Relevant Information within the scope of the Company and the Hispania Group; and (iv) any other person or group of persons who are included within the scope of application of the Regulations by decision of the Board of Directors of the Company or its Regulatory Compliance Manager, according to the circumstances of each case.

- Complaint reporting channel, enabling any irregularities of a financial and accounting nature to be reported to the audit committee, as well as any potential violations of the code of conduct and irregular activities in the organisation, informing, as the case may be, of the confidential nature thereof.

As set forth in paragraph three of the Code of Conduct approved by the Board of Directors, any infringements related to the Code of Conduct may be reported via the reporting form included in the web page of Hispania (www.hispania.es).

Any person subject to the Code of Conduct or any third party who should become aware of an allegedly unlawful act or an act that violates this Code must report it via the complaint reporting channel. Unfounded, untrue or false reports are not permitted.

Upon receiving a complaint, unless this is clearly unfounded or refers to matters outside of the scope of the Code, the Audit Committee shall commence an internal investigation to obtain all the information and documentation deemed appropriate. All complaints shall be treated as confidential.

Hispania will not adopt reprisals or any kind of negative consequence for having reported a complaint. However, this will not prevent the adoption of any disciplinary measures to be taken when the internal investigation should determine, as the case may be, that the complaint is false and/or reported in bad faith.

The operation of the Complaint Reporting Channel is regulated as a corporate procedure, approved by the Board of Directors and accessible by any Management Company employee.

- Training programmes and regular update for personnel involved in the preparation and review of financial information, as well as the assessment of the SCIIF, covering at least accounting rules, auditing, internal control and risk management.

During 2017, several training initiatives relating to accounting, tax, labour and mercantile rules have taken place in the Hispania Group. A training session for all the personnel of the Management Company has also been held to review the internal control policies formalised in previous years and the Risk Management System. The implications of such updates to the general regulations applicable to Hispania were also highlighted: Market Abuse, Prevention of Criminal Risk, Prevention of Money Laundering and Data Protection, among others.

F.2 Financial information risk assessment

Report, at least, on:

F.2.1. The main characteristics of the risk identification process, including error and fraud risks, regarding:

- Whether the process exists and is documented.

The following documentation must be kept updated for each of the processes and sub-processes identified in the SCIIF matrix:

- Narrative: Written description of the process/sub-process and control activities.
- Flow diagram: Graphical representation of the flow of control activities.
- Risk and control matrix: Identification, for every process/sub-process, of the inherent risks and key controls designed to mitigate them, as well as the single owner of each one.
- Improvement opportunities matrix: Identification of improvement opportunities defined to cover uncontrolled or insufficiently controlled risks.

The Financial Management Department shall keep and safeguard for a period of 5 years as of the date of update of the SCIIF scope the following documents as proof of the SCIIF maintenance procedure: (i) determination of the scope at company and accounting heading level, (ii) comparative analysis at accounting heading by company and (iii) entry into the scope of consolidation.

- Whether the process covers all financial information objectives, (existence and occurrence; integrity; valuation; presentation; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

As is set forth in the Financial Information Internal Control Policy, the main purpose of the SCIIF is to ensure the reliability of the financial information provided to the market. Ensuring that the information is reliable requires compliance with the following control objectives:

- Existence and occurrence (EO): The transactions, events and other actions included in the financial information exist and have been recorded at the right time.
- Integrity (I) of the information: The information reflects all of the transactions, events and other actions of which the entity is an affected party.
- Proper valuation (V): The transactions, events and other actions are recorded and valued in accordance with applicable regulations.
- Adequate presentation, breakdown and comparability (P, B, C): The transactions, events and other actions are classified, presented and reflected in the financial information in accordance with applicable regulations.
- Adequate reflection of rights and obligations (R.O): The financial information reflects, on the pertaining date, the rights and obligations via the pertaining assets and liabilities, in accordance with applicable regulations.

Following the identification of the controls associated with the risks of reliability of financial information, an assessment of the designed and implementation of the processes has taken place, in order to detect any control weaknesses and corresponding improvement opportunities as shown in the risk and control matrix.

The persons responsible for the various SCIIF processes have kept the documentation thereof up to date and has been reviewed in 2017.

- The existence of a consolidation scope identification process, taking into consideration, among other aspects, the possible existence of complex corporate structures, instrumental entities or special purpose vehicles.

The Financial Management Department is responsible for defining the consolidation scope according to effective participation and extent of influence in each investee company. It is also responsible for informing the Audit Committee and the internal and external auditors of any changes that are made in the scope of the SCIIF. In order to obtain reasonable certainty as to the reliability of the financial information, the Audit Committee oversees the proper definition of the scope of consolidation.

- Whether the process takes into account the effects of other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as these might affect the financial statements.

The Financial Management Department is responsible for identifying risks of error or fraud in the financial information via the SCIIF scope matrix and for documenting the design of the controls.

- Which of the entity's governance bodies is responsible for overseeing the process.

The supervision process of the internal control system is carried out in a continued manner over time. The scope of the evaluation of the internal financial reporting control system is approved every year by the Audit Committee on the basis of the financial information objectives and risks.

F.3 Control activities

Mention, along with main characteristics, if the entity has at least:

- F.3.1. Financial reporting review and authorisation procedures and description of the SCIIF, for publication in the securities markets, indicating persons responsible, as well as descriptive documentation on the activity and control flows (including those relating to fraud risk) of the various transactions which might materially affect the financial statements, including the close of accounts process and the specific review of the relevant opinions, estimations, valuations and projections.

As set forth in Article 37.5. (q) of the Regulations of the Board of Directors of Hispania, the Audit Committee is responsible for reviewing, prior to approval by the Board of Directors, the Company's Annual Accounts and the regular financial information which, in accordance with the regulations in force, the Company must provide to the markets and supervisory bodies.

In this regard, the Financial Management Department presents to the Audit Committee, prior to publication and approval by the Board, both the financial statements and the regular financial information presented to the markets, highlighting the main opinions and estimations issued on the more complex areas or those in which the accounting impact is more important.

The scope of the processes to be included in the SCIIF is reviewed every year by the Financial Management Department, analysing both quantitative and qualitative factors. Key processes and sub-process associated with each of the accounts and significant breakdowns have been defined, and risks that might generate errors and/or fraud in financial reporting have been identified, covering all financial reporting objectives. The Group has documented procedures regarding all processes deemed to be exposed to a risk of material impact in the preparation of financial reports. The SCIIF of Hispania for 2017 has included the following processes: (i) Close and consolidation; (ii) Treasury; (iii) Purchases; (iv) Sales; (v) Financing; and (vi) Taxation.

The description of the SCIIF processes is carried out by the Financial Management Department in collaboration with any Areas/Departments involved and presented for review to the Audit Committee. The Areas/Departments involved have critical process controls to ensure the reliability of the financial reporting.

The Company regularly presents to the Audit Committee an advance of the work carried out regarding the design, implementation of improvement and maintenance proposals for the SCIIF. In order to follow-up the action plans, the departments involved are regularly asked to provide updated information on the various improvement initiatives within their scope of responsibility.

The "closing and consolidation" process includes relevant aspects affecting financial reporting: (i) regulations and closing schedule; (ii) company accounts closing; (iii) individual closing review; (iv) review and update of the scope of consolidation; (v) consolidation;

(vi) preparation of individual and consolidated annual accounts; (vii) preparation and publication of individual and consolidated annual accounts; (viii) report on quarterly management closing; (ix) report of financial information to the Audit Committee, Board of Directors and Market; and (x) reports for investors and analysts.

F.3.2. Internal control policies and procedures on reporting systems (such as access security, control of changes, operation thereof, operational continuity and segregation of functions) supporting the relevant process of the entity regarding the preparation and publication of financial information.

The financial information management system used by the Hispania Group is one of the leading ERPs in the real estate sector which covers all mechanisms of access control and security and segregation of functions of financial and management information.

Access to financial and management information of Hispania is subject to approval from the Compliance Department and the Financial Management Department.

In addition, in order to have access to the Group systems, the user must have been informed of and have committed to compliance with the Group Code of Conduct.

Once authorised, system accesses are managed independently by a third party that has no relationship whatsoever with the Group's financial information, having established a user registration and deregistration procedure that is monitored by the Compliance Department.

The allocation of user roles and profiles is carried out taking into account the risk matrices and controls established in the group SCIF, identifying those responsible for each function that might significantly affect the financial information. Based on this information, on the user's access request and according to the organisational needs established by the person responsible in the requesting Area/Department, the Compliance Department and the Financial Management Department shall authorise the access.

The publication of financial information is limited to the Compliance Management Department and the Investor Relations Department, in order to ensure the segregation of functions between the Areas/Departments preparing the financial reports.

F.3.3. Internal control policies and procedures designed to supervise the management of activities subcontracted to third parties, as well as aspects of assessment, calculation or valuation entrusted to independent experts that might materially affect the financial statements.

Pursuant to the Management Agreement entered into by Hispania with the Management Company, the latter provides management services contracted both directly, by its own employees, and indirectly, via the personnel and resources of other entities in the Azora Group, according to the terms of said management agreement.

In addition, the Management Agreement considers the possibility of the Management Company being able to subcontract with third parties, in the name and behalf of the Company, (i) legal, accounting, valuation, broking, financial, due diligence, advertising and secretarial services, including real estate management services, (ii) development, construction and reform services, and (iii) services of any other nature related to Company assets, the Company or Group companies.

In this regard, and among other measures established to ensure proper execution of the works subcontracted by the management company with third parties, the Management Agreement establishes certain precautions. As such, prior to contracting third parties, the Management Company must verify that the selected supplier has sufficient knowledge and experience to execute the work.

In addition, it must have the prior approval of the Board of Directors or Executive Committee, depending on the overall amount of the subcontracted works. Specifically, in accordance with the Board of Directors' Regulations (Articles 4.4(h) and 36.1(c), respectively) and with the terms of the Management Agreement, the engagement of third party services whose price per contract exceeds 500,000 euros must be approved by the Executive Committee, and as of 1,500,000 euros, it shall require the prior approval of the Board of Directors. The prior consent of the Board of Directors of Hispania will also be required when, irrespective of the amount of the contract, the Management Company should decide to subcontract the provision of such services to companies within its own Group.

The Management Agreement also establishes the Management Company' obligation to keep the Executive Committee regularly informed of third party services engaged. Moreover, if deemed necessary, the Company Governance Bodies may request that the third parties themselves regularly present the conclusions of their work to the various Committees of the Board of Directors.

Having said that, the main subcontracted activity likely to materially affect the financial statements of the Hispania Group is that relating to asset valuation (which the Company performs every year and updates every six months). In order to specifically monitor this subcontracted service, the Management Company holds regular working meetings attended to be the Business Management Departments, Financial Management Department and General Management Department. Moreover, once the valuation work has been carried out, the resulting valuations are reviewed by the company's external auditor to ensure that the criteria and estimations used by the independent third party are fair and reasonable.

It is worth mentioning that during 2017 the Hispania Group acquired the control of the following companies: (i) Milenial Business 21, S.L.U., (ii) Topaz Business 21, S.L.U. y (iii) Armadores de Puerto Rico which have continued with their administrative and financial management until 31 December 2017, but under the control and supervision of the Hispania Group. At the close of 2017, these companies have been added to the framework of the Internal Financial Reporting Control System of the Hispania Group.

F.4 Information and communication

Mention, and indicate main characteristics, whether you at least have:

F.4.1. A specific function responsible for defining, maintaining accounting policies up to date (accounting policy area or department) and settling doubts or conflicts arising from interpretation thereof, maintaining fluid communication with those responsible for operations in the organisation, as well as a handbook of accounting policies that has been updated and provided to the units through which the entity operates.

Hispania has an Accounting Policy Handbook that is reviewed and updated by the Financial Management Department, if necessary, to reflect the guidelines that may have arisen from applicable regulatory changes. In the event of an accounting regulatory change having taken place, the Financial Management Department, based on the published rules along with the advice of external experts, and following validation by the Compliance Management Department if applicable, will report this to the Financial Department. In the event of the Accounting Policy Handbook requiring an update (only when the change comes about from a choice of criterion and the choice thereof has a material impact on the Group), the change must be approved by the Audit Committee.

F.4.2. Mechanisms to capture and prepare financial information using homogeneous formats, of application and used by all units in the entity or group, to support the main financial statements and the notes, as well as the information contained in the SCIIF.

This section is regulated in the Close and Consolidation process included in the SCIIF. The main aspects relating thereto are summarised below.

In terms of the financial information managed in the company ERP, this ERP contains the structures, parameters and homogeneous formats for information entry, from which the financial statements of each company are obtained. All formats apply to all companies managed within the Group ERP.

For companies not managed in the Group ERP, the financial information is reported to the Financial Department following the breakdowns, detailed formats and dates established in the instructions and reporting schedule that are regularly provided.

The Financial Management Department is responsible for preparing the Annual Accounts, both individual and consolidated.

In this regard, it requests and compiles the necessary information from the Areas/Departments involved in the drafting of the various Notes of the Financial Statements. The Notes including information prepared or provided by other specific Areas/Departments must be reviewed by the person responsible for the affected Department. Once the annual accounts have been prepared they are sent to the Financial Management Department for review and, once reviewed, shall be sent to the Financial Management Department of the Azora Group.

Likewise, if the external auditors, when auditing the Annual Accounts, should detect any error that requires the modification thereof, they shall inform the Financial Management Department thereof for analysis and validation.

Once the changes have been authorised by the Financial Management Department, the Financial Management team of Hispania shall carry out the accounting entry thereof and the modification of the affected information in the Annual Accounts.

In addition, the Internal Audit Management Department carries out a review of the Annual Accounts and, in the event of detecting any need for modification, shall proceed in the same manner as that of the external auditors.

F.5 Supervision of system operation

Provide information, with main characteristics, of at least the following:

- F.5.1. The SCIIF supervisory activities carried out by the audit committee as well as whether the entity has an internal audit function that is responsible, among other competencies, for providing support to the committee in the supervision of the internal control system, including the SCIIF. Also inform on the scope of the SCIIF evaluation carried out in the year and on the procedure used by the person responsible for the evaluation to inform of its results, whether the entity has an action plan detailing potential corrective measures and whether their impact on the financial information has been considered.

Article 37 of the Board of Directors' Regulations regulates the Audit Committee.

Below is an extract of the paragraphs of this article which refer to the Internal Financial Information Control System and the Internal Audit function.

5. Notwithstanding any other tasks which might be allocated from time to time by the Board, the Audit Committee shall perform the following basic functions:

- (j) ensure the Independence and efficacy of the internal audit function, verifying the adequacy and integrity thereof and supporting the Audit Committee in its supervision of the internal control system;
- (k) propose the selection, designation and replacement of the person responsible for internal audit services; propose the budget for this service; approve the guideline and work plans, ensuring that its activity is principally geared towards relevant risks of the Company; receive regular information on its activities and verify that the management team members have taken into consideration the conclusions and recommendations contained in its reports;
- (m) regularly Review internal control and risk management systems of the Company and in particular, the proper design of the internal financial information control system (SCIIF) to enable main risks to be adequately identified, managed and reported;
- (n) approve the internal audit plan for evaluation of the SCIIF and its modifications, and receive regular information on the result of its work, as well as on the action plan to correct any deficiencies detected.

With regard to these functions, during 2017 the regular follow-up of the SCIIF has been presented to the Audit Committee, via the Internal Audit Management Department and the Financial Management Department.

Finally, the Company's external auditor has carried out an evaluation of the Financial Information Control System the conclusions of which have been presented to the Audit Committee.

This Review has consisted of applying the specific procedures indicated in the Action Guide on the auditor's report regarding the Internal Financial Information Control System of listed companies, which sets out the work to be performed, the minimum scope thereof and the content of the report.

- F.5.2. Whether the company has a discussion procedure through which the accounts auditor (in accordance with what is set forth in the Technical Auditing Rules), the internal auditing function and other experts are able to inform senior management and the audit committee or directors of the company of significant internal control weaknesses identified during the annual accounts review processes or any other which may have been entrusted to them. In addition, please mention whether you have a plan of action designed to correct or mitigate any weaknesses observed.

The external auditor of the company has carried out an evaluation of the SCIIF whose conclusions have been presented to the Audit Committee.

No deficiencies that might have an impact on the financial information have been detected in the SCIIF evaluation carried out by the external auditor.

As a result of the review of the design and implementation of the formalised processes, the Audit Committee has approved the internal audit plan for 2018 which includes the supervision of the SCIIF processes to ensure the proper operation of the SCIIF during 2018.

F.6 Other relevant information

N/A

F.7 External auditor's report

Please indicate:

F.7.1. Whether the SCIIF information sent to the markets has been submitted for review by the external auditor, in which case the entity should include the pertaining report as an annex. Otherwise, please provide reasons.

The SCIIF information has been submitted for review by the external auditor (see Annex).

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the code of good governance of listed companies.

In the event of not following or only partially following any of the recommendations, include a detailed explanation of the reasons for this so that the shareholders, the investors and the market in general have sufficient information to evaluate the actions of the company. Explanations of a general nature shall not be acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes to be cast by one same shareholder, nor contain other restrictions which prevent taking over control of the company by means of acquiring its shares on the market.

Complies

Explain

2. That when the parent company and a dependent company are both listed, they accurately define:

- a) The respective areas of activity and potential business relations between them as well as those of the listed dependent company with other group companies.
- b) The mechanisms in place to settle any potential conflicts of interest which may arise.

Complies

Partially complies

Explain

Not applicable

3. That when the ordinary general meeting is held, as an addition to the dissemination in writing of the annual corporate governance report, the chairman of the board of directors verbally informs the shareholders, in sufficient detail, of the most relevant aspects of the company's corporate governance, particularly:

- a) Of any changes that have occurred since the last ordinary general meeting.
- b) Of the specific reasons why the company does not follow some of the recommendations of the Corporate Governance Code and, if any, any alternative rules applied to this matter.

Complies

Partially complies

Explain

4. That the company defines and promotes a policy of communication and contact with shareholders, institutional investors and voting advisers that is fully observant of the rules against market abuse and provide a similar treatment to shareholders in the same position.

And that the company publicises this policy in its web page, including information on the way in which it has been put into practice and identifying the contract persons or persons responsible for performance thereof.

Complies Partially complies Explain

5. That the board of directors does not refer to the general meeting a proposal of delegation of powers, to issue shares or convertible securities with exclusion of the pre-emptive right of purchase, for over 20% of the capital at the time of delegation.

And that when the board of directors approves any issuance of shares or convertible securities with exclusion of the pre-emptive purchase right, the company should immediately publish on its web page the reports on said exclusion referred to in mercantile legislation.

Complies Partially complies Explain

6. That the listed companies that prepare the reports listed below, whether by obligation or voluntarily, publish these sufficiently in advance of the date of the ordinary general meeting, even if dissemination is not mandatory:

- a) Report on the auditor's Independence.
- b) Reports on the operation of the audit and appointment and remuneration committees.
- c) Report from the audit committee on related transactions.
- d) Report on social corporate responsibility policy.

Complies Partially complies Explain

7. That the company provides live broadcasts, via its web page, of the general meetings of shareholders.

Complies Explain

Given the technical complexity and the cost of live broadcasting of the general meeting, it has not been deemed appropriate to offer this possibility in the last meeting. In any event, in the future this decision shall be made individually for each general meeting.

8. That the audit committee ensures that the board of directors endeavours to present the accounts to the general shareholders' meeting with no qualifications or limitations in the audit report and that, in the exceptional cases that include qualifications, both the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of such limitations or qualifications.

Complies Partially complies Explain

9. That the company permanently publishes in its web page the requirements and procedures it will accept as proof of ownership of shares, the right of attendance to the general meeting of shareholders and the exercise or delegation of the right to vote.

And that such requirements and procedures encourage attendance and the exercise of rights by the shareholders and are applied in a non-discriminatory manner.

Complies Partially complies Explain

10. That when any legitimate shareholder has exercised, prior to the general shareholders' meeting, the right to complete the agenda or to present new agreement proposals, the company:

- a) Immediately publishes such additional points and new agreement proposals.
- b) Publicises the attendance card format or vote delegation form or absentee ballot form with the modifications required to enable voting on the new points in the agenda and alternative proposals of agreement under the same terms as those proposed by the board of directors.
- c) Submits all such points or alternative proposals to voting and applies the same voting rules as those presented by the board of directors, including, in particular, any presumptions or deductions on the sign of the vote.
- d) Subsequently to the general meeting of shareholders, reports on the breakdown of votes on such additional points or alternative proposals.

Complies Partially complies Explain Not applicable

11. That, in the event the company plans to pay attendance bonuses to the general meeting of shareholders, it should establish in advance a general policy on such bonuses and that this policy remains stable.

Complies Partially complies Explain Not applicable

12. That the board of directors performs its functions with unity of purpose and independence of judgement, gives the same treatment to all shareholders in the same position and is guided by corporate interest, this being understood as the pursuit of a profitable business that is sustainable in the long term, promoting its continuance and maximises the economic value of the company.

And that in the pursuit of corporate interest, as well as observance of the laws and regulations and a conduct based on good faith, ethics and respect for generally accepted customs and good practice, it endeavours to reconcile its own corporate interest with, as the case may be, the legitimate interests of its employees, its clients and all other stakeholders that might be affected, as well as the impact of the company's activities on the community as a whole and the environment.

Complies Partially complies Explain

13. That the board of directors is of a size such that it allows for efficient and participative operation, ranging between five and fifteen members.

Complies Explain

14. That the board of directors approves a direct selection policy that:

- a) Is specific and verifiable.
- b) Ensures that proposals of appointment or re-election are based on a previous analysis of the needs of the board of directors.
- c) Encourages diversity of knowledge, experience and gender.

That the result of the previous analysis of the needs of the board of directors is expressed in the supporting report of the appointment committee published when calling the general shareholders' meeting in which the ratification, appointment or re-election of each director is to be submitted.

And that the director selection policy supports the target of at least 30% female directors by 2020.

The appointment committee shall verify compliance with the director selection policy every year and report thereon in the annual corporate governance report.

Complies Partially complies Explain

15. That proprietary and independent directors constitute a broad majority of the board of directors and that the number of executive directors is the lowest possible, taking into consideration the complexity of the corporate group and the percentage participation of executive directors in the capital of the company.

Complies Partially complies Explain

16. That the percentage of proprietary directors of the total number of non-executive directors is not higher than the proportion between the capital represented by such directors and the rest of the capital.

This criterion may be mitigated:

- a) In highly capitalised companies with few shareholdings considered to be significant.
- b) In the event of companies with many shareholders represented in the board of directors and there are no relations between them.

Complies Explain

17. That the number of independent directors represents at least half the total number of directors.

However, when the company is not highly capitalised or when, despite being highly capitalised, it has one or several shareholders acting in agreement, who control over 30% of the share capital, that the number of independent directors represents at least one third of the total number of directors.

Complies Explain

18. That the companies publicise via their web page and keep current the following information on their directors:

- a) Professional and biographical profile.
- b) Other boards of directors to which they belong, whether or not of listed companies, as well as any other remunerated activities carried out, irrespective of the nature thereof.
- c) Indicate the director category to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or with whom they are related.
- d) Date of first appointment as director of the company, as well as subsequent re-elections.
- e) Company shares, and options thereon, owned by them.

Complies Partially complies Explain

Partially complies with point b).

19. That the annual corporate governance report, following verification by the appointment committee, includes an explanation of the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is under 3% of capital; and provides the reasons for not having met, as the case may be, formal requests for presence in the board from shareholders whose shareholding is the same or greater than that of others for whom proprietary directors have been appointed.

Complies Partially complies Explain Not applicable

20. That the proprietary directors present their resignation when the shareholder they represent transfers its shareholding in full. And that they also resign, proportionally, when said shareholder reduces its shareholding to a level that calls for a reduction in the number of proprietary directors.

Complies Partially complies Explain Not applicable

21. That the board of directors does not propose the removal of any independent director prior to completion of the statutory period for which he/she has been appointed, unless in the event of just cause, as observed by the board of directors following a report from the appointment committee. In particular, just cause shall be deemed to exist when the director begins to occupy new offices or assumes new obligations that prevent him/her from dedicating the required time to performance of the duties inherent to the directorship or is involved in any circumstance that causes him/her to lose the independent status, in accordance with what is set forth in the legislation of application.

The removal of independent directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations that lead to a change in the capital structure of the company, when such changes in the structure of the board of directors are caused by the proportionality principle mentioned in recommendation 16.

Complies Explain

22. That the companies establish rules obliging the directors to report and, as the case may be, to resign in cases which may harm the prestige and reputation of company and, in particular, that oblige them to inform the board of directors of any criminal proceedings in which they have been indicted, as well as any subsequent prosecutorial events.

And that if a director should be prosecuted or subject to a court hearing for any of the offences contained in corporate legislation, the board of directors examines the case as soon as possible and, in light of the specific circumstances, decides whether or not the director should continue in office. And that the board of directors reports on all such matters, in a reasoned manner, in the annual corporate governance report.

Complies Partially complies Explain

23. That all directors clearly express their opposition when they consider that any proposal for decision submitted to the board of directors might go against the corporate interest. And that this is also done, particularly, by independent directors and other directors who are not affected by the potential conflict of interest, when involving decisions which might harm the shareholders who are not represented in the board of directors.

And that when the board of directors adopts significant or repeated decisions regarding which a director has expressed serious concerns, the director should draw appropriate conclusions and, if he/she should elect to resign, he/she shall explain the reasons in the letter referred to in the next recommendation.

This recommendation also extends to the secretary of the board of directors, even if he/she is not a director.

Complies Partially complies Explain Not applicable

24. That when, whether due to resignation or any other reason, a director should leave his/her office before the end of his/her term, he/she should explain the reasons in a letter addressed to all members of the board of directors. And that, notwithstanding said resignation reported as a relevant event, the reason for termination is reported in the annual corporate governance report.

Complies Partially complies Explain Not applicable

25. That the appointment committee ensures that all non-executive directors have sufficient time available to correctly perform their duties.

And that the board regulations establish the maximum number of company boards to which its directors may belong.

Complies Partially complies Explain

26. That the board of directors meet with the frequency deemed necessary to efficiency perform its duties and, at least, eight times a year, following the schedule of dates and issues established at the start of the year, with each director being able individually to propose additional points in the agenda that were not originally considered.

Complies Partially complies Explain

27. That the absences of directors are reduced to unavoidable circumstances and are quantified in the annual corporate governance report. And that, in the event of non-attendances, representation with instructions is granted.

Complies Partially complies Explain

28. That when the directors or the secretary should express concern about a proposal or, in the case of directors, concerns about the performance of the company, and such concerns are not settled in the board of directors, this is recorded in the minutes at the request of whoever has expressed such concerns.

Complies Partially complies Explain Not applicable

29. That the company puts the proper channels in place for directors to obtain the required advice to perform their duties including, if required by the circumstances, external advice payable by the company.

Complies Partially complies Explain

30. That, irrespective of the knowledge required from the directors for the performance of their duties, the companies offer their directors refresher programmes as circumstances may require.

Complies Partially complies Explain

31. That the meeting agenda clearly indicates the points regarding which the board of directors must reach a decision or agreement so that the directors may study or obtain, prior to the meeting, the information required.

When, exceptionally, for reasons of urgency, the chairman should wish to submit for approval by the board of directors decisions or agreements not contained in the agenda, the prior and express consent of the majority of directors present shall be required and recorded in the minutes.

Complies Partially complies Explain

32. That the directors are regularly informed of the movements in the shareholding and the opinions of significant shareholders, investments and rating agencies on the company and its group.

Complies Partially complies Explain

33. That the chairman, as the person responsible for the proper operation of the board of directors, as well as performing the functions legally and statutorily allocated to him, prepares and submits to the board of directors a programme of dates and matters for discussion; organises and coordinates the regular assessment of the board as well as, as the case may be, that of the chief executive officer of the company; is responsible for the management of the board and the efficiency of its operation; ensures that sufficient time is devoted to discussion of strategic issues and agrees and reviews the refresher programmes for each director, when required by the circumstances.

Complies Partially complies Explain

34. That when a coordinating director exists, the articles of association or board of directors' regulations, in addition to the powers legally allocated, should also allocate the following: to chair the board of directors in the absence of the chairman and deputy chairmen, if any; to voice the concerns of non-executive directors; to maintain contacts with investors and shareholders to learn their points of view in order to form an opinion on their concerns, particularly in relation to the company's corporate governance: and coordinate the chairman succession plan.

Complies Partially complies Explain Not applicable

35. That the secretary of the board of directors specifically ensures that the board of directors, regarding its actions and decisions, takes into consideration any good governance recommendations contained in this good governance Code that are applicable to the company.

Complies Explain

36. That once a year the board of directors in full assesses and adopts, as the case may be, an action plan to correct any deficiencies detected in relation to:

- a) The quality and efficiency of the operation of the board of directors.
- b) The operation and composition of its committees.
- c) The diversity in the composition and competencies of the board of directors.
- d) The performance of the chairman of the board of directors and of the chief executive officer.

e) The performance and contribution of each director, paying special attention to those responsible for the various board committees.

The assessment of the various committees shall use the report submitted by them to the board of directors and the assessment of the latter shall use the report prepared by the appointment committee.

Every three years, the board of directors shall be assisted in the performance of the assessment by an external consultant, whose independence shall be verified by the appointment committee.

Any business relationships that the consultant or any company in its group have with the company or any company in the group must be revealed in the annual corporate governance report.

The process and assessed areas shall be subject to description in the annual corporate governance report.

Complies Partially complies Explain

37. That when there is an executive committee, the participation structure of the various director categories is similar to that of the board of directors, and that the secretary of the executive committee is the secretary of the board of directors.

Complies Partially complies Explain Not applicable

38. That the board of directors is always aware of the matters discussed and the decisions made by the executive committee and that all members of the board of directors receive a copy of the minutes of meetings of the executive committee.

Complies Partially complies Explain Not applicable

39. That the members of the audit committee, and particularly its chairman, are appointed taking into account their knowledge and experience in matters of accounting, auditing or risk management, and that the majority of such members are independent directors.

Complies Partially complies Explain

40. That under the supervision of the audit committee, there is a unit that assumes the internal audit function to ensure the good operation of the internal information and control systems and that functionally reports to the non-executive chairman of the board or that of the audit committee.

Complies Partially complies Explain

41. That the person responsible for the unit assuming the internal audit function presents to the audit committee the annual work plan, directly reports any incidents that might arise in the performance thereof and presents an activity report at the end of each financial year.

Complies Partially complies Explain Not applicable

42. That, in addition to the functions set forth in the law, the audit committee assumes the following:

1. Regarding information and internal control systems:

a) Supervise the process of preparation and integrity of the financial information of the company and, as the case may be, of the group, reviewing compliance with regulatory requirements, the proper definition of the scope of consolidation and the proper application of accounting criteria.

- b) Ensure the independence of the unit responsible for the internal audit function; propose the selection, appointment, re-election and dismissal of the person responsible for the internal audit service; propose a budget for this service; approve the orientation and work plans, ensuring that the activity is mainly focused on the company's relevant risks; receive regular information on its activities; and verify that the senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism allowing the employees to report, in a confidential manner and, if possible and deemed appropriate, anonymously, any irregularities of potential importance, particularly those of a financial or accounting nature, detected by them in the company.

2. In relation to the external auditor:

- a) In the event of resignation of the external auditor, examine the circumstances leading up to such resignation.
- b) Ensure that the remuneration received by the external auditor for its work does not compromise the quality or independence thereof.
- c) Ensure that the company reports the change of auditor as a relevant event to the CNMV, along with a statement on the potential existence of disagreements with the outgoing auditor and, if any, the content thereof.
- d) Ensure that the external auditor holds a meeting every year with the board of directors to report on the work carried out and the evolution of the accounting and risk situation of the company.
- e) Ensure that the company and the external auditor observe the rules in force on the provision of services other than auditing services, the limits on the auditor's business concentration and, in general, all other rules on auditor independence.

Complies Partially complies Explain

43. That the audit committee may at any time call on any employee or senior manager of the company, and even request that they appear with no other senior manager.

Complies Partially complies Explain

44. That the audit committee is informed of the structural and corporate modification operations that the company plans to carry out, enabling prior analysis and report to the board of directors on the economic terms and accounting impact and, particularly, as the case may be, on the exchange ratio proposed.

Complies Partially complies Explain Not applicable

45. That the risk control and management policy identifies, at least, the following:

- a) The various types of financial and non-financial risks (such as operational, technological, legal, social, environmental, political and reputational) faced by the company, including contingent liabilities and other off-balance sheet risks among the financial or economic risks.
- b) The setting of the level of risk considered acceptable by the company.
- c) The measures in place to mitigate the impact of identified risks, in the event that these should materialise.
- d) The information and internal control system to be used to control and manage such risks, including contingent liabilities and off-balance sheet risks.

Complies

Partially complies

Explain

46. That under the direct supervision of the audit committee or, as the case may be, a specialist committee of the board of directors, there is an internal function of risk control and management performed by an internal unit or department of the company, to which the following functions have been allocated:

- a) Ensure the good working order of the risk control and management systems, and, in particular, that all important risks affecting the company are adequately identified, managed and quantified.
- b) Actively take part in the design of the risk strategy and important decisions on the management thereof.
- c) Ensure that the risk control and management systems adequately mitigate the risks within the framework of the policy defined by the board of directors.

Complies

Partially complies

Explain

47. That the members of the appointment and remuneration committee – or appointment committee and remuneration committee, if separate- are designated ensuring that they have the knowledge, skills and experience required for the functions to be performed, and that the majority of such members are independent directors.

Complies

Partially complies

Explain

48. That the highly capitalised companies have a separate appointment committees and remuneration committees.

Complies

Explain

Not applicable

49. That the appointment committee consults with the chairman of the board of directors and chief executive officer of the company when involving matters relating to executive directors.

And that any director may request that the appointment committee take into consideration, if deemed adequate in its opinion, potential candidates to fill director vacancies.

Complies

Partially complies

Explain

50. That the remuneration committee performs its functions independently and, that in addition to the functions allocated by law, the following are also allocated:

- a) Propose to the board of directors the basic terms of senior executive contracts.
- b) Verify observance of the remuneration policy established by the company.
- c) Regularly review the remuneration policy applied to directors and senior executives, including remuneration systems involving shares and their application, as well as guaranteeing that the individual remuneration is in proportion with that paid to other directors and senior executives of the company.
- d) Ensure that any potential conflicts of interest do not affect the independence of the external advice provided to the committee.

e) Verify the information on remuneration of directors and senior executives contained in the various corporate documents, including the annual report on director remuneration.

Complies Partially complies Explain

Partially complies with paragraph d)

51. That the remuneration committee consults the chairman and chief executive officer of the company, particularly on matters related to executive directors and senior executives.

Complies Partially complies Explain

52. That the rules of composition and operation of the supervision and control committees are contained in the board of directors' regulations and are consistent with those applicable to the legally mandatory committees in accordance with the previous recommendations, including:

a) That they are exclusively made up of non-executive directors, with a majority of independent directors.

b) That their chairmen are independent directors.

c) That the board of directors designates the members of these committees taking into consideration the knowledge, skills and experience of the directors and the functions of each committee, holds deliberations on their proposals and reports; and that they are held accountable, in the first meeting of the board of directors subsequent to their meetings, for their activities and work.

d) That the committees are able to call upon external assistance, when deemed necessary for the performance of their functions.

e) That minutes are drawn up of the meetings, to be made available to all directors.

Complies Partially complies Explain Not applicable

53. That the supervision of the compliance with corporate governance rules, the internal codes of conduct and the social corporate responsibility policy is allocated to one committee or distributed among various committees of the board of directors, such as the audit committee, the appointment committee, the social corporate responsibility committee, if any, or a specialist committee which the board of directors, in the exercise of its powers of self-organisation, should decide to create for this purpose, to which the following minimum functions are allocated:

a) The supervision of the compliance with the internal codes of conduct and corporate governance rules of the company.

b) The supervision of the strategy of communication and shareholder and investor relations, including small and medium sized shareholders.

c) Regular evaluation of the adequacy of the company's corporate governance system, in order to ensure that it fulfils its mission to promote corporate interest and takes into account, as the case may be, the legitimate interests of all other stakeholders.

d) The review of the company's corporate responsibility policy, ensuring that it is oriented toward creation of value.

e) The follow-up of the social corporate responsibility strategy and practices and the assessment of degree of compliance.

f) The supervision and assessment of the relationship processes with the various stakeholders.

g) The assessment of everything related to non-financial risks of the company – including operation, technological, legal, social, environmental, political and reputational risks.

h) The coordination of the reporting process of non-financial information and diversity, in accordance with the applicable regulations and international standards of reference.

Complies

Partially complies

Explain

54. That the social corporate responsibility policy includes the principles or commitments assumed voluntarily by the company in relation to the various stakeholders and identifies, at least, the following:

a) The objectives of the social corporate responsibility policy and the development of support instruments.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters related to shareholders, employees, customers, suppliers, social issues, environment, diversity, fiscal responsibility, respect for human rights and prevention of unlawful conduct.

d) Methods or systems to monitor the results of applying the specific practices laid out in the previous paragraph, associated risks and management thereof.

e) Supervision mechanisms of non-financial risk, ethics and business conduct.

f) Channels for communication, participation and dialogue with the stakeholders.

g) Responsible communication practices that prevent information manipulation and protect honour and integrity.

Complies

Partially complies

Explain

55. That the company reports, in a separate document or in the management report, on the matters relating to social corporate responsibility, using to this end any of the internationally accepted methodologies.

Complies

Partially complies

Explain

56. That the remuneration of the directors is at an appropriate level to attract and retain the directors of the required profile and to remunerate the dedication, qualification and responsibility required by the office, but not so high as to compromise the independence of judgement of non-executive directors.

Complies

Explain

57. That remuneration linked to the company's performance and personal performance is confined to the directors, as well as remuneration by way of shares, options or rights over shares or instruments based on share value and long-term savings plans such as pension plans, retirement systems and other pension schemes.

The delivery of shares as remuneration for non-executive directors is possible when this is subject to these being held until their position as directors comes to an end. The foregoing shall not be of application to shares that the director needs to sell, as the case may be, to settle costs related to their acquisition.

Complies

Partially complies

Explain

58. That in the case of variable remuneration, the remuneration policies include the limits and technical precautions required to ensure that such remuneration is in line with the professional performance of its beneficiary and does not only depend on the general performance of the markets or of the company's activity sector or any other similar circumstances.

And, in particular, that the variable components of remuneration:

- a) Are linked to performance criteria that have been predefined and are measurable and that such criteria consider the risk assumed in obtaining a result.
- b) Promote the sustainability of the company and include non-financial criteria that are suitable for long term value creation, such as compliance with internal rules and procedures of the company and risk control and management policies.
- c) Are based on a balance of short, medium and long-term fulfilment of objectives, enabling the remuneration of performance over a period of time that is sufficient to appreciate the contribution to sustainable value creation, so that the elements used to measure such performance are not only based on single, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

59. That the payment of a significant part of the variable remuneration components is deferred for a minimum period of time that is sufficient to verify that the previously established performance conditions have been met.

Complies Partially complies Explain Not applicable

60. That the remuneration related to company results takes into consideration any potential qualifications mentioned in the external auditor's report, reducing such results.

Complies Partially complies Explain Not applicable

61. That a significant percentage of the variable remuneration of the executive directors is linked to the delivery of shares or financial instruments linked to their value.

Complies Partially complies Explain Not applicable

62. That once the shares or options or rights on shares pertaining to the remuneration systems have been provided, the directors may not transfer ownership of a number shares equal to twice their annual fixed remuneration, nor exercise the options or rights until a period of at least three years has elapsed since allocation thereof.

The foregoing shall not apply to shares that the director needs to sell, as the case may be, to pay costs related to their acquisition.

Complies Partially complies Explain Not applicable

63. That the contractual agreements include a clause that allows the company to claim reimbursement of variable remuneration components when the payment has not been in line with performance conditions or when these have been paid on the basis of data whose inaccuracy has subsequently been proven.

Complies Partially complies Explain Not applicable

64. That the payments for contract termination do not exceed an established amount equal to two years of total annual remuneration, and that this is not paid until the company has been able to verify that the director has met previously established performance criteria.

Complies Partially complies Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects in terms of the corporate governance of the company or the group entities that have not been considered in the paragraphs of this report, but must be included in order to provide more complete and reasoned information on the structure and governance practices of the entity or its group, please provide a brief description.
2. Within this section, also include any other information, clarification or detail related to the previous paragraphs of this report insofar as they may be relevant and non-reiterative.

Specifically, indicate whether the company is subject to a legislation other than Spanish legislation in matters of corporate governance and, as the case may be, include the information it is obliged to provide that is different to that required in this report.

3. The company may also indicate whether it has voluntarily adhered to other ethical principle or good practice codes, whether international, sectorial or of any other kind. If any, identify the code in question and the date of adhesion.

PARAEPGRAPH C.1.16.

Azora Gestión S.G.I.I.C., S.A. currently provides investment, asset management, administration, accounting and corporate services to the Hispania Group pursuant to the Management Agreement entered into on 21 February 2014.

The management company provides the management services engaged directly, via its own employees, and indirectly, via the personnel and resources of other entities within the Azora Group, in accordance with the terms of said management agreement. In this regard, Azora Capital, S.L. has undertaken to place all subsidiaries' resources (including human resources) at the disposal of the Management Company and the Company for the proper execution of the Management Agreement.

As a consequence of the foregoing, the Management Company has the following management team, headed by Ms. María Concepción Osácar Garaicoechea and Mr. Fernando Gumuzio Íñiguez de Onzoño, which also includes Mr. Juan Antonio del Rivero Bermejo, Ms. Cristina García-Peri, Mr. Javier Picón García de Leániz, Mr. Jean Marc Parnier, Mr. Javier Rodríguez Heredia, Mr. Javier Arús Castillo and Ms. Mónica Garay Irizar.

As for the total remuneration received by Azora Gestión S.G.I.I.C., S.A. in 2017 for management services provided to the Hispania Group, the total amount paid is of 19,818 euros.

PARAGRAPH H.1.

In reply to point 1, in matters of corporate governance, both Ms. M^a Concepción Osácar Garaicoechea and Mr. Fernando Gumuzio Íñiguez de Onzoño are Executive Directors of the Management Company of the Hispania Group. They are also indirect control shareholders of Azora Altus, S.L., the parent company of the group to which the Management Company belongs via its asset holding companies (in the case of Mr. Fernando Gumuzio Íñiguez de Onzoño, along with this wife). Azora Altus, S.L. holds a non-significant shareholding in Hispania consisting of a direct shareholding 166,287 shares and an indirect shareholding of 1,004,060 shares via Azora Capital, S.L. (938,435 shares) and Azora Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. (65,625 shares). None of the shareholders of Azora Altus, S.L. holds the control of this company for the purposes of article 4 of the Spanish Securities Market Law.

There is no relationship whatsoever of a business, contractual or corporate nature between the holders of significant shareholdings and the company and/or its group. However, Canepa Iberia Holdings, s.a.r.l., a company belonging to the Canepa Group and related to Tamerlane, s.a.r.l., owner of 6,494,315 company shares (representing 5.95%) owns a shareholding of 25% in Azora Capital, S.L., sole shareholder of Azora Gestión, S.G.I.I.C., S.A.

This annual corporate governance report has been approved by the Board of Directors of the company, in the meeting dated 26/02/2018.

Indicate whether any directors have voted against or abstained in relation to the approval of this Report.

Yes

No

Agreed Upon Procedures Report on the accompanying "ICFR-related information" for the year ended December 31, 2017

Hispania Activos Inmobiliarios SOCIMI, S.A.

Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

Agreed Upon Procedures Report on the accompanying "ICFR-related information" of Hispania Activos Inmobiliarios SOCIMI S.A. for the year ended December 31, 2017

To the Directors of Hispania Activos Inmobiliarios SOCIMI, S.A.

In accordance with the request from the Board of Directors of Hispania Activos Inmobiliarios SOCIMI, S.A. (hereinafter the Entity) and our engagement letter dated September 18, 2017, we have performed certain procedures on the accompanying "ICFR-related information" of Hispania Activos Inmobiliarios SOCIMI, S.A. for the year ended December 31, 2017, which summarizes the internal control procedures of the Entity in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information attached and included in Section F of Hispania Activos Inmobiliarios SOCIMI, S.A. Annual Corporate Governance Report.

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by the Entity in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of the Entity internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness on the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to the Entity's annual financial information for the year described in the accompanying "ICFR-related information". Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with the Audit Law, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by the Entity in relation to the ICFR - which is provided in the Director's Report disclosure- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the IAGC model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to: (i) obtain an understanding of the process followed in its preparation; (ii) obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtain information on whether the control procedures described are implemented and in used in the Entity.
3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the internal auditing function, senior management, and other internal and external experts providing support to the Audit and Control Committee.
4. Compare the information described in point 1 above with the Entity's ICFR knowledge obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.
5. Read the minutes of the meetings held by the Board of Directors, Audit and Control Committee and other Entity committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.
6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were detected that might have an impact on ICFR-related information.

This report was prepared exclusively within the framework of the requirements established by article 540 of the consolidated text of the Corporate Enterprises Act and by Circular nº7/2015 dated December 22, 2015 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(Signed on the original)

February 26, 2018

David Ruiz-Roso Moyano

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Diligence in Preparation of the Annual Consolidated Accounts and consolidated management report

In accordance with the provisions of the Capital Companies Act, on 26 February 2018 the Board of Directors of Hispania Activos Inmobiliarios SOCIMI, S.A. prepared the consolidated annual accounts (consolidated statement of financial position, consolidated comprehensive income statement, consolidated statement of changes in equity, consolidated cash flow statement and consolidated report) and the consolidated Management Report for the year ending 31 December 2017 issued on 82 sheets of ordinary paper, each of which has been approved by the Secretary of the Board of Directors.

Pursuant to Royal Decree 1362/2007, of 19 October (art. 8.1 b) and art. 10) the undersigned Directors of Hispania Activos Inmobiliarios SOCIMI, S.A. hereby state the following:

That to the best of their knowledge, the annual consolidated accounts have been prepared in accordance with applicable accounting principles and offer a true and fair image of the equity, financial position and income of the issuer and of the companies included within its scope of consolidation as a whole, together with a description of the main risks and uncertainties they face.

In witness whereof, the Directors sign below:

MR RAFAEL MIRANDA ROBREDO

Chairman of the Board of Directors

Chairman of the Executive Committee

Member of the Appointment and
Remuneration Committee

MR JOAQUIN AYUSO GARCÍA

Member of the Board of Directors

Member of the Executive Committee

Member of the Audit Committee

MR JOSE PEDRO PÉREZ-LLORCA Y
RODRIGO,

Member of the Board of Directors

Member of the Audit Committee

Chairman of the Appointment and

Remuneration Committee

MR LUÍS ALBERTO MAÑAS
ANTÓN,

Member of the Board of Directors

Chairman of the Audit Committee

All translations relating to the Annual Accounts have originally been issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

**MS M^a CONCEPCIÓN OSÁCAR
GARAICOECHEA,**

**Member of the Board of Directors
Member of the Appointment and
Remuneration Committee**

**MR FERNANDO GUMUZIO
ÍÑIGUEZ DE OZOÑO**

**Member of the Board of Directors
Member of the Executive Committee**