

## SCHEDULE 1

### ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

#### ISSUER'S IDENTIFICATION DATA

**FINANCIAL YEAR CLOSING DATE**

31/12/2017

**SPANISH TAX ID (C.I.F.)**

A86971249

**COMPANY NAME**

AXIARE PATRIMONIO SOCIMI, S.A.

**REGISTERED OFFICE**

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

# ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

## A OWNER STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share Capital (€)	Number of shares	Number of voting rights
31/12/2017	790,624,860.00	79,062,486	79,062,486

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

Yes

No

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

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

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

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

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

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

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

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

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

<b>% of voting rights held by the Board Members</b>	1.80%
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Complete the following tables regarding Company Directors holding rights over company shares

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

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

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

Yes

No

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

Yes

No

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

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

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

Yes

No

<b>Observations</b>
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A.8 Complete the following tables on the company's treasury shares:

**At year end:**

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

**(\*) Via:**

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

<b>Detail the significant variations</b>
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In 2017, a total of 1,198,579 of the Company's treasury shares were delivered following the accrual of the share incentive plan.

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

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

A.9.bis Estimated Floating Capital:

	%
<b>Existing floating capital</b>	50.75

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

Yes

No

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

Yes No

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

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

Yes No

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

**B**

## GENERAL SHAREHOLDERS MEETING

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

Yes No

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

Yes No

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

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

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

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

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

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

Yes      No     

B.6 Section revoked.

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

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

## C. COMPANY MANAGEMENT STRUCTURE

### C.1 Board of Directors

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

Maximum number of Directors	7
Minimum number of Directors	5

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

Name or corporate name of Director	Representative	Position of the Director	Director position	Date of first appointment	Date of last appointment	Election procedure
LUIS ALFONSO LOPEZ DE HERRERA-ORIA		Executive Director	CHIEF EXECUTIVE OFFICER (CEO)	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
LUIS MARIA ARREDONDO MALO		Independent Director	CHAIRMAN	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
FERNANDO BAUTISTA SAGÜÉS		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ		Independent Director	DIRECTOR	05/06/2014	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
CATO HENNING STONEX		Independent Director	DIRECTOR	20/06/2017	20/06/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
<b>Total number of Directors</b>						<b>5</b>

Indicate any Board Members who left during the period:

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

### **EXECUTIVE DIRECTORS**

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

<b>Total number of Executive Directors</b>	1
<b>% of the Board</b>	20.00%

### **PROPRIETARY EXTERNAL DIRECTORS**

### **INDEPENDENT EXTERNAL DIRECTORS**

**Name or corporate name of Director:**

LUIS MARIA ARREDONDO MALO

**Profile:**

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

**Name or corporate name of Director:**

FERNANDO BAUTISTA SAGÜÉS

**Profile:**

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

**Name or corporate name of Director:**

DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ

**Profile:**

He holds a degree in Business Economics from CUNEF. David Jiménez-Blanco Carrillo de Albornoz worked in Goldman Sachs International between 1995 and 2006, managing the European Industrial Clients Group and the Investment Banking teams in Spain and Portugal. He was the President of Merrill Lynch Capital Markets España,

S.A., Sociedad de Valores, between 2006 and 2009, and held the position of Head of the Investment Banking Operating Committee for EMEA (Europe, Middle East and Africa). Since 2010, he has held positions en BK Partners, a company that directly invests in assets in Mexico, and in World Duty Free SpA, a leading airport retail company. He was an Independent Board Director of Atento Inversiones y Teleservicios, and is currently an Independent Board Director at Gawa Capital Microfinanzas. David Jiménez-Blanco Carrillo de Albornoz is currently Managing Director of Restructuring and Strategy at Abengoa.

**Name or corporate name of Director:**

CATO HENNING STONEX

**Profile:**

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

<b>Total number of Independent Directors</b>	4
<b>% of the Board</b>	80.00%

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

NO

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

**OTHER EXTERNAL DIRECTORS**

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

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

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

	Number of female Directors				% of total Directors of each type			
	2017	2016	2015	2014	2017	2016	2015	2014
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary Director</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent Director</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%



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

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

**Explain of the measures**

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

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

**Explain of the measures**

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

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

**Explain of the reasoning**

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

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

**Explain of the conclusions**

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

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

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

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

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

Yes

No

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

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

**Name or corporate name of Director**

LUIS ALFONSO LOPEZ DE HERRERA-ORIA

**Brief description:**

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

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

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

C.1.12 List any company Board Members who likewise sit on the Boards of Directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

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

Yes No

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

C.1.14 Section revoked.

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

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

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

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

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

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

Yes No

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. List the competent bodies and the processes and criteria used for each procedure.

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

1. The aim will be to ensure that the Board of Directors comprises a balanced membership with the majority being Non-Executive Directors and with a reasonable ratio of Proprietary and Independent Directors.
2. The Board of Directors shall ensure that the selection procedures for Directors favour gender diversity, experience and knowledge and are free from implicit biases that may lead to discrimination. It will also ensure that candidates for Non-Executive Directors have sufficient time available to properly carry out the role.
3. Additionally, in the process of selecting candidates for a Director, that the process will begin with a preliminary analysis of the needs of the Company and its Group. This analysis will be carried out by the Board of Directors of the Company, with the advice and prescriptive prior supporting report of the Appointment and Remuneration Committee.
4. The supporting report of the Appointment and Remuneration Committee shall be published when convening the General Shareholders Meeting, to which the ratification, appointment or re-election of each Director is submitted.

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

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

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

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

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

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

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

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

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

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

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

**None exist.**

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

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

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

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

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

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

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

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

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

C.1.22 Section revoked.

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

Yes

No

If applicable, describe the differences.

**Description of the differences**

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

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

Yes

No

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

Yes

No

**Matters where the Chairman has the casting vote**

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

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

Yes

No

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

Yes

No

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

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

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

<b>Number of Board meetings</b>	9
<b>Number of Board meetings with the Chairman in attendance</b>	0

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

<b>Number of meetings</b>	0
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Indicate the number of meetings held of the various Board Committees during the year:

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

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

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

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

Yes

No

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

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

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

1. Relations between the Board and the Company's External Auditors shall be channelled via the Audit and Monitoring Committee.
2. The Board of Directors shall abstain from contracting audit firms in which the fees which the company and the companies in its group are expected to pay for all items are greater than five percent of the income of the audit firm in Spain during the immediately preceding fiscal year.
3. The Board of Directors shall aim to formulate the annual accounts definitively in such a way that there are no provisos or reservations in the audit report, and in the exceptional case that these exist, both the Chairman of the Audit and Monitoring Committee and the Auditors shall clearly explain to the shareholders the content and scope of those provisos or reservations.

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

Yes

No

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

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

### C.1.34 Section revoked.

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

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

- (i) To bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the External Auditor (having to be international firms of acknowledged standing), along with the terms of their contracting.
- (ii) To receive information from the External Auditor on a regular basis regarding the audit plan and the results of its execution, and to check that the top management takes its recommendations into account.
- (iii) To ensure the independence of the External Auditor and, for that purpose, to ensure that the Company informs the CNMV (Spanish Securities and Exchange Commission) of the change of Auditor as a significant event enclosing a declaration on the possible existence of disagreements with the outgoing auditor and the content of them if there were any, and, in the event of the External Auditor having resigned, to examine the circumstances that gave rise to this.

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

- (iv) To aid the Company Auditor so that it can accept responsibility for the audits of the companies making up the group, as the case might be.
- (v) To ensure that the Company and its Auditor respect the regulation in force about providing different services from the auditing, the limits about the concentration of services provided and, in general, all the rest of the regulation regarding the independence of the Auditor.

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

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

Yes

No 

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

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

Yes 

No

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

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

Yes

No 

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

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

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

Yes 

No

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

Article 23. Powers of information and inspection

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

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

Article 24. Help from experts

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



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

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

- a) It is necessary for the proper fulfilment of the duties entrusted to the Directors;
- b) Its cost is reasonable, in view of the importance of the problem and of the assets and income of the Company;
- c) The technical assistance that is received cannot be adequately provided by the Company's own experts and technical staff;
- and d) It does not endanger the confidentiality of the information that has to be provided to the expert.

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

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

Yes

No

**Details of the procedure**

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

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

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

Yes

No

**Details of the regulations**

Article 21 of the Board Regulations governs the duty of notification on the part of Directors:

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

2. Directors must also notify the Company:

- a) Of all the posts held and the activities carried out in other companies or entities, as well as any other professional obligations. In particular, and prior to accepting any appointment as a Director or Executive in another company or entity, Directors must consult the Appointment and Remuneration Committee. No Director may, in any case, form part of more than five (5) Boards.
- b) Of any material change in their professional situation affecting the nature or condition by virtue of which they had been appointed as Directors.
- c) Of any judicial, administrative or other proceedings they may be involved in and that, due to their characteristics or importance,

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

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

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

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

Yes

No

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

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

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

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

**Number of beneficiaries: 1**

**Type of beneficiary:** CHIEF

EXECUTIVE OFFICER (CEO)

**Description of the Contract:**

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

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

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

contracts were signed to be consistent with reasonable market practices, in May 2017.

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

	<b>Board of Directors</b>	<b>General Shareholders Meeting</b>
<b>Body authorising clauses</b>	<b>Ye</b>	<b>No</b>

	<b>Yes</b>	<b>No</b>
Is the General Shareholders Meeting informed of such clauses?		<b>X</b>

## C.2 Board Committees

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

### **AUDIT COMMITTEE**

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

Name	Position	Category
FERNANDO BAUTISTA SAGÜÉS	CHAIRMAN	Independent Director

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

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

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

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

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

### **APPOINTMENTS AND REMUNERATION COMMITTEE**

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

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

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

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

### **BOARD OF DIRECTORS**

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

<b>% of Executive Directors</b>	20.00%
<b>% of Proprietary Directors</b>	0.00%
<b>% of Independent Directors</b>	80.00%
<b>% of other externals</b>	0.00%

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

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

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

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

C.2.3 Section revoked

C.2.4 Section revoked.

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

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

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

C.2.6 Section revoked.

## **D RELATED-PARTY AND INTRA-GROUP TRANSACTIONS**

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

### **Procedure for the approval of related-party transactions**

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

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

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

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

**D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

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

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

0 (Thousand euros)

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

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

1. A conflict of interest will be deemed to exist in those situations where the interests of the Company or companies in its business group collide, directly or indirectly, with the personal interests of the Director. Directors will be deemed to have personal interest whenever the matter at hand affects the Director personally or a Related Party (as defined below).
2. For the purposes of the present Regulations, "Related Parties" will be considered:
  - a) With respect to an individual, the following:
    - (i) The spouse or a person who is spousal equivalent.
    - (ii) Forebears, descendants and siblings of the person subject to these Regulations or of the spouse (or other person with an analogous emotional relationship) of the person subject to these Regulations.
    - (iii) The spouses of all forebears, descendants and siblings of the person subject to these Regulations.
    - (iv) Companies in which the person subject to these Regulations, in their own name or through an intermediary, holds or may hold control, either directly or indirectly, in accordance with the scenarios contemplated in Article 42 of the Business Code.
  - b) With respect to a legal entity, the following:
    - (i) Partners or shareholders who hold or may hold control, albeit directly or indirectly, with respect to the person subject to this Regulation with that person being a body corporate, in accordance with the situations considered in article 42 of the Commercial Code.

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

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

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

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

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

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

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

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

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

Yes

No

Identify the listed subsidiaries in Spain:

### Listed subsidiary

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

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

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

Mechanisms in place to resolve eventual conflicts of interest

## E RISK CONTROL AND MANAGEMENT SYSTEMS

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

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

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

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

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

#### Board of Directors

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

#### Audit and Monitoring Committee

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

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

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

#### 1. Financial risks.

##### a) Market risk.

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

##### b) Credit risk

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

##### c) Liquidity risk

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

#### 2. Market risks.

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

#### 3. Economic risks.

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

#### 4. Risks of a legal and fiscal nature.

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

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

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



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

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

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

#### 6. Risks regarding Personal Data Protection.

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

#### 7. Risks regarding Protection of Consumers and Users.

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

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

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

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

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

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

During the trading year none of the aforementioned risks arose.

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

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

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

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

## F.1 The entity's control environment

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

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

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

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

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

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure, (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions, and (iii) deploying procedures so this structure is communicated effectively throughout the company.

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

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

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

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

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

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

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

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

## F.2 Risk assessment of financial information

Indicate at least the following:

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

- The process exists and is documented.

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

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

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

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

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

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

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

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

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

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

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

## F.3 Control activities

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

### F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the securities markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

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

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

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

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

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

### F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

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

## F.4 Information and communication

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

### F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and an up-to-date manual of accounting policies that has been sent to all the company's operating units.

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

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

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

### F.5 Supervising the operation of the system

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

#### F.5.1 The ICFR monitoring activities undertaken by the Audit Committee, as well as if the company has an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

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

#### F.5.2 If a discussion procedure whereby the Auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the Annual Accounts or other assignments commissioned, to the company's Senior Management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

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

##### 1) Discussion with Internal Auditing in order to:

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

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

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

duties of the Audit and Monitoring Committee.

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

## F.6 Other relevant information

Not Applicable

## F.7 External auditor review

State whether:

F.7.1 If the ICFR information supplied to the markets has been reviewed by the External Auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

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

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

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

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

1. The Articles of Association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant

Explain

2. When the parent company and a subsidiary company are listed on the stock market both companies shall publish details of the following:

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies.
- b) The mechanisms in place to resolve possible conflicts of interest.

Compliant

Partially compliant

Explain

Not applicable

3. During the General Shareholders Meeting the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes that have taken place since the previous Annual General Meeting.
- b) the specific reasons why the company has not acted on any of the Corporate Governance Code recommendations and, should they exist the alternative regulations applicable to the matter in question.

Compliant

Partially compliant

Explain

4. The company should draw up and implement a communication and contacts policy with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant points of contact or those charged with its implementation.

Compliant

Partially compliant

Explain

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

When the Board approves any issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant

Partially compliant

Explain

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

6. That the listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the Annual General Meeting, even if their distribution is not obligatory:

a) Report on Auditor independence.

b) Operating reports for the Audit and Appointment and Remuneration Committees. c) Audit Committee report on related-party transactions.

d) Corporate social responsibility policy report.

Compliant

Partially compliant

Explain

7. The company should broadcast its General Shareholder Meetings live via its website.

Compliant

Explain

This recommendation will be reviewed annually and is not expected to be currently reviewed

8. The Audit Committee should ensure that the Board of Directors seeks to present the Annual Accounts to the General Shareholders Meeting, with no reservations or qualifications in the Audit Report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the Auditors should give a clear account to shareholders of their scope and exceptions.

Compliant

Partially compliant

Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend General Shareholder Meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant

Partially compliant

Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the General Shareholders Meeting, the company should:

- a) Immediately circulate the supplementary items and new agreement proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the General Shareholders Meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant

Partially compliant

Explain

Not applicable

11. In the event that a company plans to pay for attendance at the General Shareholders Meeting, it should first establish a general, long-term policy in this respect.

Compliant

Partially compliant

Explain

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant

Partially compliant

Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally have between five and fifteen members.

Compliant

Explain

14. The Board of Directors should approve a Director selection policy that:

- a) Is specific and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.



c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of Board needs should be written up in the Appointments Committee's explanatory report, to be published when the General Shareholders Meeting is convened that shall ratify the appointment and re-election of each Director.

The Director selection policy should pursue the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the Director Selection Policy and set out its findings in the Annual Corporate Governance Report.

Compliant

Partially compliant

Explain

15. Proprietary and Independent Directors should occupy an ample majority of seats on the Board, while the number of Executive Directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant

Partially compliant

Explain

16. The percentage of Proprietary Directors of the total of Non-Executive Directors should not exceed the proportion between the capital of the company represented by these Directors and the remainder of the company's capital.

This criterion can be attenuated:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board with no links to each other.

Compliant

Explain

17. The number of Independent Directors should represent at least one half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, Independent Directors should occupy, at least, a third of all Board places.

Compliant

Explain

18. Companies should post the following Director particulars on their websites, and keep them permanently updated:

- a) Professional profile and background.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) An indication of the Director's classification, stating, in the case of Proprietary Directors, the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments as a Company Director.
- e) Shares held in the company and any options on them.

Compliant

Partially compliant

Explain

19. The Annual Corporate Governance Report, following verification by the Appointments Committee, should explain the reasons for the appointment of Proprietary Directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a seat on the board from shareholders whose equity stake is equal to or greater than that of others applying successfully for a Proprietary Directorship.

Compliant

Partially compliant

Explain

Not applicable

20. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Compliant

Partially compliant

Explain

Not applicable

21. The Board of Directors should not propose the removal of any Independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a report by the Appointments Committee. In particular, just cause shall be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of Independent Directors may also be proposed in the event of a takeover bid, merger or similar corporate operation which makes changes to the company's capital structure, when the changes to the board structure are propitiated by the proportionality criterion set out in Recommendation 16.

Compliant

Explain

22. Companies should establish rules obliging Directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, with mention of any criminal charges brought against them and of any subsequent court proceedings.

If a Director is indicted or tried for any of the crimes stipulated in corporate legislation, the board should examine the matter and, in view of the particular circumstances, decide whether or not the Director should remain in his or her post. The board should also disclose all such determinations in a reasoned fashion in the Annual Corporate Governance Report.

Compliant

Partially compliant

Explain

23. All Directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, Independents and other Directors unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board takes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the Board, Director or otherwise.

Compliant

Partially compliant

Explain

Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the Annual Corporate Governance Report.

Compliant  Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that Non-Executive Directors have sufficient time available to perform their responsibilities effectively.

Board regulations should establish rules about the number of Directorships their board members can hold.

Compliant  Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items to the agenda.

Compliant  Partially compliant Explain

27. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Compliant  Partially compliant Explain

28. When Directors or the Secretary express concerns about a proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.

Compliant  Partially compliant Explain Not applicable

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant  Partially compliant Explain

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant  Explain Not applicable

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion shall require the express prior consent, duly recorded in the minutes, of the majority of Directors present.

Compliant

Partially compliant

Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant

Partially compliant

Explain

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.

Compliant

Partially compliant

Explain

34. When a lead Independent Director has been appointed, the Articles of Association or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: Chair the Board of Directors in the absence of the Chairman or Vice Chairmen give voice to the concerns of Non-Executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant

Partially compliant

Explain

Not applicable

35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code applicable to the company.

Compliant

Explain

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the Board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- d) The performance of the Chairman of the Board of Directors and the company's Chief Executive.
- e) The performance and contribution of individual Directors, with particular attention to the Chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an External Consultant to aid in the evaluation process. This consultant's independence should be verified by the Appointments Committee.

Any business dealings that the Consultant or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Compliant

Partially compliant

Explain

37. When the company has an Executive Committee, the breakdown of its members by Director category should be similar to that of the board itself. The Secretary of the Board should also act as Secretary to the Executive Committee.

Compliant Partially compliant Explain Not applicable

38. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all Board Members should receive a copy of the Executive Committee's minutes.

Compliant Partially compliant Explain Not applicable

39. Audit Committee members, particularly the Chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be Independent Directors.

Compliant  Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-Executive Chairman or the Chairman of the Audit Committee or Committees of Appointment and Remuneration should be set forth in the board.

Compliant  Partially compliant Explain

41. The Head of Internal Audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activity report at the end of each year.

Compliant  Partially compliant Explain Not applicable

42. The Audit Committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles.
- b) Monitoring the independence of the internal audit function; proposing the selection, appointment, reappointment and removal of the Head of Internal Audit; proposing the department's budget; approving the focus and work plans; ensuring that activities focus mainly on the company's major risks; receiving regular feedback on its activities; and verifying that senior management takes account of the findings and recommendations of its reports.
- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.

2. With respect to the External Auditor:

- a) There should be an investigation of the issues giving rise to the resignation of any External Auditor.

- b) Ensure that the remuneration of the External Auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of Auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for these.
- d) Ensure that the External Auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the Company and the Auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, further rules established in order to ensure the independence of the auditors.

Compliant

Partially compliant

Explain

43. The Audit Committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.

Compliant

Partially compliant

Explain

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant

Partially compliant

Explain

Not applicable

45. Control and risk management policy should specify at least:

- a) The different types of financial and non-financial risk (inter alia, operational, technological, legal, social, environmental, political and reputational) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) Establishment of the level of risk the company deems acceptable.
- c) Measures in place to mitigate the impact of the risks identified, should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Compliant

Partially compliant

Explain

46. The company should establish a risk monitoring and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure the correct working of the risk monitoring and management systems and, in particular, that they identify, manage, and adequately quantify all major risks affecting the company.
- b) Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.
- c) Ensure that the risk monitoring and management systems adequately mitigate risks pursuant to the policy defined by the board.

Compliant

Partially compliant

Explain

47. Appointees to the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right balance of knowledge,

skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Compliant

Partially compliant

Explain

48. Large cap companies should operate constituted Appointments and Remuneration Committees separately.

Compliant

Explain

Not applicable

49. The Appointments Committee should consult with the company's Chairman and Chief Executive, especially on matters relating to Executive Directors.

Any Board Member should be able to suggest directorship candidates to the Appointments Committee for its consideration, to cover vacant Director positions.

Compliant

Partially compliant

Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose the standard conditions for senior officer employment contracts to the board.
- b) Check compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for Directors and Senior Officers, including share based remuneration systems and their application, and ensure that their individual remuneration is proportionate to the amounts paid to other Directors and Senior Officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on Director and Senior Officers' pay contained in the various corporate documents, including the Annual Directors' Remuneration Statement.

Compliant

Partially compliant

Explain

51. The Remuneration Committee should consult with the Chairman and Chief Executive, especially on matters relating to Executive Directors and Senior Officers.

Compliant

Partially compliant

Explain

52. The terms of reference of Supervision and Control Committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by Non-Executive Directors, with a majority of Independent Directors.
- b) Committees should be chaired by an Independent Director.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its Directors and the tasks of each committee, discuss their proposals and reports, and report on their activity and the work carried out to the first board plenary following each meeting.
- d) The committees can engage external advisors, when they feel this is necessary to perform their duties.
- e) Minutes should be drawn up of meeting proceedings, and a copy made available to all Board members.

Compliant

Partially compliant

Explain

Not applicable

53. The task of supervising compliance with Corporate Governance Rules, Internal Codes of Conduct and Corporate Social Responsibility Policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's Internal Codes of Conduct and Corporate Governance Rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess the extent to which they are fulfilled.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant

Partially compliant

Explain

54. The Corporate Social Responsibility Policy should state the principles or commitments the company shall voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its Corporate Social Responsibility Policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant

Partially compliant

Explain

55. The company should report on corporate social responsibility developments in its Directors' Report or in a separate document, using an internationally accepted methodology.

Compliant

Partially compliant

Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to



compromise the independent judgement of Non-Executive Directors.

Compliant

Explain

57. Variable remuneration linked to the company and the Director's performance, remuneration via the awarding of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes, such as pension plans, should be confined to Executive Directors.

The company may consider the share-based remuneration of Non-Executive Directors provided they retain such shares until the end of their mandate. The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant

Partially compliant

Explain

58. In the case of variable remunerations, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector or other similar circumstances.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant

Partially compliant

Explain

Not applicable

Regarding the objectives that could result in variable remuneration, these may refer to investment or income, efficient management and other matters relevant to effective operation of the company business, however there may be a degree of discretion involved.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant

Partially compliant

Explain

Not applicable

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the External Auditor's report.

Compliant

Partially compliant

Explain

Not applicable

61. A significant percentage of Directors' remuneration is linked to handover of shares or financial instruments referenced at their value.

Compliant

Partially compliant

Explain

Not applicable

62. When the shares or options or rights in shares corresponding to remuneration systems have been allocated, the Directors cannot transfer ownership of a number of shares equivalent to

twice their fixed annual remuneration, nor may they exercise the options or rights granted to them until a term of at least three years has elapsed since their allocation.

The above condition shall not apply to any shares that the Director must dispose of to settle costs related to their acquisition.

Compliant Partially compliant Explain  Not applicable

According to the incentive scheme approved by the General Shareholders Meeting held on May 7, 2015, shares attributed to the CEO will be subject to a blocking period up to the first anniversary of the date of its concession, subscription or acquisition by the CEO.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain  Not applicable

No similar clause has been included in the Provision of Services Contract signed between the Company and the CEO.

64. Contract termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant  Partially compliant Explain Not applicable

## **H** OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. In this section, you may include any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, industry specific or other ethical principles or standard practices. If appropriate, the code in question shall be identified along with the date of affiliation.

Although it is not detailed in section C.2 of the report, the Company has an Investment Committee that analyses and approves the investments proposed by the CEO. The reason why its composition has not been detailed together with the Audit, Appointment and Remuneration Committee is that some of its members are not members of the Board of Directors.

Its composition is as follows:

Name Position Type

Luis Alfonso López de Herrera-Oria Executive Chairman  
Guillermo Fernández-Cuesta Laborde Member -  
Fernando Arenas Liñán Member -  
Stuart William McDonald Member -  
Iván Azinovic Gamo Secretary -

This Annual Corporate Governance Report was adopted by the company's Board of Directors at its meeting held on 14/02/2018.

Indicate whether there have been Directors who have voted against or abstained in connection with the approval of this Report.

Yes

No