

**AXIARE PATRIMONIO SOCIMI, S.A.
AND SUBSIDIARIES**

Independent Auditor's Report, Consolidated Annual Accounts at 31 December 2016
and Consolidated Directors' Report for 2016



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

INDEPENDENT AUDITOR’S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Axiare Patrimonio Socimi, S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company’s directors’ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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



Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Axiare Patrimonio Socimi, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2016 contains the explanations which the parent company's directors consider appropriate regarding Axiare Patrimonio Socimi, S.A. and its subsidiaries' situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Axiare Patrimonio Socimi, S.A. and its subsidiaries' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Rafael Pérez Guerra

February 24, 2017



AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

Annual Consolidated financial statements at 31 December 2016
And Director's Report for the year 2016

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AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET
(Thousand Euros)**

	Notes	At 31 December 2016	At 31 December 2015
Assets			
Non-current assets			
Intangible assets		235	-
Property, plant and equipment		475	511
Investment property	6	1,310,867	841,865
Loan to third parties		4,626	-
Financial derivatives	13	47	808
Long-term investments	8	7,782	6,070
Deferred tax assets		7,457	-
		1,331,489	849,254
Current assets			
Trade and other receivables	8	2,464	1,891
Sundry receivable	8	5,383	9,521
Other accounts receivable from public authorities	8	10,038	1,941
Other assets	8	1,038	172
Cash and cash equivalents	9	145,421	268,809
		164,344	282,334
Total assets		1,495,833	1,131,588

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET
(Thousand Euros)**

	Notes	At 31 December 2016	At 31 December 2015
Equity and liabilities			
Equity			
Equity attributable to the owners of the parent company			
Share capital	10	718,750	718,750
Share premium	10	35,869	35,869
Reserves	11	(31,141)	(31,384)
Treasury shares	11	(18,678)	(4,631)
Retained earnings	11	248,385	102,742
Other equity instruments		-	6,470
Hedge operations	12	(9,436)	(574)
		943,749	827,242
Liabilities			
Non-current liabilities			
Financial debt	12	516,852	270,852
Financial derivatives	13	9,483	1,382
Other non-current financial liabilities	12	9,188	6,886
		535,523	279,120
Current liabilities			
Financial debt	12	2,888	10,024
Trade and other payables	12	12,970	15,087
Other liabilities		703	115
Total liabilities		16,561	25,226
Total equity and liabilities		1,495,833	1,131,588

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENT
(Thousand Euro)**

	Note	Annual period ended 31 December 2016	Annual period ended 31 December 2015
Continued operations			
Rendering of services	14 a)	51,011	42,336
Changes in fair value of investment properties	5	129,354	68,836
Staff costs	14 b)	(16,276)	(9,292)
Other operating expenses	13	(14,886)	(13,183)
Amortisation/depreciation	5	(57)	(65)
Other results		1	11
OPERATING RESULTS		149,147	88,643
Financial income		423	1,582
Financial expenses		(7,777)	(4,885)
FINANCIAL INCOME/(EXPENSE)	15	(7,354)	(3,303)
PROFIT/(LOSS) BEFORE TAXES		141,793	85,340
Corporate income tax	14	6,833	-
RESULTS FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY'S OWNER:		148,626	85,340
EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT COMPANY'S OWNER			
Basic and diluted profit per share (euro)	9	2.09	1.52

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**ANNUAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Thousand Euros)**

		Thousand Euros	
	Note	2016	2015
Profit (Loss) for the period	12	148,626	85,340
Other comprehensive income			
Items that may subsequently be reclassified to results			
Other results		574	-
Items that not be reclassified to results			
For cash flow edges	10	(8,862)	(574)
Total income and expense taken directly to equity		(8,288)	(574)
Total comprehensive income for the period		140,338	84,766

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Thousand Euros)

	Atribuible a los propietarios de la sociedad dominante							TOTAL
	Capital	Share premium	Reserves	Treasury shares	Accumulated earnings	Other equity instruments	Hedge operations	
	Note 9	Note 9	Note 10	Note 10	Note 10	Note 10	Note 12	
BALANCE AT 31 DECEMBER 2014	360,060	-	(19,429)	(1,006)	18,851	-	-	358,476
Profit/(loss) for the year	-	-	-	-	85,340	-	-	85,340
Other comprehensive results for the year	-	-	-	-	-	-	(574)	(574)
Total comprehensive income for the year	-	-	-	-	85,340	-	(574)	84,766
Capital increase	358,690	35,869	(12,000)	-	-	-	-	382,559
Distribution of dividends (Note 9)	-	-	-	-	(1,449)	-	-	(1,449)
Share incentive plan (Note 11)	-	-	-	(2,963)	-	6,470	-	3,507
Trading in treasury shares (Note 8)	-	-	-	(662)	-	-	-	(662)
Other results with treasury shares	-	-	45	-	-	-	-	45
Total transactions with owners, recognised directly in equity	358,690	35,869	(11,955)	(3,625)	(1,449)	6,470	-	384,000
BALANCE AT 31 DICIEMBRE 2015	718,750	35,869	(31,384)	(4,631)	102,742	6,470	(574)	827,242
Profit/(loss) for the year	-	-	-	-	148,626	-	-	148,626
Other comprehensive results for the year	-	-	574	-	-	-	(8,862)	(8,288)
Total comprehensive income for the year	-	-	574	-	148,626	-	(8,862)	140,338
Distribution of dividends (Note 11)	-	-	-	-	(2,983)	-	-	(2,983)
Share incentive plan (Note 11)	-	-	(331)	3	-	(6,470)	-	(6,798)
Trading in treasury shares (Note 8)	-	-	-	(14,050)	-	-	-	(14,050)
Total transactions with owners, recognised directly in equity	-	-	(331)	(14,047)	(2,983)	(6,470)	-	(23,831)
BALANCE AT 31 DICIEMBRE 2016	718,750	35,869	(31,141)	(18,678)	248,385	-	(9,436)	943,749

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES
**CONSOLIDATED CASH FLOW STATEMENT
(Thousand Euros)**

	Note	Annual period ended 31 December	
		2016	2015
A) CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/ (loss) for the year before tax	12	141,793	85,340
Adjustments to profit/loss		(110,272)	(58,541)
Depreciation of PP&E		57	65
Changes in fair value of financial investments	6	(129,354)	(68,836)
Change in provisions	8	460	367
Financial income	16	(423)	(1,582)
Financial expenses	16	7,777	4,885
Other income and expenses	14	11,211	6,560
Changes in working capital		(8,013)	3,009
Debtors and other receivables	6, 8	15	(2,043)
Collection of interests		-	2,002
Other current assets	7	(853)	259
Creditors and other payables	7,12	(3,571)	5,203
Other current liabilities		588	8,541
Payment of interests	12	-	(3,451)
Other non-current assets and liabilities		(4,192)	(7,502)
Cash flows from operating activities		23,508	29,808
B) CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments on investments		(343,951)	(353,591)
Intangible assets		(235)	-
Property, plant and equipment		(21)	(187)
Investment property	6	(343,695)	(353,404)
Cash flows from investing activities		(343,951)	(353,591)
C) CASH FLOWS FROM FINANCING ACTIVITIES:			
Collections and payments for equity instruments		(13,769)	378,979
Issue of equity instruments	10 a)	-	382,604
Acquisition of treasury shares	10 c)	(14,050)	(3,625)
Disposal of equity instruments		281	-
Collections and payments on financial liability instruments	6, 13	232,777	210,797
Collection from financial debt		239,927	304,881
Repayment of debt		(591)	(94,084)
Interest received		379	-
Interest paid		(6,938)	-
Other debt write-offs		-	-
Payment of dividends		(21,953)	(1,449)
Dividends	12	(2,983)	(1,449)
Remuneration share-based		(18,970)	-
Cash flows from financing activities		197,055	588,327
INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS, NET	9	(123,388)	264,544

The accompanying notes 1 to 23 to the accounts are an integral part of the annual consolidated financial statements at 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

1. GENERAL INFORMATION

Axiare Patrimonio Socimi, S.A. (the "Company") was incorporated in Spain on 19 March 2014 in accordance with the Spanish Companies Act 2010 under the name of Axiare Real Estate Socimi, S.A. It changed to its current name on 7 May 2015. Its registered office is at José Ortega y Gasset 29, 28006 Madrid.

Its corporate objects are described in Article 2 of its bylaws and consist of:

- The acquisition and refurbishment of urban properties earmarked for lease.
- The ownership of interests in the share capital of other Listed Corporations for Investment in the Real Estate Market (Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario or "SOCIMIs") or other companies not resident in Spain with a company object identical to that of the former, which are subject to a regime similar to that established for the SOCIMIs in relation to the obligatory profit distribution policy stipulated by law or the By Laws.
- The ownership of interests in the share capital of other companies, resident or not in Spain, the principal company object of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for SOCIMIs in relation to the obligatory profit distribution policy stipulated by law or the By Laws, and meet the investment requirements referred to in Article 3 of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, regulating SOCIMIs.
- The ownership of shares or ownership interests in property collective investment undertakings governed by Collective Investment Undertakings Law 35/2003, of 4 November.

The performance of other ancillary activities, which are deemed to be those that generate income that in the aggregate represents less than 20% of the Company's income in each tax period.

All activities required by law to meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially carried on indirectly by the Company through ownership interests in another company or other companies with a similar object.

a) Regulatory Regime

The Company is regulated by the Spanish Companies Act.

Additionally, on 12 June 2014 the Company reported to the Tax Agency its decision to opt to apply the scheme for Listed Real Estate Investment Public Limited Companies (SOCIMIs) and is therefore subject to Law 11/2009, following its amendment through Law 16/2012, governing SOCIMIs. Article 3 of Law 11/2009, of 26 October, establishes certain requirements for this type of companies, namely:

- i) They must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of Law 11/2009.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

- ii) At least 80% of the rental income from the tax period corresponding to each year, excluding the rental income deriving from the transfer of the ownership interests and the properties used by the Company to achieve its principal object, once the retention period referred to below has elapsed, should arise from the lease of properties and dividends or shares of profits arising from the aforementioned investments.
- iii) The properties included in the company's assets should remain leased for at least three years. The time during which the properties have been made available for lease will be included in calculating this term, with a maximum of one year.

Transitional Provision One of the SOCIMI Law permits the application of the SOCIMI tax scheme, as laid down in Article 8 of the SOCIMI Law, even when the requirements contained therein are not met on the date of incorporation provided that such requirements are met in the two years following the date on which it is decided to apply that scheme. In the opinion of the Company's Directors, these requirements will be fully met in time and form.

The Company has been listed on the Spanish stock exchange and Spanish markets since 9 July 2014.

b) Subsidiaries

The parent Company, Axiare Patrimonio Socimi, S.A, is the parent of a Group of companies made up of the following subsidiary at 31 December 2016:

Name	Address	Activity	% interest
Axiare Investments, S.L.U.	C/ José Ortega y Gasset, 29 - 28006 Madrid	Real estate operations	100
Axiare Properties, S.L.U.	C/ José Ortega y Gasset, 29 - 28006 Madrid	Real estate operations	100
Axiare Investigación, Desarrollo e Innovación, S.L.U.	C/ José Ortega y Gasset, 29 - 28006 Madrid	Industrial property rights Real estate operations	100
Venusaur, S.L.U.	C/ Rosselló 258, principal, 1ª planta, 08037 Barcelona	Real estate operations	100

On 6 February 2015, the Company acquired 100% of the shares of Acotango Spain, S.L that subsequently changed its name to Axiare Investments SLU on 24 October 2016. The acquisition did not generate goodwill as it was completed at the company's equity value.

Axiare Properties, S.L.U and Axiare Investigación, Desarrollo e Innovación SLU were incorporated on 14 November 2016 and 12 December 2016, respectively. Such companies are starting up their operations.

On 2 December 2016 the Company acquired 100% of the shares of Venusaur, SLU, which engages in real estate investment like the parent company. This company owns an office building, which is fully occupied at 31 December 2016, located at calle Almargo 9, Madrid.

This operation was classified and defined as an asset acquisition as it did not meet the definition to be considered a business acquisition in accordance with IFRS 3.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Bases of presentation

For the periods presented in these annual financial statements the Group has prepared accounts for the individual companies in accordance with current Spanish Company Law and the Spanish Chart of Accounts approved by Royal Decree 1514/2007, as amended by Royal Decree 1159/2010 and RD 602/2016, so as to provide a true and fair view of the Group's net worth, its financial situation and the results of its operation.

The Group presented June 30, 2015 the first financial statements under IFRS-EU for the six-month period then ended, and were prepared in accordance with IFRS 1, "Adopting IFRS for the first time."

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of International Financial Reporting Committee (IFRIC) as adopted by the European Union (collectively, IFRS-EU), in accordance with Regulation (EC) No 1606/2002 of the European Parliament and Council, as amended.

Until the year ended 31 December 2014, the Company was not the parent of a group of companies in accordance with IFRS-EU. However, during the year 2015, because of the content of Note 1 above, Axiare Patrimonio Socimi, S.A. was acquired, it was converted in the parent Company of the group of companies over which it has control, forming the group, and this being the first period that it presents consolidated financial statements.

The annual consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss or in equity.

The preparation of these annual consolidated financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires that management exercise judgement in the process of applying the Group's accounting policies. Note 2.3 discloses the areas that require a higher level of judgement or complexity and areas where assumptions and estimates have a significant effect on the annual consolidated financial statements.

The figures stated in these annual consolidated financial statements are expressed in thousand euro, unless stated otherwise.

These annual consolidated financial statements were prepared to be issued by the parent Company's Directors on 23 February 2017.

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

a) Mandatory standards, amendments and interpretation for all years starting 1 January 2016 [IAS 8.28]:

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

Annual Improvements to IFRS 2010 – 2012 Cycle: In December 2013, the IASB has issued Annual Improvements to IFRSs Cycle 2010-2012. The amendments included in these Annual Improvements generally applied for annual periods beginning or after February 1, 2015, although early adoption is permitted. The main amendments included relate to:

- IFRS 2 "Share-based Payments": Definition of "condition for the vesting".
- IFRS 3 "Business Combinations": Accounting of a contingent consideration in a business combination.
- IFRS 8 "Operating Segments": Disclosures about the aggregation of operating segments and reconciliation of total assets allocated to the segments that reported with the assets of the entity.
- IAS 16 "Tangible assets" and IAS 38 "Intangible Assets": proportional Restatement of accumulated amortization when the revaluation model is used.
- IAS 24 "Disclosures about related parties": Entities that provide key management personnel as related party.
- IAS 19 (Amendment) "Defined benefit plans: Employee contributions"
- IFRS 11 (Amendment) "Accounting for acquisitions of interests in joint operations"
- IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of acceptable methods of depreciation and amortisation"
- IAS 27 (Amendment) "Equity method in separate financial statements"

Annual improvements to IFRS 2012 - 2014 Cycle: Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 and apply to annual periods beginning or after January 1, 2016, subject to adoption by the EU. The main changes relate to:

- IFRS 5 "Non-current assets held for sale and discontinued operations": Changes in the methods of disposal.
- IFRS 7, "Financial Instruments: Disclosures": Continuing involvement in management contracts.
- IAS 19, "Employee Benefits": Determination of the discount rate in obligations for post-employment benefits.
- IAS 34, "Interim Financial Information": information presented elsewhere in the interim financial information.
- IAS 1 (Amendment) "Disclosure Initiatives"
- IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) "Investment entities: Applying the consolidation exception"

b) Standards, amendments and interpretations which have not yet come into effect but which may be adopted early in the years starting or after 1 January 2016 [IAS 8.29]:

As of the date of signature of these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations described below and mandatory as from years beginning 2016:

- IFRS 9 "Financial instruments"
- IFRS 15 "Revenue from contracts with customers"

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

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

At the date these condensed consolidated interim financial statements were signed, the IASB had published the following standards, amendments and interpretations, which EU has not decided to apply early.

- IFRS 16 "Leases"
- IAS 7 (Amendment) Disclosure initiatives.
- IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses"
- IFRS 15 Revenue from Contracts with Customers.
- IFRS 9 "Financial Instruments".
- IFRS 2 (Amendment) "Classification and valuation of transactions with share-based payments"
- IAS 27 (Amendment) "Equity method in separate financial statements".
- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures".
- IFRS 10 (Amendment), IFRS 12 (Amendment) and IFRS 28 (Amendment) "Investment entities": Applying the Consolidation Exception.
- IFRS 4 (Amendment), "Implementing IFRS 9 "Financial Instruments" with IFRS 4 " Insurance policies".

Annual Improvements - IFRS Cycle 2014 – 2016: The amendments affect IFRS 1, IFRS 12 and IAS 28 and will apply to the years starting on or after 1 January 2018 in the case of the amendments to IFRS 1 and IAS 28 and 1 January 2017 for IFRS 12, all contingent upon their endorsement by the EU: The main amendments relate to:

- IFRS 1, "First-time adoption of International Financial Reporting Standards": Elimination of short-term exemptions for first-time adopters.
- IFRS 12, "Disclosure of interests in other entities": Clarification of the scope of the disclosure requirements.
- IAS 28, "Investments in associates and joint ventures": Measurement of an investment in an associate or joint venture at fair value.
- IAS 40 (Amendment) "Transfers of investment property"
- IFRIC 22 "Foreign currency transactions and advance consideration"

The Group is analysing the impacts that the new regulations could have on its condensed consolidated interim financial statements. In particular, the Group has assessed the impact that would exist in the financial statements applying IFRS 16, not material having no material expenses for operating leases, as in the case of IFRS 15, as its revenue figure consisting of provision of services.

2.3 Use of estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The Group makes estimates and judgments concerning the future. The resulting accounting estimates, by definition, rarely equal real results. Adjustments resulting from regularizing estimates will be made prospectively. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

▪ Fair value of Investment property

The Group obtains independent valuations of its investment properties every six months. At the end of each reporting period, the Directors carry out an assessment of the fair value of each property, taking into account the latest independent valuations. The Directors determine the value of a property within a range of acceptable fair value estimates.

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

- i. Current prices on an active market of different kinds of properties in different condition or location, adjusted for differences with the Company's assets.
- ii. Recent prices of properties on other less active markets, adjusted for changes in economic conditions since the transaction date.
- iii. Discounting of cash flows based on estimates deriving from the terms and conditions of current lease contracts and, if possible, the evidence of the market prices of similar properties in the same location, through the use of discount rates reflecting the uncertainty of the time factor.

▪ Fair value of derivatives or other financial instruments.

The fair value of financial instruments that are not listed on an active market (for example, derivatives not listed on an official market) is calculated using measurement techniques. The Group uses judgments to select a variety of methods and to develop assumptions that are primarily based on the market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various interest rate contracts that are not traded on active markets.

▪ Corporate income tax

The Company has availed itself of the system established in Law 11/2009 (26 October), governing Listed Real Estate Investment Companies (SOCIMI), which in practice means that provided certain requirements are met, the Company is subject to a corporate income tax rate of 0%(Note 11).Subsidiaries are subject to corporation tax under the general tax regime.

The Directors are tracking compliance with the relevant legal requirements in order to secure the tax advantages established therein.

In this respect, the Directors consider that such requirements will be met within the established terms and periods and have therefore recognized no income or expense in respect of corporate income tax.

2.4 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special-purpose entities) over which the Group has control. The Group controls an entity when it is exposed or entitled to obtain variable income because of its involvement in the investee and has the capacity to use its power over it to influence such income. Subsidiaries are consolidated from the date on which control is transferred to the Group and they are de-consolidated from the date that control ceases.

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Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Amounts presented by the subsidiaries have been adjusted where necessary to adapt them to the Group's accounting policies.

(b) Changes in the ownership stakes in subsidiaries without any change in control

Transactions involving non-controlling shareholdings that do not result in a loss of control are recognized as equity transactions, i.e. as transactions with owners in their capacity as such. The difference between the fair value of the compensation paid and the acquired proportional amount of the carrying value of the subsidiary's net assets is recognized under equity. Gains or losses on the disposal of non-controlling shareholdings are recognized under equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any shareholding retained in the company is restated at fair value on the date on which control is lost, recognizing the change in the carrying value in the income statement. Fair value is the initial carrying value for the purposes of the subsequent recognition of the shareholding maintained as an associate, joint venture or financial asset. In addition, any amount previously recognized under other comprehensive income with respect to that company is recorded as if the Group had directly sold the related assets and liabilities. This could entail that the amounts previously recognized in the other comprehensive income are reclassified to the income statement.

2.5. Segment reporting

Information on operating segments is reported based on the internal information supplied to the ultimate decision making body. The investments committee, responsible for strategic decision-making, with final approval by the Board of Directors, has been identified as the highest decision-making authority, being responsible for allocating resources and assessing the performance of operating segments.

2.6. Investment properties

Property held to obtain long-term rent or capital gains or both and which is not occupied by Group companies is classified as investment property. Investment property includes office buildings, logistics warehouses and other freehold property. Investment property also includes property under construction or developed for future use as investment property.

Investment property is initially carried at cost, including related transaction costs and financing costs, if applicable. Following initial recognition, investment property is carried at fair value.

The fair value of investment reflects, inter alia, rental income under leases and other assumptions that market players would take into account on valuing the property under current market conditions.

Subsequent expenses are recognized at the asset's carrying value only when it is likely that future profits associated with the expenses will flow to the Group and the item's cost may be reliably measured. Other repair and upkeep expenses are recognized under expenses for the year in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is written off.

Fair value changes are recognized in the income statement.

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When the Group has a property at fair value on a transaction under arm's length conditions, the carrying amount immediately prior to the sale is adjusted to the transaction price and the adjustment is recognized in the income statement, included in the gain net of the adjustment to the fair value of the investment property. If an investment property is converted into a property occupied by its owners, it is reclassified to property, plant and equipment. Fair value at the reclassification date becomes cost for subsequent accounting purposes.

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

When there is a change in the use of an investment property, evidenced by the start of promotion work with a view to its sale, the property is transferred to inventories. The attributed property cost for subsequent recognition as inventories is its fair value at the date on which its use is changed.

2.7. Property, plant and equipment

Property, plant and equipment are stated at acquisition price or production cost less accumulated depreciation and accumulated impairment losses recognized. Subsequent expenses are recognized at the asset's carrying value only when it is likely that future profits associated with the expenses will flow to the Group and the item's cost may be reliably measured. Recurring maintenance expenses are charged to the income statement in the period in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. The estimated useful lives are as follows:

	<u>Depreciation rate</u>
Other equipment	10%
Furniture	10%
Data processing equipment	25%
Vehicles	25%
Other fixed assets	10%

The fixed assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If a fixed asset's carrying amount is greater than its estimated recoverable value, its carrying amount is written down immediately to its recoverable value.

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2.8. Impairment of non-financial assets

Assets subject to amortization/depreciation are subjected to impairment reviews provided that some event or a change in circumstances indicates that the book value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable value. The recoverable value is the higher of fair value of an asset less selling costs or value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are mainly separate cash inflows (Cash Generating Units). Previous impairment losses on non-financial assets are reviewed for their possible reversal on each reporting date. The amount of financial assets subject to amortization/ depreciation is not significant.

2.9. Inventories

Group Inventories arise when there is a change in the use of investment properties, evidenced by the beginning of a development to be sold, and the properties are reclassified as inventories at attributed cost, which is the fair value at the reclassification date. These are subsequently measured at the lower of cost and net realizable value. The realizable value is the estimated selling price in the ordinary course of business, less costs for completing the development and sales costs. At the period end, the Group has no inventories.

2.10. Financial Investments

Loans and receivables

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

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost. Accrued interest is recognized at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

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

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognized in the income statement.

2.11. Financial derivatives and hedge accounting

Financial derivatives are measured at fair value at both initial recognition and subsequent measurement. Resulting gains and losses are recognized depending on whether the derivative is designated as a hedging instrument or not and, if so, the nature of the item being hedged.

Hedge instruments are measured and recognized in accordance with their nature to the extent that they are not, or do not cease to be efficient hedges.

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

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

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

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income. The profit or loss on the inefficient part is recognized immediately in the income statement under "other (losses)/gains - net".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). Gains or losses on the effective part of interest rate swaps covering loans at variable rates are recognized in the income statement under "Profit/(loss)". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are definitively recorded as a cost of the assets sold, in the case of inventories, or as depreciation in the case of property, plant and equipment.

When the hedging instrument matures or is sold or when the requirements for the application of hedge accounting cease to be met, the gains or losses accumulated in equity to that date will remain in equity and will be recognized when the forecast transaction is finally recognized in the income statement. When the forecast transaction is expected not to take place, the profit or loss accumulated in equity is taken immediately to the income statement within the "other net Profit/loss".

2.12. Borrowings

Creditors and payables

This category includes trade and non-trade payables. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

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Payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method including commissions associated with financing. This effective interest is the discount rate which equates the instrument's book value and expected future payment flows until maturity of the liability.

Nonetheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

Bank borrowings and obligations under finance leases

Financial debts are initially recognized at fair value, less any transaction costs incurred. Financial debts are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.13. Offsetting of financial instruments

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

2.14. Share capital

Share capital consists of ordinary shares.

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

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

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

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

2.15. Current and deferred tax

Following the special tax regime for Socimis, the dominant Company is subject to an income tax rate of 0%.

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As established by Article 9.2 of Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, the Company will be subject to a special tax charge of 19% on the full amount of any dividends or shares in profit paid to shareholders with an ownership interest in the share capital of the Company equal to or more than 5%, when such dividends are tax exempt or taxed at a rate below 10% in the tax domicile of the shareholder (for these purposes, final tax due under the Spanish Non Resident Income Tax Law is also taken into consideration).

However, the aforementioned special charge will not be applicable when the dividends or shares in profit are paid to entities the object of which is the ownership of interests in the share capital of other Socimis or other companies not resident in Spain with a company object identical to that of the former, which are subject to a regime similar to that established for the Socimis in relation to the obligatory profit distribution policy stipulated by law or the ByLaws, with respect to shareholders with an ownership interest equal to or more than 5% in the share capital thereof and are taxed on these dividends or shares in profit at a tax rate of at least 10%.

For the Group companies that are not included under the aforementioned regime, tax expense (income) is the amount of income tax accrued for the year and includes both current and deferred tax expense (income).

Both current and deferred tax expense/income are recognized in the income statement. However, the tax effect of items recorded directly in equity is recognized in equity.

Current tax assets and liabilities are carried at the amounts that are expected to be payable to or recoverable from the tax authorities, in accordance with prevailing legislation or regulations that have been approved and are pending publication at the year end.

Deferred tax is calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, if the deferred taxes arise from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on the tax or accounting gain or loss, they are not recognized. The deferred tax is determined by applying tax regulations and rates approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realized or deferred tax liability is settled.

Deferred tax assets are recognized insofar as future tax profits will probably arise against which to offset the temporary differences.

2.16. Leases

a) When the Group is the lessee - Operating lease

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

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b) When the Company is the lessor

Properties transferred under operating lease include the investment property in the balance sheet. Lease revenues are recognized on a straight-line basis over the lease period.

2.17. Share-based payments

The Group manages a share-based payment compensation plan, settled through equity instruments, under which the Company receives services from employees who in turn receive, as consideration, shares in the Company. The fair value of the employee services received in exchange for such shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- Including any market performance conditions;
- Excluding the impact of any service vesting or non-market performance conditions (for example, profitability, sales growth targets or remaining an employee of the entity over a specified time period).
- Including the impact of any other non-determining conditions on vesting (e.g. requiring employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions and service conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity (Note 16).

2.18. Provisions

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to the provision due to the restatement are recognized as a financial expense as they accrue.

Provisions maturing in one year or less, the financial effect of which is immaterial, are not discounted. When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party the reimbursement is recognized as an independent asset, provided that receipt of the reimbursement is practically certain.

2.19. Revenue recognition

Revenues are stated at the fair value of the consideration to be received and represent the amounts to be collected for the services rendered during the ordinary course of the Group's activities, less returns, discounts, rebates and VAT.

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Rendering of services

The Group provides lease services. Revenues from property rentals are recognized on a straight-line basis over the rental period. When the Group offers incentives to its tenants, the cost of the incentive is recognized during the lease period on a linear basis, as a reduction in income on rent. The costs associated with each rental payment are recognized as an expense.

Interest Income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, which is calculated as the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.20. Dividend distribution

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

The parent company has availed itself of the special scheme for listed real estate investment companies (SOCIMIs) which are governed by the special tax scheme set out in Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies. They will be required to distribute in the form of dividends to shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each year end, as follows:

- a) All the profit from dividends or shares in profits paid by the entities referred to in Article 2.1. of Law 11/2009.
- b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of Law 11/2009, carried out once the deadlines referred to in Article 3.3 of Law 11/2009 have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years of the transfer date. Otherwise, these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.
- c) At least 80% of the remaining profits obtained.

The dividend should be paid within the month following the date of the distribution agreement. When dividends are distributed with a charge to reserves out of profit for a year in which the special tax scheme had been applied, the distribution must be approved as set out above. At year-end 2015, the dominant company has complied with the dividend distribution policy.

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2.21. Cash and cash equivalents

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

3. FINANCIAL RISK MANAGEMENT

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

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

3.1 Financial risk management

a) Market Risk

The Group's interest rate risk arises from financial debt. Borrowings issued at floating rates expose the Group to the cash flow interest rate risk. At 31 December 2016, approximately 89% (82% in 2015) of its financing is referenced at a variable rate. The Group's borrowings at variable interest rates are denominated in euro.

The Group analyses its exposure to interest rate risk dynamically. Several scenarios are generated taking into account the financing and hedging possibilities. Based on those scenarios, the Group estimates the impact of a certain interest rate change in the result (scenarios are only used for liabilities representing the most significant positions which are subject to an interest rate). These analyses take into account the following;

- Economic environment in which it conducts business: Design of different economic scenarios modifying key variables that may impact the group (interest rates, share price, percentage of ownership of property investments, etc.) Identification of interdependent variables and level of connection.
- Timing framework in which the evaluation is being done: The analysis time frame and its possible diversions will be considered.

According to the simulations, the recalculated impact of profit after tax of a variation of 1% in the interest rate would entail a maximum increase of €3,256 thousand or a decrease of €3,279 thousand, respectively. The simulation is done regularly to make sure the potential maximum loss is within the limits established by Management.

Based on the different scenarios, the Group manages the cash flow interest rate risk through variable to fixed - interest rate swaps. These interest rate swaps have the economic effect of converting variable interest borrowings to fixed interest borrowings. Generally, the Group obtains long-term borrowings at variable interest rates and swaps them for borrowings at fixed interest rates lower than those which would be available if the Group obtained borrowings directly at fixed interest rates. Under interest rate swaps, the Group undertakes with third parties to exchange on a regular basis the difference between fixed and variable interest, calculated based on the principal notional contracted. Fixed interest rates range from 1.90% to 2.00% and variable interest rates between 1.45% and 2.00%.

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b) Credit risk

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

The Group's credit risk establishes the credit quality the customers must have, bearing in mind their financial position, past experience and other factors. Individual credit limits are established based on internal and external ratings in accordance with the limits established by the Board of Directors. Credit limits are regularly reviewed.

The Group considers that it has no significant concentrations of credit risk, the possible impact on the income statement being understood as the default of receivables.

The Group's maximum exposure to credit risk, by type of financial asset, except financial derivatives and deposits, is as follows:

	Thousand Euros	
	31.12.2016	31.12.2015
Current assets net of impairment provisions		
Trade and other receivables (Note 7)	17,885	13,353
Short-term investments (Note 7)	39	124
Cash and cash equivalents (Note 8)	145,421	268,809
	163,345	282,286

Deposits to be returned to the Group's tenants will be withheld if the balances payable by the tenants to the Group are not paid or there is a breach in the lease contract.

The fair value of Cash and cash equivalents approximates the carrying value in the above table.

c) Liquidity risk

Cash flow predictions are carried out by the Group's Finance Department. It monitors the Group's liquidity needs forecasts in order to ensure that it has sufficient cash to meet its operational needs while maintaining sufficient liquidity available at all times to ensure that the Group complies with the pertinent financing limits and covenants. Those forecasts take into account the Group's financing plans, ratio compliance, compliance with internal objectives and, if applicable, regulatory or legal requirements.

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The maturity of the payables according to the nominal value of the loan are as follows:

	Thousand Euros						Total
	2017	2018	2019	2020	2021	Subsequent Years	
Liabilities:							
-Liabilities with Credit institutions	2,888	13,243	10,304	37,580	78,572	377,153	519,740
	2,888	13,243	10,304	37,580	78,572	377,153	519,740

Cash excess kept by the Group is usually invested in interest-bearing current accounts at a certain interest rate or in term deposits, choosing appropriate maturities or enough liquidity to provide the appropriate flexibility according to the aforementioned forecasts. At the balance sheet date the Group has other cash assets amounting to €145,241 thousand (€268,809 thousand in 2014) expecting to generate cash inflows.

d) Tax risk

As mentioned in Note 1, the parent company and subsidiaries availed themselves of the special tax regime for listed real estate investment companies (SOCIMI). In accordance with Article 6 of Law 11/2009, at 26 October 2016, amended by Law 16/2012, at 27 December 20 on SOCIMI, the companies availing themselves of this scheme are required to distribute in the form of dividends to their shareholders, following compliance with the pertinent corporate obligations, the profit obtained in the year. The distribution must be approved within the six months following the year end and paid within one month of the distribution agreement (Note 10).

If the General Shareholders' Meeting of such companies does not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of that Law, they would be in breach of said Law and they would therefore be taxed under the general tax scheme and not the scheme applicable to SOCIMI.

3.2 Capital management

The Group's main capital management objectives are to ensure long and short-term financial stability, the positive performance of Axiare Patrimonio SOCIMI, S.A., shares, the appropriate financing of investments and the reduction in debt levels. Financial leveraging ratios, calculated as follows: (Financial debt / (Financial debt + Equity) at 31 December 2016 and 31 December 2015 are as follows:

	31.12.2016	31.12.2015
Bank borrowings (Nota 11)	519,740	280,876
Equity		
attributable to the Parent company	943,749	827,242
Leverage	55%	34%

Management believes that the level of indebtedness of the Group is low.

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Investment properties leveraging ratios, calculated as follows: Financial debt / Investment properties at fair value at 31 December 2016 and 31 December 2015 are 39% and 34%, respectively. The Group's objective is to maintain these ratios between 50-60%.

3.3 Estimation of fair value of financial instruments

The table shown below includes an analysis of the financial instruments measured at fair value, classified by measurement method. The different levels have been defined as follows:

- Quoted price (not adjusted) on active markets for identical assets and liabilities (Level 1).
- Information other than the quoted price included in Level 1, observable for assets and liabilities, both directly (prices) and indirectly (price derivatives) (Level 2).
- Information on assets and liabilities that is not based on observable data (i.e. non-observable data) (Level 3).

The table below discloses the Group's financial assets and liabilities measured at fair value. See Note 5 for the breakdown of land and buildings measured at fair value.

31 December 2016

Assets	Level 1	Level 2	Level 3	Total
Long-term investments				
- Interest rate hedging derivatives	-	47	-	47
Total assets	-	47	-	47
Liabilities	Level 1	Level 2	Level 3	Total
Non-current loans				
- Interest rate hedging derivatives	-	9,483	-	9,483
Total liabilities	-	9,483	-	9,483

31 December 2015

Assets	Level 1	Level 2	Level 3	Total
Long-term investments				
- Interest rate hedging derivatives	-	808	-	808
Total assets	-	808	-	808
Liabilities	Level 1	Level 2	Level 3	Total
Non-current loans				
- Interest rate hedging derivatives	-	1,496	-	1,496
Total liabilities	-	1,496	-	1,496

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

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3.4 Financial asset and liability compensation

The Group's only financial assets and liabilities are, respectively, deposits made in official bodies and deposits to return to tenants. The Group's intention is that if applied, it will be on the gross base and therefore they have not been offset.

4. SEGMENT REPORTING

The investments committee, together with Board of Directors are identified as the maximum decision-making authority of the Group. Management has determined the operating segments based on information, which is revised by such bodies for the purpose of assigning resources and evaluating the Group's performance. Management identifies three reporting segments: offices, logistics and other.

31 December 2016

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

31 December 2015

	Thousand Euros				
	Offices	Logistics	Others	Corporate	Total
Rendering of services	25,881	10,621	5,834	-	42,336
Changes in fair value of financial investments	44,327	13,157	11,352	-	68,836
Operating expenses	(7,380)	(1,908)	(1,930)	(11,426)	(22,644)
Profit from operations	62,828	21,870	15,256	(11,426)	88,643
Financial income	475	9	1	1,097	1,582
Financial expenses	(2,560)	(1,809)	(346)	(170)	(4,885)
Financial results	(2,085)	(1,800)	(345)	927	(3,303)
Results before taxes	60,743	20,070	14,911	(10,384)	85,340
Corporate income tax	-	-	-	-	-
Results for the period	60,743	20,070	14,911	(10,384)	85,340

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

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

31 December 2016

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

31 December 2016

	Thousand Euros				
	Offices	Logistics	Others	Corporate	Total
Non-current assets					
Investment property	603,264	130,300	108,301	-	841,865
Long-term investments:	3,923	1,437	681	837	6,878
Other non-current assets	-	-	-	511	511
	607,187	131,737	108,982	1,348	849,254
Current assets					
Trade and other receivables	8,190	1,949	1,273	1,941	13,353
Other current assets	4,374	1,735	35	262,837	268,981
	12,564	3,684	1,308	264,778	282,334
Non-current liabilities					
Financial debt	(200,404)	(56,094)	(14,354)	-	(270,852)
Other non-current liabilities	(4,320)	(1,500)	(1,066)	(1,382)	(8,268)
	(204,724)	(57,594)	(15,420)	(1,268)	(279,120)
Current liabilities	(16,166)	(992)	(2,970)	(5,098)	(25,226)

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NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

5. INVESTMENT PROPERTY

Investment properties comprise buildings, logistic warehouses and other constructions owned by the Company for rent on a long-term basis and not occupied by the Company.

Set out below is a breakdown of and movements in the accounts recorded under investment properties:

	Thousand Euros	
	Investment	property
Balance at 31-12-2014		419,625
Acquisitions		348,335
Subsequent disbursements capitalised		5,069
Gain /(loss) net of fair value adjustments		68,836
Balance at 31-12-2015		841,865
Acquisitions		311,021
Subsequent disbursements capitalised		28,628
Gain /(loss) net of fair value adjustments		129,354
Balance at 31-12-2016		1,310,867

During 2016, the Company acquired eight properties (thirteen in 2015) to mainly be used as offices. Note 21 includes a breakdown of properties acquired.

In addition, real estate investments include an advance valued at cost of €17,358 thousand for a turn-key project related to logistics platforms in San Fernando de Henares, Madrid, amounting to €43 million with a gross leasable area of 73,464 m² and 144 loading bays. Its market value amounts to €57,200 thousand at 31 December 2016.

Additionally, investment properties include two options amounting to €7,650 thousand relating to the purchase of two assets with an acquisition price of €94,857 thousand and a market value at 31 December 2016 of €102,800 thousand.

At 31 December 2016, different mortgage guarantees were arranged on certain properties, the market value amounts to €1,154,100 thousand (€665,350 thousand in 2015), as a guarantee of the compliance with obligations arranged as a result of the financing obtained by the Company. At 31 December 2016, this financing amounts to €528,294 thousand (€ 286,422 thousand at 31 December 2016) (Note 11).

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

a) Income and expenses on investment properties

The following revenues and expenses relating to investment property have been recognised in the income statement.

	Thousand Euros	
	2016	2015
Lease revenue (Note 13)	51,011	42,336
Expenses relating to operation of investment properties generating lease revenues (Note 13)	(12,406)	(10,875)
Expenses relating to operation of investment properties not generating lease revenues (Note 13)	(198)	(355)
	38,407	31,106

Expenses relating to operation of investment properties includes other operating expenses (Note 13) and taxes (mainly IBI).

b) Operating leases

Total amount of future minimum collections under non-cancellable operating leases is as follows:

	Thousand Euros	
	31.12.2016	31.12.2015
Less than 1 year	36,053	36,821
Between one and five years	78,189	52,790
More than five years	7,960	20,607
	122,202	110,218

c) Insurance

It is Company policy to arrange all the insurance policies necessary to cover possible risks affecting investment properties. The coverage provided by these policies is considered to be sufficient.

d) Commitments

At the year end the Group has no contractual commitments for the acquisition, construction or development of investment properties or in relation to repairs, maintenance or insurance.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

e) Valuation process

Below is the cost and fair value of investment properties at 31 December 2016 and 31 December 2015:

	31.12.2016		31.12.2015	
	Cost	Fair value	Cost	Fair value
Investment properties	1,103,957	1,310,867	758,308	841,865

The valuations of such real estate assets were carried out under market value assumptions. The valuations were completed in accordance with the Appraisal-Valuation method of assets and guidance published by the Royal Institution of Chartered Surveyors of Great Britain (RICS) (standard valuation, 8 edition). The market value of the Group's properties has been determined based on the valuation carried out by independent expert appraisers (CBRE Valuation Advisory, S.A.).

Additionally, for certain assets and by way of control, Group management has had cross check valuations carried out by renowned values other than the main value who issues the certificate for the entire portfolio. In all cases, such valuations were equal to or more than the valuations carried out by the portfolio values, and were on average 29% higher than those recognized in the financial statements.

"Market value" is defined as the estimated amount at which it should be possible to exchange an asset at the valuation date, between a prudent willing knowledgeable seller and buyer not acting under duress, following a reasonable marketing period.

The valuation methodology adopted by independent appraisers in terms of determining fair value was basically the discounted cash flow method at 10 years and the rent capitalization method (reflecting net rent, capitalised expenses etc.), in addition to verifying the information against comparable.

The discounted cash flow method is based on predictions of the probable net income that will be generated by assets over a specific time, considering the assets' residual value at the end of that period. Cash flows are discounted at an internal rate of return to arrive at the present net value. That internal rate of return is adjusted to reflect the risk associated with the investment and assumptions adopted. Key variables are therefore net income, approximate residual value and internal rate of return.

The income capitalization method consists of capitalizing estimated net income from each property based on the lease period and reversal. This entails capitalizing current income over the period together with the valuation of probable subsequent rentals or following the discounting of income or the arrangement of new rentals in each forecast period, always taking present value as a basis. The yield applied to income categories reflects all forecasts and risks associated with cash flows and investments.

Therefore, the key variables of the capitalization method are the determination of net income, the period over which it is discounted, the approximate value at which it is realized at the end of each reporting period and the target internal rate of return used to discount cash flows.

The estimated yield depends on the type and age of the properties and their location. Properties have been valued individually, taking into account in the calculation each of the lease contracts in effect at the year end and if appropriate, foreseeable contracts, based on current market rents for different areas, borne by comparable and transactions carried.

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Based on the simulations performed, the impact recalculated on the fair value of the property of a shift of 0.25% in the yield would be as follows:

31 December 2016

Thousand Euros		
THEORETIC RESULTS		
YIELD VARIATION		
	(0.25%)	0.25%
Offices	32,943	(30,070)
Logistics	6,410	(5,990)
Sales staff	4,695	(4,100)
Hotels	400	(400)
Land	2,800	(2,500)
	47,248	(43,060)

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

31 December 2015

Thousand Euros		
THEORETIC RESULTS		
YIELD VARIATION		
	(0.25%)	0.25%
Offices	14,575	(14,250)
Logistics	3,060	(3,000)
Sales staff	2,230	(2,190)
Hotels	305	(300)
Land	-	-
	20,170	(19,740)

YIELDS	PRIME	DECENTRALISED
Offices	4.5% - 6%	7.25% - 8.5%
Logistics	6.75 - 8%	9.50%
Sales staff	6.15 - 8.5%	9% - 13%
Hotels	6.75%	10%

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NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

The valuation of investment properties is classified under level 2, according to the definition in Note 4.3 above. The fair value of investment properties was calculated by independent valuation experts through valuation techniques observable on the market and which are available based, to a lesser extent, on specific estimates of entities

During the six-month period ended 31 December 2016, no level transfers took place.

Total fees earned by CBRE Valuation Advisory, S A. (or other companies forming part of the same group of companies in Spain) from the recipient (or other companies forming part of the same group of companies), including related fees, account for less than 5.0% of the company's total income.

6. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by categories

The carrying amount of each category of financial instruments stipulated in the standard "Financial instruments" is as follows:

		Thousand Euros			
		Long-term financial assets			
		Debt securities		Loan Derivatives Otros	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loan and receivables (Note 7)		-	-	12,455	6,878
		-	-	12,455	6,878
		Current financial assets			
		Debt securities		Loan Derivatives Otros	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loan and receivables (Note 7)		-	-	7,886	11,536
		-	-	7,886	11,536
Total financial assets		-	-	20,341	18,414

Under, "Long-term investments" the group recognises the amount relating to deposits made with different public bodies derived from leases.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES
**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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		Thousand Euros					
		Long-term financial liabilities					
		Bank loans		Debentures and other negotiable securities		Loan Derivatives Other	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Borrowings and payables (Note 11)		516,852	270,852	-	-	18,671	8,268
		516,852	270,852	-	-	18,671	8,268
		Short-term financial liabilities					
		Bank loans		Debentures and other negotiable securities		Loan Derivatives Other	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Borrowings and payables (Note 11)		2,888	10,024	-	-	11,907	14,969
		2,888	10,024	-	-	11,907	14,969
Total financial liabilities		519,740	280,876	-	-	30,578	23,237

b) Analysis by maturity

Financial instruments at 31 December 2016 and 31 December 2015 having fixed or determinable maturities are shown below by year of maturity:

At 31 December 2016

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

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
(Thousand Euros)**

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

At 31 December 2015:

	Thousand Euros						
	Financial assets						
	2016	2017	2018	2019	2020	Subsequent years	Total
Other investments:							
- Derivatives	-	-	-	-	-	808	808
- Long-term deposits	-	2,868	1,159	860	431	751	6,070
Trade receivables:							
- Trade receivables	11,412	-	-	-	-	-	11,412
- Other financial assets	124	-	-	-	-	-	124
	11,536	2,868	1,159	860	431	1,559	18,414

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES
**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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	Financial liabilities						Total
	2016	2017	2018	2019	2020	Subsequent years	
Payables:							
- Derivatives	-	-	-	-	-	1,382	1,382
- Other financial liabilities	-	3,227	1,304	968	485	902	6,886
-Long-term bank loans	10,024	1,351	4,119	7,459	34,791	223,132	280,876
Trade payables:							
- Creditors and other payables	24,993	-	-	-	-	-	14,969
	16,115	4,578	5,423	8,427	35,276	225,416	304,113

7. LOAN AND RECEIVABLES

	Thousand Euros	
	31.12.2016	31.12.2015
Non-current loans and receivables:		
- Loan to third parties	4,626	-
- Derivatives (Note 12)	47	808
- Other financial assets (Note 6)	7,782	6,070
	12,455	6,878
Current loans and receivables (Note 7):		
- Trade receivables for sales and services rendered	2,464	1,891
- Sundry receivables	5,253	9,521
- Personnel	130	-
- Other financial assets	39	124
	7,886	11,536
	20,341	18,414

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

Other long-term financial assets include the deposits made in the corresponding bodies.

Of total short-term loans and receivables, at 31 December 2016, overdue trade and sundry receivables amount to €355 thousand (€1,179 thousand at 31 December 2015), of which any amount (€367 thousand in 2015) was provided for according to the antiquity policy of trade balances established and their evaluation carried out by the Company. Additionally, €827 thousand (€90 thousand in 2015) was recorded as default on the income statement.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

Trade receivables for sales and services mainly include a provision for invoices pending issue for the straight lining of leases in accordance with IAS 17 amounting to €2,109 thousand.

Sundry receivables mainly include a provision of funds for the Company's ordinary operations with notaries and registries amounting to €2,318 thousand (at 31 December 2015: €4,674 thousand) for this item and €2,000 thousand consigned at that date for the sale - purchase operation dated December 2016.

The age analysis of receivables for sales and services rendered is as follows:

	Thousand Euros	
	2016	2015
Up to 3 months	244	1,465
Between 3 and 6 months	94	368
More than 6 months.	17	58
	355	1,891

The carrying value of loans and receivables is denominated in euro.

Movements in this provision due to insolvencies during the year were as follows:

	Thousand Euros	
	2016	2015
Opening balance	(367)	-
Transfer	(460)	(544)
Reversal	-	177
Application	827	-
Closing balance	-	(367)

8. CASH AND CASH EQUIVALENTS

	Thousand Euros	
	31.12.2016	31.12.2015
Current accounts	145,421	268,809
	145,421	268,809

The current accounts accrue a market interest rate.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

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9. CAPITAL AND SHARE PREMIUM

a) Capital

The Company was incorporated on 19 March 2014 through the issuance of 10,000 registered shares of €6. par value each. As at the incorporation date, Rodex Asset Management, S.L. held 9,999 Ordinary Shares representing 99.99% of the issued share capital of the Company and Inmodesarrollos Integrados, S.L. held 1 Ordinary Share representing 0.01% of the issued share capital of the Company.

On 10 June 2014 the Extraordinary General Shareholders' Meeting was held during which it was resolved to increase capital by 36,000,000 shares, the shareholders' waiving their preferential subscription right, through an offer for the subscription of the parent company's shares. At 31 December 2015 capital was made up of 36,006,000 shares with a par value of €10 each.

On 7 May 2015 the parent company's General Shareholders' Meeting agreed to increase share capital. On 13 May 2015 the Board of Directors approved the agreements relating to the capital increase. On 10 June 2015 it was entered in the Madrid Mercantile Register and trading started of 35,868,988 new shares with a par value of €10 each, at a premium of €1 each.

After this share capital operation, at 31 December 2015, authorised capital consists of 71,874,988 fully paid in ordinary shares with a par value of €10 each.

The details of the share capital at 31 December 2016 and 31 December 2015, is as follows:

	Thousand Euros	
	<u>31.12.2016</u>	<u>31.12.2015</u>
Authorised capital	718,750	718,750
Non-paid capital	-	-
	<u>718,750</u>	<u>718,750</u>

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At 31 December 2016, the companies participating in the share capital by a percentage equal to or greater than 3% are:

Entity	% Voting rights	% Voting rights through financial instruments
Citigroup Global Markets Limited	9.165%	-
Deutsche Bank, A.G.	4.995%	-
Einhorn, David	-	6.957%
GAM International Management Limited	5.750%	-
GIC Private Limited	3.159%	-
Gross Capital Management LLP	-	4.824%
Inmobiliaria Colonial, S.A.	15.091%	-
JP Morgan Chase & Co	5.804%	-
Landsdowne Partners International Limited	-	2.015%
Pelham Capital LTD	-	9.219%
PGGM Vermogensbeheer B.V.	3.202%	-
T. Rowe Price Associates, Inc	9.782%	-
The Goldman Sachs Group, INC.	3.020%	-

b) Share premium

This reserve is freely available for distribution.

c) Treasury shares

The movement of treasury shares is as follows:

	2016		2015	
	Number of Treasury shares	Thousand Euros	Number of Treasury shares	Thousand Euros
Beginning balance	416,928	4,631	100,000	1,006
Purchases	1,444,453	17,793	111,652	1,297
Sales	(310,953)	(3,743)	(59,200)	(635)
Incentive plan purchases	1,353,479	15,901	264,476	2,963
Incentive plan deliveries	(1,367,641)	(15,904)	-	-
Ending balance	1,536,266	18,678	416,928	4,631

On 31 October 2014 Axiare Patrimonio entered into a liquidity contract with JB Capital Markets, S.V., S.A.U. in order to increase liquidity and favour the regular trading of the Company's shares. This contract came into effect on 2 January 2015.

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The General Shareholders' Meeting of 7 May 2015 resolved to implement the manager incentive plan consisting of the delivery of shares or cash on a discretionary basis to Company management (Note 16).

The shares of the Company owning the same at 31 December 2016 represent 2.11% of the Company's Share Capital (0.58% at 31 December 2015) and total 1,513,266 shares (416,928 shares at 31 December 2015). The average acquisition price was €12,3428 per share (€11,1074 per share at 31 December 2015).

On the basis of the above, of the shares held by the Company at 31 December 2016, €18,678 thousand relate to this incentive plan (€4,631 thousand at 31 December 2015).

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

d) Earnings per share

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

Diluted earnings per share are calculated by dividing net profit/(loss) of the period attributable to the owners of the parent Company by the weighted average number of ordinary shares in the year, plus the weighted average number of shares which would be issued when converting all potentially diluting instruments. As in Note 16, the Group has a remuneration plan in force (incentives) based on the granting of a number of shares. The Group's directors have evaluated the diluting effect of these plans calculating the impact of earnings per share concluding that this effect is not significant, and therefore making no distinction between them.

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

Calculation of basic and diluted earnings

	<u>2016</u>	<u>2015</u>
Operating profit (Thousand Euro)	148,626	85,340
Weighted average number of shares issued (shares)	71,874,988	56,322,419
Average number of treasury shares held (shares)	849,559	212,881
Basic profit per share (euro)	2.09	1.52
Diluted profit per share (euro)	<u>2.09</u>	<u>1.52</u>

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In relation to the calculation of earnings per share, there were no transactions on ordinary shares or potential ordinary shares between the close of the annual consolidated financial statements and the preparation of the same, that have not been considered for the calculations for the six-month period ended 31 December 2016.

10. RESERVES AND RETAINED EARNINGS

Reserves

At 31 December 2016, the total balance of €201 thousand relates to the Legal Reserve. This reserve has been funded in accordance with Article 274 of the Spanish Companies Act, which establishes that a figure equal to 10% of the profit for the year must always be allocated to the legal reserve until it reaches at least 20% of the share capital. The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

	Thousand Euros	
	31.12.2016	31.12.2015
Legal reserve	532	201
Other reserves	-	-
Hedging reserve	(9,436)	(574)
Treasury shares	(18,678)	(4,631)
Stock Incentive Plans	-	6,470
Other	(31,673)	(31,585)
Total Reserves	(59,255)	(30,119)
Retained earnings		
Accumulated results	251,368	104,191
Distribution of dividends	(2,983)	(1,449)
Total accumulated earnings	248,385	102,742

Other mainly includes the expenses associated with the flotation and capital increase carried out in 2015 amounting to €31,000 thousand, relating mainly to banks and advisors.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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Allocation of loss

The proposal to be presented to the General Shareholders' Meeting regarding the distribution of results and reserves is as follows:

	<u>Thousand Euros</u>
	<u>2016</u>
<u>Basis of distribution</u>	
Profit/(loss)	13,792
<u>Distribution</u>	
Legal reserve	1,379
Dividends	12,413
	<u>13,792</u>

The distribution of 2015 results, approved by the General Shareholders' Meeting of 12 May 2016, was as follows:

	<u>Thousand Euros</u>
	<u>2015</u>
<u>Basis of distribution</u>	
Profit/(loss)	3,314
<u>Distribution</u>	
Legal reserve	331
Dividends	2,983
	<u>3,314</u>

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11. TRADE AND OTHER PAYABLES

	Thousand Euros	
	31.12.16	31.12.2015
Long-term creditors and payables:		
- Bank loans and overdrafts	516,852	270,852
- Other financial liabilities (Note 6)	9,188	6,886
- Derivative (Note 12)	9,483	1,382
	535,523	279,120
Short-term creditors and payables (Note 6):		
- Bank loans and overdrafts	2,888	10,024
- Creditors and other payables	11,907	14,879
- Payables to related parties (Note 20)	-	89
- Personnel	-	1
	14,795	24,993
	550,318	304,113

The carrying amount of creditors and payables, both long and short term, approximates fair value since the effect of discounting is not significant except for the debt to credit institutions recorded at amortized cost. Bank borrowings are recognised as amortised cost.

Deposits received from tenants under rental contracts are recognized as other non-current financial liabilities.

Creditors and other payables mainly reflect the amounts provided for in relation to the acquisitions of properties by the Company and the funding obtained during the current year, as well as the balances payable for investments of the assets in progress.

The carrying amounts of the Company's creditors and payables are denominated in euro.

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

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Bank borrowings include the balance of 17 loans granted to the Company during 2016 and 2015. The maturities of these bank borrowings at nominal amount are set out below:

Maturity	2016		2015	
	Non-Current	Current	Non-Current	Current
2016	-	-	-	-
2017	-	-	-	-
2018	7,000	-	-	-
2019	-	-	-	-
2020	25,225	375	24,100	-
>2021	494,048	1,646	261,712	611
Total	526,273	2,021	285,812	611

The Company includes €8,554 thousand in amortized cost on the balance sheet (€6,082 thousand in 2015) in respect of debt formalization costs. At 31 December 2016 financial interest accrued and not paid amounts to €867 thousand (€535 thousand at 31 December 2015). Financial expenses accrued in the year amount to €7,777 thousand (€4,882 thousand in 2015) (Note 15).

During the year, the Company has signed financing agreements amounting to €201,082 thousand (€328,281 thousand in 2015).

These loans are subject to compliance with certain financial ratios, which are usual for the sectors in which the Company operates and are calculated at the year-end. At 31 December 2016 the Company complies with all these ratios except for the financing ratios of properties being renovated for which banks have granted a temporary exemption from compliance.

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The loans indicated are secured by mortgage commitments amounting to €1, 1154,100 thousand (€665,350 thousand in 2015) (Note 5). Bank loans are secured on land and buildings as set out below:

Related assets	Nominal amount outstanding at 31/12/2016	Nominal amount outstanding at 31/12/2015	Maturity
Francisca Delgado 11	15,000	15,000	2030
Fernando el Santo 15	10,000	10,000	2030
Avenida de la Vega 15	27,913	28,054	2029
Cabanillas 1	2,530	2,543	2022
Cabanillas 2	3,698	3,123	2022
Cabanillas 3	2,909	2,924	2022
Azuqueca	9,143	8,440	2022
Guadalix	4,349	3,563	2022
Rivas Vaciamadrid	9,193	9,240	2029
Camarma	19,881	17,550	2022
Manuel de Falla 7	24,000	-	2021
Valls	4,954	4,624	2022
Dos Hermanas	5,446	5,473	2029
Diagonal 197	29,096	29,243	2029
Les Gavarres	14,673	14,747	2022
Ribera del Loira 28	24,100	24,100	2020
Cristalia 2 & 3	29,451	29,599	2022
Cristalia 5 & 6	27,500	27,500	2022
Luca de Tena 14	9,350	9,350	2028
Luca de Tena 14	1,500	-	2020
Velázquez	45,688	30,788	2022
Tucuman	10,562	10,562	2022
Hotel Rafael Madrid Norte	7,000	-	2018
Ramírez Arellano	7,438	-	2028
Don Ramón de la Cruz	21,000	-	2025
Constantí	11,015	-	2022
Avenida de Bruselas 38	14,400	-	2025
Alcalá 506	7,335	-	2021
Luca de Tena 6	4,500	-	2025
Las Mercedes Open Park	23,865	-	2021
Josefa Valcárcel 24	7,000	-	2021
Viapark	10,063	-	2028
Azuqueca 2	4,778	-	2022
Alcalá de Henares	3,264	-	2022
Almagro	75,700	-	2023
	528,294	286,423	

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Deferral of payments to suppliers

Details of payments for commercial transactions carried out during the year and pending payment at the balance sheet date, as they relate to the maximum legal deadlines established by Law 15/2010, amended by Law 31/2014, are as follows:

	2016	2015
	Days	Days
Average payment period	35	39
Paid operations ratio	36	39
Pending payment transaction ratio	20	35
	Amount	Amount
	(Thousand Euros)	(Thousand Euros)
Total payments	221,378	381,786
Total pending payments	4,436	2,602

12. FINANCIACL DERIVATIVES

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

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**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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	Principal covered	Maturity	Thousand Euros			
			2015			
			Non current		Current	
			Assets	Liabilities	Assets	Liabilities
Interest rate swap	22,000	Until 2022	69	-	-	-
Interest rate swap	25,410	Until 2022	739	-	-	-
Interest rate swap	18,650	Until 2022	-	554	-	-
Interest rate swap	9,350	Until 2024	-	13	-	-
Interest rate swap	30,000	Until 2025	-	364	-	-
Interest rate swap	43,152	Until 2028	-	337	-	-
Interest rate swap	39,900	Until 2025	-	114	-	-
			808	1,382		

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

Hedging of cash flows using interest rate swaps allows variable rate debt to be changed to fixed rate debt; where future cash flows to be hedged are the future interest payments on the loans (Note 12). Changes in the fair value of derivatives are recognized under "Value change adjustments" in equity.

13. INCOME AND EXPENSES

a) Revenue

Net revenues from the Company's ordinary activities may be analysed geographically as follows:

Market	2016	
	Percentage	Thousand Euros
Domestic	100%	51,011
	100%	51,011
Market	2015	
	Percentage	Thousand Euros
Domestic	100%	42,336
	-	42,336

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**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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Revenue is analyzed below:

	Thousand Euros	
	31.12.16	31.12.15
Revenue		
Rentals	43,851	35,918
Reinvoicing of costs	7,160	6,418
	51,011	42,336

Lease contracts arranged by Group companies are under normal market conditions regarding term, early termination and rent.

b) Personnel expenses

	Thousand Euros	
	2016	2015
Wages, salaries and similar remuneration	15,996	9,072
Social charges:		
- Other social charges	280	220
	16,276	9,292

Wages, salaries and similar remuneration include termination benefits amounting to €7 thousand (there were no termination benefits at 31 December 2015).

The average number of employees in the period, by category, is as follows:

Category	Total	
	2016	2015
Executives	8	5
Graduates	8	8
Administrative personnel and other	4	3
	20	16

At 31 December 2016 and at 31 December 2015 the distribution by gender of the Company's personnel is as follows:

Categories	2016		
	Men	Women	Total
Executives	5	3	8
Graduates	5	2	7
Administrative personnel and other	-	4	4
	10	9	19

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**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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Categories			2015
	Men	Women	Total
Executives	5	1	6
Graduates	6	4	10
Administrative personnel and other	-	3	3
	11	8	19

The Group has no employees with disabilities greater than or equal to 33% (or equivalent tax rate) neither at December 31, 2015 and 2015.

c) Other operating expenses

The detail of "Operating Expenses" is as follows:

	Thousand Euros	
	2016	2015
External services directly attributable to property assets	12,801	11,230
Sudry operating expenses	2,084	1,953
	14,886	13,183

14. CORPORATE INCOME TAX AND TAX SITUATION

The reconciliation between the net amount of income and expense for the year and the taxable base is set out below:

	Thousand Euros					
	Income statement			Income and expense allocated directly to equity		
	Increase	Reductions	Total	Increases	Reductions	Total
Balance income and expenses of financial period	148,626	-	148,626	-	(8,862)	(8,862)
Corporation Tax	-	(6,833)	(6,833)	-	-	-
Permanent differences	2,911	-	2,911	-	-	-
Temporary differences: - originating in the financial year	1,852	(54)	1,798	-	-	-
Taxable base			146,502			(8,862)

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

In accordance with law 11/2009, at 26 October, and the amendments included therein through law 16/2012, at 27 December, regulating SOCIMIS, current Corporate Income Tax is the result of applying 0% to the tax base. No deductions have been applied to tax payable during the year 2015 or withholdings and payments on account amount to €350 (€0 thousand at 31 December 2014).

Permanent differences relate to a profit obtained in the subsidiary Venusaur, S.L.U. on the capitalisation of the loans granted by Axiare Patrimonio, S.A. and taxed in the parent company.

Temporary differences relate mainly to the deductible limit of the financial expenses incurred in the year.

Income tax expense is analysed below:

	Thousand Euros					
	2016			2015		
	Current tax	Change in deferred taxes	Total	Current tax	Change in deferred taxes	Total
Allocated to profit and loss:						
- To continuing operations:	624	(7,457)	(6,833)	-	-	-
- To discontinued operations:	-	-	-	-	-	-
	624	(7,457)	(6,833)	-	-	-
Allocated to equity:						
- Valuation of financial instruments	-	-	-	-	-	-
- On cash-flow hedges	-	-	-	-	-	-
- Reserves	-	-	-	-	-	-
	-	-	-	-	-	-

Set out below is an analysis of deferred tax:

	Thousand Euros	
	2016	2015
Deferred tax assets:		
- Temporary differences	-	-
- Tax credits for tax-loss carryforwards	7,457	-
- Other tax credits	-	-
	7,457	-
Deferred tax liabilities:		
- Temporary differences	-	-
	-	-
Deferred tax	7,457	-

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**NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
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Movements in deferred tax assets during 2016 are as follows:

2016	Variation deferred tax assets		Variation deferred tax liabilities	
	Temporary differences	Tax credits for tax-loss carryforwards	Temporary differences	Total
Allocated to profit and loss:				
- To continuing operations	-	7,457	-	7,457
- To discontinued operations	-	-	-	-
	-	7,457	-	7,457

The Group Company Venusaur, S.A does not apply the SOCIMMI scheme and therefore has an impact on the corporate income tax expense. On 22 December 2016, the company's financial situation was restored and its debt was restructured. Therefore, the company has recognised the tax credits.

Tax inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax authorities have reviewed the tax returns filed or until the four-year statute of limitations period has expired.

On 27 September 2016 the Company received a notification from the tax agency informing it of the initiation of inspection proceedings in the group company, Venusaur S.L. The scope of the inspection is limited to verifying fixed asset impairment and amortisation / depreciation and financial expenses for the years 2012 to 2014 and the influence of such impairment on tax losses carried forward from 2010 and 2011.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax liabilities may be raised in the event of a tax inspection. In any event, the Directors consider that any such liabilities would not have a significant effect on the consolidated annual accounts.

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At 31 December 2016 and 31 December 2015, breakdown of the Company's collection rights and payment obligations with the Public Administrations is as follows:

	Thousand Euros	
	31.12.2016	31.12.2015
Collection rights		
Deferred tax assets	7,457	-
VAT refundable	9,679	1,591
Tax Payments and withholdings on account	359	350
	17,495	1,941
Payment obligations		
Withholdings payable	(773)	(92)
VAT payable	(262)	-
Social Security payable	(28)	(26)
	(1,063)	(118)

Deferred tax assets relate to the recognition of tax credits on prior year accumulated losses of the group company Venusaur, SLU.

At 31 December 2016, available tax losses are as follows:

Year generated	Thousand Euros
2012	29,828
	29,828

Other balances with Public Authorities at 31 December 2016 relate mainly to VAT derived from the purchase of properties that must be returned by the Public Authorities.

15. NET FINANCIAL INCOME (EXPENSE)

	Thousand Euros	
	2016	2015
Finance income		
- From marketable securities and other financial instruments from third parties (Note 8)	423	1,582
	423	1,582
Financial expenses		
- Payables to third parties	(7,777)	(4,885)
	(7,777)	(4,885)
	(7,354)	(3,303)

AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

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16. SHARE-BASED PAYMENTS

On 7 May 2015, the General Shareholders' Meeting approved a new compensation plan based on the Company's shares granted to the Management Team made up of the CEO and persons appointed for this purpose by the Company.

That plan is for 7 years and the right to receive shares as incentives will vest when for a specific calculation period, both of the plan conditions are met. These conditions are that shareholders' return exceeds a specific percentage, measured through the generation of value by the assets acquired. The right to the incentive accrues and is calculated annually. The calculation period runs from July to June the following year. Settlement is made through the delivery of shares after that period.

The next evaluation of compliance with the relevant thresholds will take place on 30 June 2017. Although the terms established in the plan for accrual may possibly be met given the condition of our portfolio, at the date of preparation of these annual accounts, 23 February 2017, we are unable to consider it probable as it will depend, inter alia, on other variables beyond the company's control. There are evidently difficulties, which are implicit in all types of estimates concerning the future performance of economic variables.

Staff costs accrued under the 2015 amounted to €6,470 thousand (€557,787 shares) and €12,171 thousand (1,060,168 shares) under the 2016 plan. Both plans were settled in 2016.

The incentive plan expense is included in staff costs (Note 15.b).

17. PROVISIONS AND CONTINGENCIES

Contingent liabilities

At 31 December 2016 and 2015 the Company has delivered guarantees amounting to €3,186 thousand.

18. COMMITMENTS

Operating lease commitments

The Company leases its offices under an irrevocable operating lease. These leases are in force for six years and may be renewed under market conditions.

Total minimum future payments for irrevocable operating leases are as follows:

	Thousand Euros
	2016
Less than one year	177
One to five years	532
More than five years	-
	709

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19. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

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

Article 229 of the Spanish Companies Act 2010, adopted by virtue of Royal Legislative Decree 1/2010, amended by Law 31/2014 of December 3 that specifically modifies the content of Article 229, requires the Directors to notify the Company's governing body of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the company's objects, and also disclose the positions or duties they might have in the same. In this context, Directors conclude that it doesn't exist any conflict of interest, Appendix I sets out the information provided by the directors concerning the positions and functions exercised in companies having an identical, analogous or complementary kind of activity.

Directors' and senior management remuneration

The total remuneration received by the members of the Board of Directors during the annual period ended 31 December 2016 is as follows:

- Expenses for the Board of Directors meetings attendance received by all of the Directors: 325 thousand euros (2015: 232 thousand de euros).
- Wages and salaries: 900 thousand euros (2015: 750 thousand euros), including a variable remuneration based on the objectives set and approved in the last instance by the Board of Directors
- Life insurance premium: 18 thousand euros (2015: 9 thousand euros).
- Shared-based payments: an amount approximately of 50% of the incentive plan mentioned above in 2016 and 2015.

The Company granted a loan to the directors in order to executive the incentive plan amounting to €3,850 thousand. The Company has no pension funds or similar commitments with them.

At 31 December 2016 and 2015 there are no employees considered senior management personnel. The Company's key planning, management and control decisions together with decisions affecting economic and strategic policies are taken by the Board of Directors.

20. OTHE RELATED-PARTY TRANSACTIONS

Transactions shown below were carried out with related parties:

	Thousand Euros	
	2016	2015
Transa Related-party transactions		
Rodex Agrupada Comunicación, S.L.	-	(49)
Alza Real Estate, S.A.	-	(15)
	-	(64)

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NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (Thousand Euros)

21. INFORMATION REQUIREMENTS DERIVING FROM SOCIMI STATUS, LAW 11/2009, AMENDED THROUGH LAW 16/2012

- a) Reserves from years prior to the application of the tax scheme contained in Law 11/2009, amended by Law 16/2012, at 27 December.

Not applicable.

- b) Reserves from years in which the tax scheme contained in Law 11/2009, amended by Law 16/2012, at 27 December, has been applied.

Not applicable.

- c) Dividends distributed against profits each year in which the tax scheme contained in this Law is applicable, differentiating the part from income subject to tax at 0% or 19% from those where tax has been levied at the general rate.

The total dividend distributed comes from returns subject to a 0% rate.

- d) For distribution against reserves, identifying the year from which the reserves applied derive and if they have been taxed at 0%, 19% or the general rate.

This was not distributed against reserves (Note 10).

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

General Shareholders' Meeting at 12 May 2016 (Note 10).

- f) Date of acquisition of buildings for rent and interests in the capital of companies referred to in Article 2.1. of this Law.

The Company has interests in the capital of entities referred to in section 1 of article 2 of the Law of SOCIMIs. This participation refers to the company of the group Venusaur, S.L.U., which was acquired on December 2, 2016 (Note 7).

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	Property	Location	Acquisition date
1	F. Delgado	Plot TN-5B, Sector Único, calle Francisca Delgado, nº 11, Alcobendas (Madrid)	28 July 2014
2	Cabanillas	Plot 2.4, Industrial premises 1,2 and 3, Polígono Industrial P-5, Cabanillas del Campo (Guadalajara)	29 July 2014
3	Miralcampo	Logistics premises, Avda. de la Construcción, nº 9 y 11, Polígono Industrial Miralcampo, Azuqueca de Henares (Guadalajara)	30 July 2014
4	Dos Hermanas	Plots 47 to 50, Polígono Industrial "La Isla", Dos Hermanas (Sevilla)	30 July 2014
5	F. Santo	C/ Fernando el Santo número 15, 28010 Madrid	24 September 2014
6	Av. Vega	Avda. Arroyo de la Vega, nº 15, Arroyo de la Vega, Alcobendas (Madrid)	24 September 2014
7	Rivas	Plots 18-14 y 19-13, Calle Mariano Benlliure, Rivas-Vaciamadrid (Madrid)	24 September 2014
8	Planetocio	Avda. Juan Carlos 1 número 46, Collado Villalba (Madrid)	24 September 2014
9	Valls	Logistics premises, Avenida del Polígono, 5. Polígono Industrial de Valls, término municipal de Valls (Tarragona)	9 October 2014
10	Guadalix	Department number 3, property part of U.A.-47, and building "B", San Agustín de Guadalix (Madrid)	9 October 2014
11	Camarma	Logistics premises, sector S1-4 "La Raya Industrial", Camarma de Esteruelas (Madrid)	9 October 2014
12	Manuel de Falla	C/ Manuel de Falla número 7, 28036 Madrid	6 November 2014
13	Diagonal	Diagonal Building. Avenida Diagonal 197, 08018 Barcelona	4 December 2014
14	Rib. Loira	Ribera del Loira. C/ Ribera del Loira, 28, 28042 Madrid	4 December 2014
15	Cristalia 2&3	Edificios 2 and 3 Parque Empresarial Cristalia. C/ Vía de los Poblados s/n (Madrid)	4 December 2014
16	Bauhaus	Tarragona Building, property number two, subpolígono PP-9, Polígono Industrial Les Gavarres (Tarragona)	4 December 2014

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	Property	Location	Acquisition date
17	Hotel	Building used as a hotel Parque Empresarial Omega. Carretera de Alcobendas a Barajas kilómetro 1.100. Alcobendas (Madrid)	20 February 2015
18	Luca de Tena 14	C/ Juan Ignacio Luca de Tena número 14, 28027 Madrid	30 March 2015
19	Tucumán	Tucumán Building. Glorieta del mar caribe número 1, Madrid	30 March 2015
20	Cristalia 5&6	Buildings 5 and 6 Parque Empresarial Cristalia. Calle Vía de los Poblados s/n (Madrid)	22 May 2015
21	Velázquez	Premises located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	22 May 2015
		Twenty properties located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	15 June 2015
		Premises located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	29 July 2015
		Parking spaces of at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	05 August 2015
22	R. Arellano	Floors 6 and 7 and parking spaces of at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	21 July 2015
23	Constantí	Building located at Calle Ramírez de Arellano 15, Madrid	30 July 2015
24	Luca de Tena 6	Industrial premises located in the municipality of Constanti, Polígono Industrial Constanti (Tarragona).	23 September 2015
25	Alcalá	Building located at Calle Juan Ignacio Luca de Tena 6, 28027 Madrid	23 September 2015
26	Av. Bruselas	Building located at Calle Alcalá 506, 28027 Madrid	23 September 2015
27	Las Mercedes	Building located at Avenida de Bruselas 38, 28108 Alcobendas (Madrid)	23 September 2015

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	Property	Location	Acquisition date
28	D. Ramón Cruz	Building located at Calle Don Ramón de la Cruz número 84, 28006 Madrid	8 October 2015
29	P. Somport	Building located at Calle Josefa Valcárcel número 24, 28027 Madrid	23 December 2015
30	Josefa Valcárcel 24	Four shopping malls located in VÍcar, parajes del Cortijo Blanco, Cerrillo de los Vaqueros and Cerro de los Lobos (Almería)	26 January 2016
31	Viapark	Industrial premises under construction located at sector SUP I-1, municipality of San Fernando de Henares (Madrid)	14 April 2016
32	San Fernando *	Building located at Calle Sagasta números 31 and 33, 28004 Madrid	28 April 2016
33	Sagasta	Industrial premises located at Alcala de Henares (Madrid)	17 November 2016
34	Alcalá de Henares	Industrial premises located at Azuqueca de Henares (Guadalajara)	25 November 2016
35	Azuqueca de Henares	Building located at Calle Juan Ignacio Luca de Tena 7, 28027 Madrid	25 November 2016
36	Almagro	Building located at Calle Don Ramón de la Cruz número 84, 28006 Madrid	2 December 2016
37	Luca de Tena 7	Building located at Calle Josefa Valcárcel número 24, 28027 Madrid	23 December 2016

* This asset is under construction. It is expected to be completed by May 2018.

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

The assets considered in the 80% referred to in Section 1 Article 3 of the SOCIMI Law are reflected in the table above.

h) Reserves from years in which the tax system applicable in this Law was applicable, which were made available in the tax period, not for distribution or offsetting losses, identifying the year from which the reserves derive.

Not applicable.

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22. AUDITORS' FEES

The audit fees accrued during the period between January 1st and December 31st 2016 by PricewaterhouseCoopers Auditores, S.L. for the review of the Company's annual financial statement amounts to €104 thousand euros (2015: 94 thousand euros) and for other assurance services amounts to €47 thousand euros (2015: 95 thousand euros).

At 31 December 2016 the fees accrued by other companies of the PwC network amounted to €164 thousand euros (€99 thousand euros at 31 December 2015, of which 27 thousand euros correspond to tax advices).

23. SUBSEQUENT EVENTS

On 20 January 2017, the Company acquired an office building located at Puerto de Somport 8, Las Tablas, Madrid, for €41,500 thousand. This is an asset with a gross leasable area of 9,280 m², and 370 parking spaces.

On 24 January 2017, the Company entered into two bilateral financing agreements with Banco Santander, S.A amounting to €26,400 thousand and €7,800 thousand and maturing at 7 and 5 years, respectively. This represents advantage of 60% loan -to-value (LTV). The properties relate to an office building located at Calle Sagasta 31 and 33, with a gross leasable area of 7,054 m² and 93 parking spaces and two floors of the office building located at Padilla 17 with a gross leasable area of 1,837 m² and 33 parking spaces.

On 31 January 2017, through a corporate transaction, the Company acquired Chameleon (Cedro) S.L., which owns the Cedro building, located at calle Anabel Segura. The property was valued for the purposes of its acquisition at €43,500 thousand. This is an asset with a gross leasable area of 17,032 m², and 381 parking spaces.

Additionally, before these annual accounts were issued, Axiare completed the acquisition of a building of over 8,036 m² in calle Miguel Angel for €53.4 million.

On February 17, 2017, a bridge policy was signed for an amount of 51 million euros with CaixaBank.

AXIARE PATRIMONIO SOCIMI, S.A. Y SOCIEDADES DEPENDIENTES

Appendix I – Detail of Positions and Ownership Interests held by the Directors in Companies with a similar Company Object

Luis Alfonso López de Herrera-Oria

Shareholders	Office or duty	% Interest
Rodex Asset Management, S.L.	Sole Administrator	100
Agrodesarrollos Integrados, S. L.	Sole Administrator	100
Inmodesarrollos Integrados, S.L.	Representative of sole administrator	100
Puerto Feliz, S.A.	Representative of sole administrator	78.88
Heracles Proyectos y Promociones Inmobiliarias, S.A.	Sole Administrator	100

Luis María Arredondo Malo

Shareholders	Office or duty	% interest
Nieve de Andalucía, S.A.	Attorney	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	Director	18.01
Aljaral, S.A.	Director	100.00
Xiaraxi de Negocios, S.A.	President	-

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

1. ORGANIZATIONAL STRUCTURE AND OPERATION

Axiare Patrimonio Socimi, S.A. (Axiare Patrimonio) was constituted in Spain on 19 March 2014, in accordance with the Law of limited liability Companies through the issuance of 10,000 registered shares with a par value of 6 euros each. On June 10, 2014 General Shareholders' Meeting was held through which capital increase was decided waiving the preferential subscription right of the shareholders through an offering of shares of the Company.

The Company reported with date 12 June 2014 to the Tax Agency, its option for implementing the arrangements for Listed Companies Investment in Real Estate Market.

On July 9, 2014, Axiare Patrimonio went public with the realization of a capital increase of 360 million euros by issuing 36 million ordinary shares with a nominal value of 10 euros each.

Axiare Patrimonio was a new company born without assets, which is considered a "blind pool" that allowed opportunities for the Spanish real estate sector. On 31 December 2014, the Company had invested 1.2 times the capital raised in the IPO, with a total investment of 424 million. The market value of this investment amounted to 31 December 2014 to 439 million (including Manuel de Falla).

In order to capture the necessary to continue with its investment plan funds, the Company initiated in May 2015 a process of capital increase of 395 million euros that covered successfully. In total 35,868,988 new shares were subscribed, amounting to 394,558,868 euros, doubling its capitalization in excess of 800 million euros. One of the peculiarities of this operation was that it was performed without underwriting or guarantee banks. The new shares were acquired at a price of 11 euros per share, representing a premium of 10 percent over the price set at the start of trading of the Company. After this capital increase operation, the subscribed capital consisted on 71,874,988 fully paid ordinary shares.

Axiare business strategy focuses on investments in rental assets of high quality and strong growth potential. Trade policy is based mainly on exploiting offices in the financial centers of Madrid and Barcelona, as well as in other premium locations outside the city center, logistic real estate in most centers of distribution Spain and consolidated shopping centers.

The Board of Directors of Axiare operates according to the rules of corporate governance contained mainly in the Corporate statutes, the Regulations of the Shareholders' Meeting and the Regulations of the Board of Directors.

The Board of Directors is the supervisory and control activity of the company, with jurisdiction over matters such as the adoption of policies and strategies of the Company's corporate governance policy and corporate social responsibility, and policy control and risk management and, in any case, on the fulfillment of the requirements for maintaining the status Socimi Society.

The Board of Directors has two committees, an Audit Committee and Control and Appointments and Remuneration Committee, which essential function is to support for the Board of Directors in its tasks of monitoring and control for the current business of the Company.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

2. DEVELOPMENT AND PERFORMANCE OF THE BUSINESS

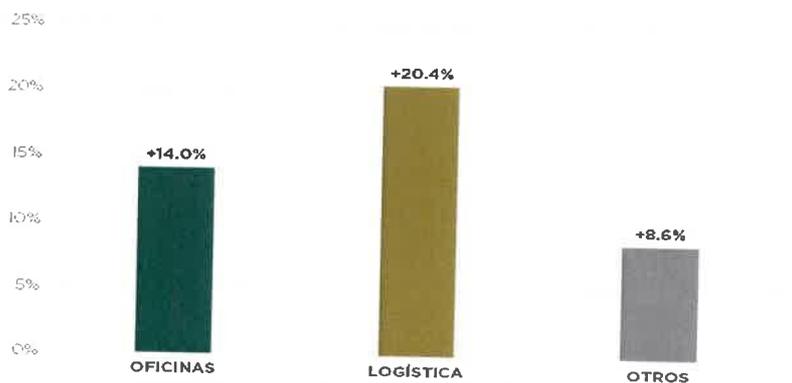
The Company since its release to the stock market last year, has made several acquisitions of real estate assets, which have led to a positive result amounting to 148,626 thousand euros in 2016 and 85,340 thousand euros in 2015, on a consolidated basis.

The amount of "Rendering of services" deriving from the lease of the acquired real estate assets amounted to 51.011 thousand euros (42,336 thousand euros in 2015).

EBITDA for 2016 amounted to 19,850 thousand euros compared to 2015 EBITDA reaching 19,872 thousand euros (EBITDA: earnings before interest, taxes, depreciation and amortization).

The market value of the assets of the company at 31 December 2016 amounted to 1,343 million euros, representing an increase of 25,7% on the purchase price and 14.3% of the portfolio like-for-like¹ at 31 December 2015.

The following chart breakdown by segment increased valuation on like-for-like¹ portfolio of 12 months:



The main reasons for this increase in the valuation of the portfolio in the past year due to:

- Active management: a part of the portfolio's growth potential is the consequence of active asset management. The leasing business, together with rent reviews and lease renewals during the period, covered 123.5 thousand m², assuring annual rental income of €10.3 million.
- Assets under remodelling: the value of assets under remodelling in 2016 rose by 24.5%.
- Growth in rent: since the start of the year, rent values increased by 5.3%. The quality of our portfolio continued to benefit from the shift by lessees to class-A real estate assets.
- Investor appetite: yields for the period fell due to the rise in demand for assets in our market.

¹ Comparing the same assets of the portfolio as of 31 December 2014.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

The tables below show the breakdown of the market value of our portfolio at 31 December 2016 determined by CBRE Valuation Advisory, S.A. (RICS):

	Acquisition Price EUR M	GAV 31/12/2016 EUR M	Weighting %	Valuation performance on acq Price EUR M	Valuation performance on acq Price %	12-months LFL Valuation performance %	12-months LFL Valuation performance EUR M
Offices	794.7	973.2	72.5%	178.5	22.5%	87.0	14.0%
Madrid	741.7	906.2	67.5%	164.5	22.2%	78.0	13.9%
CBD	334.9	402.0	29.9%	67.1	20.0%	33.7	18.7%
BD	406.9	504.2	37.5%	97.3	23.9%	44.3	11.6%
Barcelona	53.0	67.0	5.0%	14.0	26.4%	9.0	15.5%
Logistics	163.3	230.6	17.2%	67.3	41.2%	26.6	20.4%
Madrid	135.9	184.6	13.7%	48.7	35.9%	16.0	16.9%
Barcelona	18.0	29.5	2.2%	11.5	63.9%	7.7	35.3%
Other	9.4	16.5	1.2%	7.1	75.2%	2.9	21.3%
Others	110.5	139.2	10.4%	28.7	26.0%	9.3	8.6%
Total	1,068.5	1,343.0	100.0%	274.5	25.7%	122.9	14.3%

3. EPRA INFORMATION

The ratios defined in the recommendations of EPRA best practices are as follows:

EPRA indicators	(Thousand Euros)	
	2016	2015
Adjusted EPRA earnings	24,036	22,707
Adjusted EPRA earnings per share	0.34	0.40
EPRA earnings	19,272	16,504
EPRA earnings per share	0.27	0.29
EPRA NAV	967,817	835,819
EPRA NAV per share	13.8	11.7
EPRA NNNAV	956,417	829,200
EPRA NNNAV per share	13.6	11.6
EPRA Net Initial Yield	4.1%	5.0%
EPRA "Topped-up" NIY	4.4%	5.0%
EPRA availability rate	14.1%	18.9%

AXIARE PATRIMONIO SOCIMI, S.A.
DIRECTOR'S REPORT FOR THE YEAR 2016

EPRA earnings and EPRA earnings per share		(Thousand Euros)	
	2016	2015	
Profit for the year under IFRS	148,626	85,340	
Adjustments to calculate the results EPRA, exclude:			
(i) Investment property revaluation	(129,354)	(68,836)	
EPRA Result	19,272	16,504	
EPRA result per share	0.27	0.29	
Specific company adjustments:			
(a) Specific company adjustments	4,764	6,203	
Adjusted earnings	24,036	22,707	
Adjusted earnings per share	0.34	0,0	
 Average nº of shares (excluding treasury shares)	 71,025,429	 56,109,538	

EPRA Net Asset Value (NAV)		(Thousand Euros)	
	31/12/2016	31/12/2015	
NAV according to financial statements(*)	965,838	835,245	
Effect of exercise of options, convertibles and other interests	-	-	
NAV Diluted	965,838	835,245	
Excluding:			
(iv) Fair value of financial instruments.	9,436	574	
(v.a.) Deferred tax	(7,457)	-	
EPRA NAV	967,817	835,819	
EPRA NAV per share (in euros)	13,8	11,7	

(*) Including capital gains of San Fernando, Miguel Angel y Peugeot

Triple Net Asset Value (NNNAV)		(Thousand Euros)	
	31/12/2016	31/12/2015	
EPRA NAV	967,817	835,819	
Including:			
(i) Fair value of financial assets	(9,436)	(574)	
(ii) Fair value of debt	(9,421)	(6,045)	
(iii) Deferred tax	7,457	-	
EPRA NNNAV	956,417	829,200	
EPRA NNNAV per share	13.6	11.6	

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

EPRA YIELDS

	(Thousand Euros)			
	Offices	Logistics	Others	Total
Investment properties	973,200	230,600	139,200	1,343,000
Minus assets under remodeling	(179,530)	(57,200)	-	(236,730)
Completed investment properties	793,670	173,400	139,200	1,106,270
Estimated costs of real estate transactions	12,302	2,688	2,158	17,147
Total investment portfolio valuation (B)	805,972	176,088	141,358	1,123,417
Annual return on investment properties	29,939	10,166	8,860	48,965
operating expenses associated with non-recoverable assets	(2,034)	(423)	(870)	(3,015)
Annual net income (A)	27,217	9,743	7,990	45,950
Bonuses or deficiencies	2,450	757	124	3,332
Maximum net return on investment (c)	30,667	10,500	8,114	49,281
EPRA NIY (A/B)	3.5%	5.5%	5.7%	4.1%
EPRA "topped-up" NIY (C/B)	3.8%	6.0%	5.7%	4.4%

VACANCY RATE

	(Thousand Euros)			
	Offices	Logistics	Others	Total
ERV available spaces	7,148	1,606	254	9,008
Total ERV	40,725	12,971	10,160	63,856
EPRA Vacancy rate	17.6%	12.4%	2.5%	14.1%

4. EVOLUTION OF SHARES



The figure shows the evolution of the share price during 2016, based on a price of € 13.05/ share on the first day of the year and reaching a value of 13.82 € / share on December 31, 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

5. TREASURY SHARES

On 31 October 2014, Axiare Patrimonio signed with JB Capital Markets, S.V, SAU a liquidity contract in order to increase liquidity and promote regularity of the share price of the Company. That contract entered into force on January 2, 2015.

The General Shareholders' Meeting of May 7, 2015 agreed to the entry into force of an incentive plan for executives consistent delivery of shares or cash at the discretion of the Company.

The Company shares held on December 31, 2016 represent a 2.11% of the share capital of the Company (0.58% at December 31, 2016) and represent a total of 1,536,266 shares (416,928 shares at 31 December 2015). The average acquisition price was of 12.3428 euros per share (11.1074 euros per share at December 31, 2015).

These shares are recognised as a reduction in the value of the Company's shareholders' funds at 31 December 2016 in the amount of €18,678 thousand (€4,631 thousand at 31 December 2015).

The average number of shares for the year 2016 is 71,874,988 (56,322,419 shares in 2015) and the average number of treasury shares is 849,559 in 2016 (212,881 shares in 2015). The average number of treasury shares in 2016 is 110,091 shares, that correspond to the liquidity contract and the rest with repurchase agreement of the incentive plan.

The Company has fulfilled its obligations under Article 509 of the Capital Companies Act which provides, in relation to shares listed on an official secondary market, the nominal value of the shares acquired, when added to those already held by the Company parent and its subsidiaries, may not exceed 10% of the capital. The subsidiaries have neither own nor the parent company shares.

6. DIVIDEND POLICY

SOCIMIs are regulated through the special tax regime established by Law 11/2009 of October 26, amended by Law 16/2012 of 27 December, governing listed real estate investment companies. They will be required to distribute in the form of dividends to shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each year end, as follows:

- a) All the profit from dividends or shares in profits paid by the entities referred to in Article 2.1. of Law 11/2009.
- b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of Law 11/2009, carried out once the deadlines referred to in Article 3.3 of Law 11/2009 have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years of the transfer date. Otherwise, these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.
- c) At least 80% of the remaining profits obtained.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

The dividend should be paid within the month following the date of the distribution agreement.

When dividends are distributed with a charge to reserves out of profit for a year in which the special tax scheme had been applied, the distribution must be approved as set out above.

The Company is required to transfer 10% of the profits of the year to a legal reserve, until it reaches 20% of the share capital. This reserve, until it exceeds the limit of 20% of capital, cannot be distributed to shareholders. The statutes of these companies may not require any other nature reserve unavailable different from the last.

The dividend to be distributed by Axiare Group is the Spanish GAAP result of the year. The table below shows a reconciliation between IFRS and Spanish GAAP result that serves as basis for dividend distribution

Reconciliation Spanish GAAP vs IFRS	(Thousand Euros)	
	2016	2015
Profit or loss Spanish GAAP	13,792	3,314
Adjustments:		
(i) Consolidation	(7,849)	(3)
(ii) Investments properties depreciation	13,329	13,193
(iii) Changes in fair value of investment properties	129,354	68,836
Profit or loss IFRS	148,626	85,340

The table below includes the calculation of dividends according to the SOCIMI standard:

PROPOSAL OF DISTRIBUTION OF PROFIT		(Thousand Euros)
		2016
Profit or loss for the year		
Profit		13,792
Distribution		
Legal reserve	10% Profit	1,379
Dividends	100% Distributable profit	12,413
		13,792

7. RISK MANAGEMENT

Axiare has established a risk management system covering its activities and is suitable to their risk profile. Such policies are controlled by the Board of Directors.

The main risk to the achievement of the objectives of the Company is to comply with regulatory requirements to maintain their status as Socimi.

The risk management system also includes management of financial risk. Policies to cover each type of risk are detailed in the attached report.

Note 4 to the memory of financial statements it includes the Group's risk management.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR´S REPORT FOR THE YEAR 2016

AVERAGE PAYMENT PERIOD TO SUPPLIERS

The breakdown of payments for commercial transactions during the year and outstanding payments at the balance sheet in relation to the legal maximum limits laid down in Law 15/2010, amended by Law 31/2014, as follows:

	<u>2016</u>	<u>2015</u>
	<u>Days</u>	<u>Days</u>
Average payment period to suppliers	35	39
Ratio of paid operations	36	39
Ratio of outstanding payment operations	20	35
	<u>(Thousand Euros)</u>	<u>(Thousand Euros)</u>
Total payments	221,378	381,786
Total outstanding payments	4,436	2,602

8. THE TEAM

The team of professionals in Axiare Patrimonio is one of the main strengths of the Company. Since its establishment, Axiare has selected the personnel needed to develop its strategies and achieve its objectives.

Axiare Patrimonio is a group of self-managed real estate investment that integrates the management team in their organizational structure.

This internal team works exclusively - and with full dedication- for the company and its shareholders. They set this specialized professional with extensive experience and proven track record in real estate and a deep knowledge of the market. This expert group of professionals can address investment operations of great complexity in short periods of time and carried out comprehensively the entire value creation process: from identifying investment to active management and turnover potential of the property.

The company is supervised by a Board of Directors with a large majority of independent directors that bring together expertise in the real estate, financial and legal sector. This council has the advice of an Investment Committee, a Nominating Committee and Remuneration and Audit and Control Committee which monitors compliance with the investment requirements and profitability that marked the company.

Axiare has assembled a solid team of real estate professionals who together have more than 100 years' experience and are devoted exclusively to the creation of value for the company and shareholders, and to ensuring customer satisfaction. Their specialization and existing contact network provides the management team with access to distinctive investment opportunities in the Spanish real estate market.

9. IMPORTANT CIRCUMSTANCES OCCURRED AFTER PERIOD END.

On 20 January 2017, the Company acquired an office building at calle Puerto de Somport 8, Las Tablas, Madrid for the sum of €41,500 thousand. The asset has a gross lettable area (GLA) of 9,280 m², with 370 parking spaces.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

On 24 January 2017, the Company entered into two bilateral financing agreements with Banco Santander S.A. for €26,400 thousand and €7,800 thousand, maturing in seven and five years, respectively. This represents 60% Loan-to-Value (LTV) leverage. The properties funded are an office building located at calle Sagasta 31 and 33, with a gross lettable area (GLA) of 7,054 m² and 93 garage spaces, and two floors of the office building located at calle Padilla 17, with a gross lettable area (GLA) of 1,837 m² and 33 garage spaces.

On 31 January 2017, in a corporate transaction, the Company acquired the company Chameleon (Cedro) S.L., which owns the Cedro building in calle Anabel Segura; the building was valued at €43,500 for acquisition purposes. The asset has a gross lettable area (GLA) of 17,032 m², with 381 parking spaces.

Additionally, before these annual accounts were issued, Axiare completed the acquisition of a building of over 8,036 m² in calle Miguel Angel for €53.4 million.

On 17 February 2017 the Company has signed a credit facility for €51 million thousand with CaixaBank.

10. OUTLOOK FOR THE COMPANY

The Axiare Patrimonio Group has investment capacity linked to the treasury and the affordability of outstanding fund assets. The group will continue during 2017 with its investment strategy focused on commercial real estate assets in Spain.

The Group will continue with the active management focused on improving those contracts maturing set in 2017, as well as improving the occupation.

The Group has several assets under renovation with completion expected for the year 2017.

ANEXO: Annual Report of Corporate Governance

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S IDENTIFICATION DATA FINANCIAL YEAR ENDED **31/12/16**

TAX ID NUMBER. A86971249

Company Name: **AXIARE PATRIMONIO SOCIMI, S.A.**

Address: **JOSÉ ORTEGA Y GASSET, 29, 5ª PL. 28006 MADRID**

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

A OWNERSHIP STRUCTURE

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

Date of last modification	Social Capital (€)	Number of shares	Number of Voting Rights
31/12/2016	718,749,880,00	71,874,988	71,874,988

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 Company Name	Number of Direct Voting Rights	Number of Indirect Voting Rights	% of the total voting rights
CITIGROUP GLOBAL MARKETS LIMITED	6,587,343	0	9.17%
DEUTSCHE BANK AG	3,586,562	0	4.99%
JPMORGAN CHASE & CO	0	4,171,624	5.80%
T. ROWE PRICE ASSOCIATES, INC	0	7,030,811	0.00%
GIC PRIVATE LIMITED	2,270,531	0	3.16%
PGGM VERMOGENSBEHEER B.V.	2,301,437	0	3.20%
DON DAVID EINHORN	0	5,000,343	6.96%
GAM INTERNATIONAL MANAGEMENT LIMITED	0	4,132,812	5.75%
GRUSS CAPITAL MANAGEMENT LLP	0	3,467,249	4.82%
INMOBILIARIA COLONIAL, S.A.	10,846,654	0	15.09%
PELHAM CAPITAL LTD	0	6,626,155	9.22%
THE GOLDMAN SACHS GROUP, INC.	0	2,170,625	3.02%

Shareholder's name or Company Name of the indirect owner of the share	Through: Shareholder's Name or Company Name of the direct owner of the share	Number of Voting rights
JP MORGAN CHASE & CO	JP MORGAN SECURITIES PLC	4,171,624
T. ROWE PRICE ASSOCIATES, INC	T. ROWE PRICE ASSOCIATES, INC	7,030,811
DON DAVID EINHORN	DON DAVID EINHORN	5,000,343
GAM INTERNATIONAL MANAGEMENT LIMITED	GAM INTERNATIONAL MANAGEMENT LIMITED	4,132,812
GRUSS CAPITAL MANAGEMENT LLP	GRUSS CAPITAL MANAGEMENT LLP	3,467,249
PELHAM CAPITAL LTD	PELHAM CAPITAL LTD	6,626,155
THE GOLDMAN SACHS GROUP, INC.	THE GOLDMAN SACHS GROUP, INC.	2,170,625

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

Shareholder's name or Company Name	Date of the Operation	Description of the Operation
GAM INTERNATIONAL MANAGEMENT LIMITED	06/09/2016	5% of the Social Capital has been exceeded
GRUSS CAPITAL MANAGEMENT LLP	25/05/2016	3% of the Share Capital has been exceeded
INMOBILIARIA COLONIAL, S.A.	18/10/2016	15% of the Share Capital has been exceeded
PERRY PARTNERS INTERNATIONAL INC	19/10/2016	15% of the Share Capital has been decreased
PGGM VERMOGENSBEHEER B.V.	10/08/2016	3% of the Share Capital has been exceeded
TAUBE HODSON STONEX PARTNERS LLP	06/09/2016	5% of the Share Capital has been decreased
ALKEN LUXEMBOURG, S.A.	03/10/2016	3% of the Share Capital has been decreased

A.3 Complete the following tables on company directors holding voting rights through company shares:

Shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
DON LUIS ALFONSO LOPEZ DE HERRERA-ORIA	471,776	0	0.66%

% total of voting rights held by the Board Members	0.66%
--	-------

Complete the following tables on share options held by directors:

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 Corporate Enterprises Act ("LSC"). 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 shares among the shareholders of the Company.

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

Yes

No

Observations

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

At year end:

Number of shares held directly	Number of shares held indirectly	% of total share capital
1,536,266	0	2.11%

(*) Through:

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

Detail the significant variations

- 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 stock.

The Extraordinary General Meeting held on May 12, 2016 agreed to authorize the derivative acquisition of own shares by the Company, or companies of its group, revoking previous authorizations.

- A.9.bis Estimated floating Capital

	%
Estimated Floating Capital	40,00

- A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate the existence of any restrictions on the takeover of the company by means of share purchases 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 the quorum required for constitution of the general shareholders' meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

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 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 Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

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

B.4 Indicate the attendance figures for the general shareholders' meetings held during the year:

Attendance Data					
Date	% of physical presence		% Distance vote		Total
			Electronic vote	Others	
07/05/2015	0.54%	56.18%	0.00%	0.00%	56.72%
12/05/2016	0.01%	47.94%	0.00%	2.58%	50.53%

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

Yes

No

B.6 Revoke Section.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on general meetings which must be made available to

shareholders on the website.

The company website is www.axiare.es.

In order to obtain information on corporate governance and general meetings, click on the tab "Investors Area" and then on the tab "Corporate Governance".

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

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 on the Board	Category	Date of first appointment	Date of last appointment	Election Procedure
MR LUIS ALFONSO LOPEZ DE HERRERA- ORIA		Executive	Managing Director and	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR LUIS MARIA ARREDONDO MALO		Independent	Chairman	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR FERNANDO BAUTISTA SAGÜES		Independent	Director	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ		Independent	Director	05/06/2014	05/06/2014	Resolution of Shareholders Meeting

Total number of Directors	4
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Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
Mr. CHETAN GULATI	Dominical	04/10/2016

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

EXECUTIVE DIRECTORS

Name or Corporate Name of Director	Position in the Board Chart
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	MANAGING DIRECTOR
Total number of Directors	1
% of the Board	25.00%

PROPRIETARY EXTERNAL COUNSELORS

INDEPENDENT EXTERNAL DIRECTORS

NAME OF THE BOARD MEMBER

Name or corporate name of director	Profile
Mr. Luis María Arredondo Malo	<p>Degree in civil engineering and graduate of the IE Business School in the Top Management Programme. In 1975 Mr Luis María Arredondo Malo was appointed General Manager of the Belgian company Sociedad Anónima de Construcciones y Revestimientos Asfálticos (S.A.C.R.A.) until 1978 and in 1980 he took over the general management of Corporación Inmobiliaria Hispamer. Later on, Mr Luis María Arredondo Malo became General Manager of Inmobiliaria Zabálburu, S.A. in 1988 and of the real estate company Urbis, in 1994.</p> <p>Between 2006 and 2013 he was Chairman and General Manager of Santander Global Property. He is currently manager of Santander Real Estate, S. A. SGIC, the company which manages the property investment fund of Santander Banif.</p>
Mr. Fernando Bautista Sagües	<p>Degree in Law from the Deusto University and diploma in economic science and business studies from ICADE, and has also been a member of the Bar Association of Madrid since 1981. Mr Fernando Bautista Sagües became a partner of the law firm J&A Garrigues in 1989 and, following its merger with Arthur Andersen, he became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, Mr Fernando Bautista Sagües was made a partner of Freshfields. He currently advises as an independent lawyer on matters of company and financial law, he is manager of Abante Asesores. S.A., secretary of the Corporate Social Responsibility Committee of Iberdrola, S.A. and member of the Board of the financial social network Unience.</p>

Mr. David Jiménez-Blanco Carrillo de Albornoz	He has a degree in Economic science and business studies from CUNEF. Mr David Jiménez-Blanco Carrillo de Albornoz worked in Goldman Sachs International between 1995 and 2006 as head of the European accounts team of the industrial sector and of the investment banking team in Spain and Portugal. Mr David Jiménez-Blanco Carrillo de Albornoz was Chairman of Merrill Lynch Capital Markets España, S.A., Sociedad de Valores, between 2006 and 2009, and also Manager of the Committee for Operations with Investment Banking for EMEA (Europe, Middle East and Africa). Between 2010 and 2013 he was a partner of BK Partners, a company concerned with investment management for the direct purchase of assets in Mexico. Mr David Jiménez-Blanco Carrillo de Albornoz was Chief Financial Officer (CFO) of the group World Duty Free SpA (WDF). Currently, Mr. David Jiménez- Blanco Carrillo de Albornoz is Chief Restructuring and Strategy Officer in Abengoa and belongs to the Board of Directors of Gawa capital.
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Total number of external independent	3
% of the Board	75.00%

List any independent directors who receive from the company or 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 manager of an entity which maintains or has maintained the said relationship.

Yes

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 which 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 category:

	Number of female directors				% of total directors of each type			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	0	0	0	0	0.00%	0.00%	0.00%	0.00%

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

Explanation of the reasons
Although there are no women on the Board of Directors, it is also true that the Board wishes to balance out this situation. With that aim, appropriate internal assessments are being made, though the success that was expected has so far not been achieved.

- 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:

Explanation of reasons
As stated above, the company is making the relevant internal assessments on the incorporation of women to the Board of Directors.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons
As stated above, the company is making the relevant internal assessments on the incorporation of women to the Board of Directors

- C. 1.6 bis Explain the conclusions of the Appointment Committee regarding the verification of compliance about the Directors' selection policy. And in particular, on how this policy is promoting the aim that the number of female councillors would represent at least 30% of the total members of the Board of Directors in 2020.

Explanation of the conclusions
The Company has established a policy of selecting Board Directors based on an analysis of needs of the Company. Candidates for Board Directors will be persons of recognized prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be full 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 favor diversity of gender, 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 for the proper performance of the role.

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

The significant shareholder, Perry Partners International INC, had a proprietary director, Mr. Chetan Gulati, until October 4, 2016, given the share exchange that subsequently occurred on October 17, 2016. Currently, the Company is carrying out the steps in order to re-establish the representation on the Board of significant shareholders.

- C.1.8 Explain, if 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 equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

C.1.9 Indicate whether any director has resigned from office 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:

Name of director	Reasons for resignation
Mr. CHETAN GULATI	He was a proprietary Director who has resigned as such by ceasing to have a share in the company

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

Name or corporate name of the shareholder	Brief description
Mr. Luis Alfonso López de Herrera-Oria	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 the shareholder	Corporate name of the Group company	Position	Executive Functions
Mr. Luis Alfonso López de Herrera-Oria	Axiare Investments S.LU	Physical person representative of the sole administrator	YES
Mr. Luis Alfonso López de Herrera-Oria	Axiare Properties S.LU	Physical person representative of the sole administrator	YES
Mr. Luis Alfonso López de Herrera-Oria	Axiare Investigación, Desarrollo e Innovación S.LU	Physical person representative of the sole administrator	YES

Mr. Luis Alfonso López de Herrera-Oria	Venusaur S.LU	Physical person representative of the sole administrator	YES
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C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

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

Yes

No

Explanation of rules
In accordance to Article 21, paragraph 2.a), of the Board Regulations, no director shall be entitled to be a member of more than five Boards of Directors simultaneously.

C.1.14 Revoke Section

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

Board remuneration (thousands of Euros)	1,225
Amount of total remuneration corresponding to accumulated pension rights (thousands of Euros)	0
Amount of total remuneration accumulated by the Former Director in pension rights (thousands of Euros)	0

C.1.16 List any members of senior management who are not executive directors and indicate 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, if appropriate, 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 appointing, reelecting, 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 will ensure the following principles:

1. It will be sought that the Board of Directors have a balanced composition, with a large majority of Non-Executive Directors and an adequate proportion between proprietary and independent Directors.
2. The Board of Directors shall ensure that the selection procedures of Directors will favour the diversity of gender, experience and knowledge and are free of implicit biases that may imply any discrimination. It will also ensure that candidates for non-executive directors have sufficient time available for the proper performance of their duties.
3. Additionally, in the process of selecting candidates for a Director, it will start from 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 meeting of shareholders to which the ratification, appointment or re-election of each Director is submitted
5. The Appointment and Remuneration Committee will annually verify the compliance of the policy of selecting Directors and will be informed 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 Board of Directors and of the different directors, paying special attention to the heads of the different commissions and committees of the council and will take the appropriate measures for their improvement.

C.1.20 Indicate whether the board has evaluated its performance during the year:

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

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

C. 1.2.0 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 carry out an annual self-assessment of its operation and of its Commissions and Committees, taking into account the diversity in the composition and powers of the Board of Directors, as well as the performance of the Chief Executive of the Company and of the various directors, paying special attention to those responsible for the various Commissions and

Committees of the Board and shall take appropriate measures to improve them.

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

The evaluation of the Commissions and Committees shall be based on the report raised to the Board of Directors and to this last one, from which the Appointment and Remuneration Committee is prepared.

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. ter **Detail the business relations that the consultant or any company of its group maintain with the company or any company of its group**

They do not 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 it had in the Company or reduces it to such a level that demands a reduction in the number of its shareholders.
- 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 obligations as such, with a prior proposal or report from the Appointment and Remuneration Committee, or when his 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 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 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 appointment as an independent director. Notwithstanding the above, it shall also be possible to propose the removal of independent directors resulting from take-over 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 post before the end of his term, whether by resignation or due to any other

cause, he shall explain his reasons in a letter sent to all members of the Board, notwithstanding the resignation being notified as a relevant fact and the reason for the resignation being noted in the Annual Report on Corporate Governance. 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 reservations and as a consequence of this has decided to resign, this circumstance shall be expressly stated in his resignation letter. This provision also applies to the secretary of the Board, even if he is not a director.

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

C.1.22 Revoke section

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

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 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.

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 Bylaws 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 Bylaws or the board regulations set any age limit for directors:

Yes

No

C.1.27 Indicate whether the Bylaws or the regulations of the Board of Directors set a limited term of office for independent directors different from the stated by the regulation:

Yes No

C.1.28 Indicate whether the Bylaws 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. If so, give brief details.

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 and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions:

Number of board meetings	11
Number of board meetings held without the Chairman's	0

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

Number meetings	0
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Indicate the number of meetings of the various board committees held during the year:

Number of meetings of the audit committee	4
Number of meetings of the appointment and remuneration committee	4
Board of Directors	11

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:

Directors' attendance	11
% of attendances of the total votes cast during the year	100,00%

C.1.31 Indicate whether the consolidated and individual financial statements 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 financial statements 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 financial statements it prepares from being laid before the general shareholders' meeting with a qualified Audit Report.

Article 39 of the Board Regulations regulates relations with the outside auditors in the following terms:

1. Relations between the Board and the Company's outside auditors shall be channelled via the Audit and Control 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 Control 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 the Secretary	Representative
Mr. IVAN AZINOVIC GAMO	

C.1.34 Revoke section.

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 of the Board Regulations states the following duties of the Audit Committee in relation to the outside auditor:

- (i) To bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the outside auditor (having to deal with international firms of acknowledged standing), along with the terms of their contracting.
- (ii) To receive information from the outside 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 outside 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 relevant fact 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 outside auditor having resigned, to examine the circumstances that gave rise to this.

The Audit and Control 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 1998.

(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 about 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 service referred to in section b), point (iii), above.

C.1.36 Indicate whether the company has changed its external audit 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 nonaudit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes

No

	Company	Group	Total
Amount of non-audit work (in thousand euros)	0	164	164
Amount of non-audit work as a % of the total amount billed by the audit firm	52.00%	0.00%	52.00%

C.1.38 Indicate whether the audit report on the previous year's financial statements 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 financial statements have been audited:

	Company	Group
Number of consecutive years	3	2
No. of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	100.00%	100.00%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes No

Details of the procedure
<p>Articles 23 and 24 of the Board Regulations regulate the information for directors in the following terms:</p> <p>Article 23. Powers of information and inspection</p> <p>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 its books, records, documents and other background concerning corporate operations, being able to inspect all its facilities and communicate with the Company Managers.</p> <p>2. In order not to disturb the ordinary 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 intermediaries at a suitable level of the organisation.</p> <p>Article 24. Help from experts</p> <p>1. With the aim of being helped in the exercise of their duties, outside directors are entitled to obtain the necessary advice from the Company that they need in order to perform their tasks, as well as the advice and services of the Secretary and, when necessary and with the Company paying for this, advice from legal, accounting, financial or other experts, always provided it concerns specific matters of a certain importance and complexity that arise in the fulfilment of their post.</p> <p>2. The request to contract outside 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:</p> <p>a) It is necessary for the proper fulfilment of the duties entrusted to the directors;</p> <p>b) Its cost is reasonable, in view of the importance of the problem and of the assets and income of the Company;</p> <p>c) The technical assistance that is received cannot be adequately provided by the Company's own experts and technical staff; and</p> <p>d) It does not endanger the confidentiality of the information that has to be provided to the expert.</p> <p>3. In the event that the request for the help of experts is made by any of the Committees of the Board, 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.</p>

C.1.41 Indicate whether there are procedures 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 appropriate, give details of whether the company has established rules 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 rules

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

1. Directors must notify the Company of any stakeholdings 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:

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.

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 president, 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 Capital Corporations Act. 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.

Of any direct or indirect stakeholdings 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 stakeholdings. 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 November 11th, 2005, developing the Securities Market Act (Law 24 dated July 28th, 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 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.

Not applicable.

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.

Number of beneficiaries	1
Type of beneficiary	Managing Director
Description of the resolution	<p>The services agreement entered into by the company and its Managing Director, Mr. Luis Alfonso López de Herrera-Oria, on 5 June 2014, establishes that if the agreement is terminated without fair cause (i.e., inappropriate termination as defined by the Statute of Workers), the Managing Director 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 Managing Director a four-year seniority for these purposes.</p> <p>In addition, if the company decides to terminate the services agreement and Mr. D. Luis Alfonso López de Herrera-Oria is denied the unemployment benefit by the relevant public authority, the company will compensate the Managing Director with the amount equivalent to the unemployment benefit he would be entitled to if he was unemployed according to the applicable laws for two years.</p>

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

	Board of directors	General shareholders' meeting
Body authorising clauses	Yes	No

	YES	NO
Is the General Meeting informed of such clauses?	X	

C.2 Board Committees

C.1.46 Give details of all the board committees, their members and the proportion of proprietary and independent directors:

AUDIT COMMITTEE

Name	Position	Type
Mr. David Jiménez-Blanco Carrillo de Albornoz	Chairman	Independent
Mr. Luis María Arredondo Malo	Member	Independent

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

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize 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 periodically 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 considering his knowledge and experience in accounting, auditing or both, and report of the number of years held by the Chairman of this Committee.

Name of the Board Director with experience	Mr. DAVID JIMÉNEZ-BLANCO CARRILLO DE ALBORNOZ
Number of years of the Chairman in the position	3

APPOINTMENT AND REMUNERATION COMMITTEE

Name	Position	Type
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Mr. Fernando Bautista Sagüés	Chairman	Independent
Mr. David Jiménez-Blanco Carrillo de Albornoz	Member	Independent

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

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize the most important actions during the year.

This Committee focuses its functions on supporting the Board of Directors in relation to proposals for the appointment, re-election, ratification, and dismissal of directors, the establishment and control of the remuneration policy of directors and executives of the company, the control in the performance of the duties of the directors, particularly in relation to situations of conflict of interest and related operations and supervision of compliance with internal codes of conduct and corporate governance rules.

BOARD OF DIRECTORS

Name	Position	Type
Mr. LUIS MARIA ARREDONDO MALO	Chairman	Independent
Mr. LUIS ALFONSO LÓPEZ DE HERRERA-ORIA	Member	Independent
Mr. FERNANDO BAUTISTA SAGÜES	Member	Independent
Mr. DAVID JIMÉNEZ-BLANCO CARRILLO DE ALBORNOZ	Member	Independent

% of executive directors	25.00%
% of proprietary directors	0.00%
% independent directors	75.00%
% of other external directors	0,00%

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize the most important actions during the year.

The Board of Directors is competent for the adoption of resolutions on all kinds of matters not attributed by law to the bylaws or the General Meeting, with the highest powers and powers to manage, and represent the company in and out of court. Without detriment of which it will focus its activity essentially in the approval of the strategy of the Company and the precise organization for its implementation

C.2.1 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors			
	Year 2016	Year 2015	Year 2014	Year 2013
Executive Committee	0	0	0	0
Audit committee	0	0	0	0
Appointment and	0	0	0	0

remuneration committee				
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C.2.2 Revoke section.

C.2.3 Revoke section.

C.2.4 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The rules for the organization and operation of the Board's committees are set out in articles 33, 34 and 35 of the Board Regulations, explained in section B.2.3 above. The Board Regulations are available consultation on the Company's web page.

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

C.2.5 Revoke section.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions:

Procedure for the approval of related-party transactions
<p>Article 22 of the Board Regulations establishes the following procedure in its sections 3, 4 and 5 for the approval of related transactions:</p> <ol style="list-style-type: none"> 1. Subject to the authorization of the board, following a favourable report from the Audit and Control 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. 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, or commission. 2. The Audit and Oversight Committee and the Board of Directors, prior to authorizing 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 transaction affect a director, he or she will not be furnished 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 Oversight 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 Oversight Committee. 4. The prior authorization of the Board foreseen in sub-section 1 of this article shall not be required when the following three conditions are simultaneously met: <ol style="list-style-type: none"> a) When the transactions in question are carried out pursuant to standard contracts with pre-established conditions that are applied <i>en masse</i> 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; and 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 authorization 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 (in 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 a private individual, the following:

- (i) The spouse or other person with an analogous emotional relationship.
- (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, hold 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 bodies corporate, the following:

- (i) Partners or shareholders holding or able to hold control, either directly or indirectly, in accordance with the scenarios contemplated in article 42 of the Business Code with respect to the body corporate subject to these Regulations.
- (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) Any private individual designated as the Company's representative, its Directors, whether de iure or de facto,

Receivers and proxies with general powers of attorney for the body corporate subject to these Regulations.

- (v) Any persons who, with respect to the representative of the body corporate subject to these Regulations, would be considered Related Parties in accordance with the provisions established in the preceding subsection for Directors who are not bodies corporate.

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

a) Notification: Directors must inform the Board, through its President 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 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 to resolve potential conflicts of interest between the listed subsidiary company and the other companies in the Group

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 considers both the actual characteristics

of the company and those of the environment in which it undertakes its activities, at the economic level and also geographical and regulatory.

The risk management strategy and policy is the responsibility of the Board of Directors, which relies on the Top Management for its definition and implementation. Nevertheless, all members of the organisation take part in the risk management system and are responsible for ensuring its success.

E.2 Identify the bodies responsible for preparing and implementing the risk management system.

The governing bodies with responsibility for risk management and control 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. It will also make sure that the laws and regulations are respected with regard to relations in everything having a direct or indirect interest in the company, that obligations and contracts are fulfilled in good faith, that the uses and good practices of the sectors and territories where it carries out its activity are respected, and that those additional principles of social responsibility that have been voluntarily accepted by the company are observed. Article 43 of the Company Articles of Association states that the Board of Directors must create and maintain within itself an Audit and Control Committee on a permanent and internal basis.

Audit and Control Committee

Article 44 of the Company Articles of Association attributes to the Audit and Control 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 task risk, which may prevent the company from achieving its targets.

In carrying out our activity, regarding both real estate and equity, we can find ourselves faced with different kinds of risks. Shown below is a non-exclusive outline of the main risks, all of them covered by the risk control systems:

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 rates expose the company to the interest rate risk of cash-flows, which is partially compensated by the cash maintained at variable rates. Additionally, the increase of the interest risk is also compensated through the hedging derivatives signed by the company.

b) Credit risk

The company does not have any significant concentrations of credit risk, this being understood as the impact which any defaulting in accounts receivables could have on the profit and loss account. The company has policies that ensure that sales and leases are made to clients with a suitable credit history.

c) Liquidity risk

The company's financial management is responsible for managing the liquidity risk in order to meet payments that are already committed and/or commitments deriving from new investments. For this, it draws up annual projections of expected cash-flows.

2. Market risks

The Company minimizes this type of risk through its own strategy and business model. Axiare Patrimonio invests in prime real estate assets in offices, logistics and other segments, with strong potential for revaluation, in most of Spain's consolidated areas. 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 operations, examining and foreseeing the problems that might arise in the future, and considering the possible solutions to them. In disposals, the main risk is the failure to collect the prices agreed in the contracts, because of breach on the part of the buyers. 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. A change in this legal and fiscal environment can affect the general planning of the company's activities. Via the corresponding internal departments and with the help of its legal advisors, the company supervises, analyses and, as the case might be, takes the required measures in this regard.

As risks associated with complying with the specific legislation, there 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 taken out in order to lessen this type of risk.

b) Responsibilities of the company deriving from its classification as SOCIMI. In all its actions the company has to comply with Law 11/2009, regulating the SOCIMI. As a result of this, the company is constantly monitoring and checking to make sure that its activities accord with the legislation in force on this matter.

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

These risks are controlled by means of the prevention and control of the operations carried out by the company in accordance with the applicable legislation.

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 on the subject of consumers and users. In fact, it has specific standard contracts for those autonomous regions having specific legislation in this field. The company also has an Internal Code of Conduct focused on matters relating to the 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 task risk.

The risk tolerance in Axiare Patrimonio will be defined as the level of risk that the organization is willing to accept in order to achieve the established strategic goals. 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 periodically).

Risk tolerance is defined as the level of variation that the organization accepts in achieving an objective. It is, therefore, the acceptable threshold for each risk and objective. Risk tolerance is defined by the

appetite and must be updated periodically by those in charge of reporting to each department and appropriately communicated to the compliance supervisor and internal audit.

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

Throughout the financial year none of the risks described above have been materialised.

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 control processes, approving policies, procedures, limits and structure. In its periodical 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 Control 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 in the Management Committee in its periodical meetings. The Management Committee proposes to the Board of Directors the specific plans for response to any critical risk. The Board of Directors takes the proposal into consideration, accepting it or modifying it as the case might be.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (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 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 supervision 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 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 Chair, 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 an internal code of conduct, having obligatory compliance, approved by the Board of Directors, whose aim is to demarcate the criteria of action for directors, managers, outside advisors and employees of the company, independently of the category of contract that determines their working relation, the position they occupy or the geographical scope within which they carry out their work. This code of conduct is a complement to the internal code of the security market, the social regulation, statutory and the rest of legislation that applies to the activities of Axiare Patrimonio and it is also mandatory to all of the companies with which the commercial relation is significant. The non-compliance of this code of conduct will be considered an infringement and could be adopted disciplinary measures regulated by the 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 incidents at the financial and accounting level having potential importance.

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

Within the Financial Department and the Internal Auditing Department, it has been provided some seminars about the evaluation of the internal control of the company. Additionally, it has been organised the attendance of some seminars about the current state of the economy and accountancy and financial regulation.

F.2 Risk assessment in financial reporting.

Report, at least:

F.2.1 The main characteristics of the risk identification process, 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 with what frequency.

The company's risk identification process covers all the objectives of financial information and is updated annually at least. 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 to be revealed, (i), circumstances not previously identified highlighting possible errors in the financial information or (ii), substantial changes in the operations of the company, then the Economic Financial Management 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 organizational structure of Axiare Patrimonio is simple and is composed by Axiare

Patrimonio Socimi S.A and its subsidiaries:

Axiare Investments S.L.U
Axiare Properties S.L.U
Axiare Investigación, Desarrollo e Innovación, S.L.U
Venusaur, 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 that 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 in the course of its activities.

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

The function of the Internal Audit area, which comes under the supervision of the Audit and Control Committee, is to take responsibility for coordinating and supervising the periodical updating of the risks map, which it does along with the heads of each of the Functional Areas, who in the end are the ones who identify the risks which the company is subject to.

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 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, accounts for intermediate periods and the Annual Report on Corporate Governance) 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 Control 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 Control 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, control of 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 basically 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 a manual of accounting policies regularly updated and communicated 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 in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning 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 homogeneity in its presentation.

F.5 Monitoring

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

F.5.1 The ICFR monitoring activities undertaken by the audit committee and 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 Control Committee is responsible for, among other duties, the periodical review of the process of drawing up the economic-financial information, for its internal controls and for the independence of the outside auditor. The company has an internal auditing function which reports to the Audit and Control Committee and to the company Chair, presenting them with the Annual Audit Plan and informing them of the work done and any control weaknesses that have been detected. Regarding the scope of evaluation of the ICFR, during the course of 2015 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 Control Committee via the Internal Audit function.

F.5.2 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 financial statements or other assignments, 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 Control 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 periodical review of the process of drawing up economic-financial information, of the function of the internal audit and of the independence of the outside 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 necessary information so that, in compliance with the functions of the Audit and Control Committee, it can check the independence of the Internal Auditor.

2) Discussion with the External Auditors (of special relevance when they have carried out any action: 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 Outside Auditor of those questions that could affect its work.
- Discuss with the Outside Auditor the expected content of its reports.
- Obtain the necessary information so that, in compliance with the functions of the Audit and Control Committee, it can check the independence of the Outside Auditor.

In addition, the Audit and Control 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 The ICFR information supplied to the market 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 outside 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 corporate governance recommendations.

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

1. The Bylaws 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 a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
 - 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 annual general 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 taking place since the previous annual general meeting.
 - b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant Partially compliant Explain Not applicable

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

Compliant Partially compliant Explain

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.
When a Board approves the 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 General Meeting held on May 12, 2016 agreed to authorize the Board of Directors to increase the share capital as set in article 297.1.b) of the Capital Companies Act, 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 authorizations. The authorization was also approved for the derivative acquisition of own shares, revoking previous authorizations.

6. 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) Reviews of the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Corporate social responsibility policy.

Compliant Partially compliant Explain

7. The company should broadcast its general meetings live on the corporate 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 content.

Compliant Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general 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 meeting, the company should:

- a) Immediately circulate the supplementary items and new 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 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 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 concrete 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 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 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 Bylaws, 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 discharge 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 Partially compliant Explain

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 Bylaws, 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 Bylaws 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 nonexecutive 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 of relevance 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 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. Companies should establish a risk control 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 control 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 control 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 separately constituted appointments and remuneration committees.

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.

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 sharebased 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 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 independents.
- 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 should be able to engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes should be drawn up of 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 compliance in their respect.
- 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, the award 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 defray costs related to their acquisition.

Compliant Partially compliant Explain

58. In the case of variable awards, 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

In relation to the objectives that can arise from the variable remuneration, these may refer to the investment or revenues, the efficient management and other issues relevant to the good running of the Company's business, but there may be a will of discretion.

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 major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

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

Compliant Partially compliant Explain Not applicable

According to the incentive plan 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 agreement contract signed between the Company and the CEO.

64. 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. You may include in this section 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 applicable identify the Code and date of adoption.

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

Mr. Luis Alfonso López de Herrera-Oria / Executive President

Mr. Guillermo Fernández-Cuesta Laborde / Vocal

Mr. Fernando Arenas Liñán / Member

D Stuart William McDonald / Vocal

Mr. Iván Azinovic Gamo / Secretary

This annual corporate governance report was adopted by the company's board of directors at its meeting held on 23/02/2017.

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

YES NO



AXIARE PATRIMONIO SOCIMI, S.A. AND SUBSIDIARIES

**PREPARATION OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND THE
DIRECTOR'S REPORT FOR THE YEAR 2016**

The Board of Directors of the Company Axiare Patrimonio Socimi, S.A. with date February 23, 2017, and in compliance with the requirements of Article 253 of the Capital Companies Act and Article 37 of the Commercial Code, proceeds to prepare the consolidated financial statements and the consolidated management report for the period between 1 January 2016 and 31 December 2016, which are formed by the attached documents preceding this writing.

D. Luis María Arredondo Malo
Chair

D. Luis Alfonso López de Herrera-Oria
Director

D. Fernando Bautista Sagüés
Director

D. David Jiménez-Blanco Carrillo de Albornoz
Director

As determined in Article 8.1 (b) of Royal Decree 1362/2007, dated on the 19th October, the members of the Board of Directors of Axiare Patrimonio Socimi, S.A.

Declare:

As far as they are concerned the consolidated financial statements of Axiare Patrimonio Socimi, S.A. (Balance sheet, profit and loss account, statement of changes in net equity, statement of cash flows and memorandum) of the year ended on 31st December, 2016, formulated by the Board of Directors at its meeting held on 23rd February, 2017 and prepared in accordance with applicable accounting principles, provide an exact and fair view of the equity, financial situation and results of Axiare Patrimonio Socimi, SA,

Additionally, they state that the supplementary management report of the consolidated annual accounts includes a fair analysis of the Company's performance and results and the position of Axiare Patrimonio Socimi, SA, as well as a description of the main risks and uncertainties to be dealt with.

Madrid, 23rd February, 2017

D. Luis María Arredondo Malo
Chairman of the Board of Directors

D. Luis Alfonso López de Herrera-Oria
Vice-Chairman of the Board of Directors

D. Fernando Bautista Sagüés
Member

D. David Jiménez-Blanco Carrillo de Albornoz,
Member

AXIARE PATRIMONIO SOCIMI, S.A.

Auditor's Report on annual accounts as at December 31, 2016



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

INDEPENDENT AUDITOR’S REPORT ON ANNUAL ACCOUNTS

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

Report on the Annual Accounts

We have audited the accompanying annual accounts of Axiare Patrimonio Socimi, S.A., which comprise the balance sheet as at December 31, 2016, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The company’s directors are responsible for the preparation of these annual accounts, so that present fairly the equity, financial position and financial performance of Axiare Patrimonio Socimi, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 2 a) to the accompanying annual accounts, and for such internal control as directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

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



Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Axiare Patrimonio Socimi, S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' Report for 2016 contains the explanations which the directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the annual accounts for 2016. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Rafael Pérez Guerra
February 24, 2017



AXIARE PATRIMONIO SOCIMI, S.A.

Financial Statements for 31 December 2016
and the Director's Report for 2016

AXIARE PATRIMONIO SOCIMI, S.A.

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AT 31 DECEMBER 2016**

(Thousand euros)

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Appendix

Appendix I – Detail of Positions and Ownership Interests held by the Directors in Companies with a similar Company Object

AXIARE PATRIMONIO SOCIMI, S.A.

**BALANCE SHEET FOR 31 DECEMBER 2016 AND 2015
(Thousand euros)**

ASSETS	Note	At December	
		2016	2015
NON-CURRENT ASSETS			
Intangible assets		235	-
Property, plant and equipment		475	511
Investment properties	5	921,854	742,998
Long-term investments:		95,169	2,006
Equity instruments	7	68,169	6
Loans to companies	6, 8, 22	27,000	2,000
Long-term financial investments:	6, 8	11,688	6,878
Credits to third parties		4,626	-
Derivatives	14	47	808
Other financial assets		7,015	6,070
		1,029,421	752,393
CURRENT ASSETS			
Trade and other receivables		12,771	13,353
Trade receivables for sales and services	6, 8	2,463	1,891
Sundry accounts receivables	6, 8	4,320	9,521
Other receivables from public institutions	16	5,988	1,941
Short-term investments with group companies	6, 8, 22	18,401	-
Short-term credits with group companies		3,401	-
Dividend receivable from group companies		15,000	-
Short-term financial investments	6, 8	169	124
Credits to third parties		130	-
Other financial assets		39	124
Currents prepayments and accrued income		999	48
Cash and cash equivalents	9	123,555	266,806
Cash		123,555	266,806
		155,895	280,331
		1,185,316	1,032,724

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.
BALANCE SHEET FOR 31 DECEMBER 2016 AND 2015
(Thousand euros)

EQUITY AND LIABILITIES	Note	At 31 December	
		2016	2015
EQUITY AND LIABILITIES			
Shareholder's funds		719,487	728,952
Capital	10 a)	718,750	718,750
Share premium	10 b)	35,869	35,869
Reserves	11	(30,246)	(30,820)
Other reserves	10 c)	(18,678)	(4,631)
Profit (loss) for the year	12	13,792	3,314
Other equity instruments	18	-	6,470
Adjustments for change in valuation		(9,436)	(574)
Hedge operations	14	(9,436)	(574)
		710,051	728,378
NON-CURRENT LIABILITIES			
Long-term debts		460,472	279,120
Bank Loans	6, 13	442,568	270,852
Derivatives	14	9,483	1,382
Other financial liabilities	6, 13	8,421	6,886
		460,472	279,120
CURRENT LIABILITIES			
Short-term debts		2,847	10,024
Bank Loans	6, 13	2,847	10,024
Trade and other payables		11,241	15,087
Sundry payables	6, 13	11,065	14,968
Personnel (outstanding remunerations)	6, 13	-	1
Other debts with Public Administration	16	176	118
Short-term deferred charges		705	115
		14,793	25,226
		1,185,316	1,032,724

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.
**INCOME STATEMENT FOR THE ANNUAL PERIODS ENDED ON 31 DECEMBER 2016
AND 2015
(Thousand euros)**

	Note	Annual period ended 31 December 2016	Annual period ended 31 December 2015
CONTINUED OPERATIONS			
Revenue	15 a)	50,593	42,336
Rendering of services		50,593	42,336
Staff costs	15 b)	(16,276)	(9,292)
Wages, salaries and similar remunerations		(15,996)	(9,072)
Staff welfare charges		(280)	(220)
Other operating expenses		(14,877)	(13,183)
External services	15 c)	(10,505)	(9,627)
Taxes		(3,912)	(3,099)
Impairments, losses and change in operating provisions	8	(460)	(457)
Investment properties amortization	5	(13,386)	(13,258)
Other profit (loss)		1	11
OPERATING PROFIT (LOSS)		6,055	6,614
Financial income		15,422	1,582
Financial expenses		(7,685)	(4,882)
FINANCIAL PROFIT (LOSS)	17	7,737	(3,300)
PROFIT (LOSS) BEFORE TAX		13,792	3,314
Corporate income tax	16	-	-
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS		13,792	3,314

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE ANNUAL PERIOD ENDED AT 31 DECEMBER 2016 AND 2015
(Thousand euros)

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (Thousand euros)

	Nota	Annual period ended 31 December 2016	Annual period ended 31 December 2015
Profit/loss for the year	12	13,792	3,314
For cash flow hedges	14	(8,862)	(574)
Capital increase expenses/IPO	11	-	(12,000)
Other adjustments	11	574	45
Total income and expense taken directly to equity		(8,288)	(12,529)
Transfers to the income statement		-	-
Total transfers to the income statement		-	-
TOTAL RECOGNISED INCOME AND EXPENSE		5,504	(9,215)

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.
STATEMENT OF CHANGES IN EQUITY FOR THE ANNUAL PERIOD ENDED AT 31 DECEMBER 2016 AND 2015
 (Thousand euros)

B) TOTAL STATEMENT OF CHANGES IN EQUITY (thousand euros)

	Capital	Share Premium	Reserves	Treasury shares	Profit/loss for the year	Other equity instruments	Adjustments for change in value	TOTAL
	Note 10 a)	Note 10 b)	Note 11	Note 10 c)	Note 12	Note 18	Note 14	
BALANCE AT 31 DECEMBER 2015	718,750	35,869	(30,820)	(4,631)	3,314	6,470	(574)	728,378
Distribution Profit 2015	-	-	331	-	(331)	-	-	-
Total recognised income and expense	-	-	574	-	13,792	-	(8,862)	5,504
Operations with shareholders or owners:								
Capital increase	-	-	-	-	-	-	-	-
Dividends distribution (Note 12)	-	-	-	-	(2,983)	-	-	(2,983)
Trading in treasury shares (Note 10)	-	-	-	(14,050)	-	-	-	(14,050)
Incentives plan (Note 18)	-	-	(331)	3	-	(6,470)	-	(6,798)
BALANCE AT 31 DECEMBER 2016	718,750	35,869	(30,246)	(18,678)	13,792	-	(9,436)	710,051

 Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

**STATEMENT OF CHANGES IN EQUITY FOR THE ANNUAL PERIOD ENDED AT 31 DECEMBER 2016 AND 2015
(Thousand euros)**

B) TOTAL STATEMENT OF CHANGES IN EQUITY (thousand euros)

	Capital	Share Premium	Reserves	(Treasury shares)	Profit/loss for the year	Other equity instruments	Adjustments for change in value	TOTAL
	Note 10 a)	Note 10 b)	Note 11	Note 10 c)	Note 12	Note 18	Note 14	
BALANCE AT 31 DECEMBER 2014	360,060	-	(19,429)	(1,006)	2,013	-	-	341,638
Distribution Profit 2014	-	-	564	-	(564)	-	-	-
Total recognised income and expense	-	-	(11,955)	-	3,314	-	(574)	(9,215)
Operations with shareholders or owners:								
Capital increase	358,690	35,869	-	-	-	-	-	394,559
Dividends distribution (Note 12)	-	-	-	-	(1,449)	-	-	(1,449)
Trading in treasury shares (Note 10)	-	-	-	(3,625)	-	-	-	(3,625)
Other movements (Note 18)	-	-	-	-	-	6,470	-	6,470
BALANCE AT 31 DECEMBER 2015	718,750	35,869	(30,820)	(4,631)	3,314	6,470	(574)	728,378

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

**CASH FLOW STATEMENT FOR THE ANNUAL PERIOD ENDED AT 31 DECEMBER
2016 and 2015
(Thousand Euros)**

	Nota	Annual period ended 31 December	
		2016	2015
A) CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year before tax	12	13,792	3,314
Adjustments to profit		17,320	23,485
Depreciation of PPE and Investment Properties	5	13,386	13,258
Provisions	8	460	367
Financial income	17	(15,422)	(1,582)
Financial expenses	17	7,685	4,882
Other income expenses	18	11,211	6,560
Changes in working capital		(8,181)	4,495
Debtors and other receivables	6, 8	1,082	(2,043)
Other current assets	7	(984)	134
Creditors and other payables	6, 13	(5,299)	5,203
Other current liabilities		589	1,361
Other non-current assets and liabilities		(3,569)	(160)
Cash flows from operating activities		22,931	31,294
B) CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		(289,005)	(355,597)
Investments in group companies	7	(92,516)	(2,006)
Intangible assets		(235)	-
Property, plant and equipment		(21)	(188)
Investment properties	5	(196,233)	(353,403)
Cash flows from investing activities		(289,005)	(355,597)
C) CASH FLOWS FROM FINANCING ACTIVITIES			
Collections and payments on equity instruments		(13,769)	378,979
Issue of equity instruments	10 a)	-	382,604
Acquisition of treasury shares	10 c)	(14,050)	(3,670)
Alienation of equity instruments		281	45
Collections and payments on financial liability instruments	6, 13	158,544	209,314
Collections on financial liabilities		165,694	304,881
Adjustments for changes on value		-	-
Repayment of debts to credit institutions		(591)	(94,084)
Interest collections		379	2,127
Interest payments		(6,938)	(3,610)
Other debts		-	-
Payment of dividends and other equity instruments remuneration		(21,952)	(1,449)
Dividends	12	(2,983)	(1,449)
Other equity instruments remuneration		(18,969)	-
Cash flows from financing activities		122,823	586,844
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS, NET	9	(143,251)	262,541

Notes 1 to 27 are an integral part of the annual Financial Statements for December 31st 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

1. General information

Axiare Patrimonio Socimi, S.A. (the "Company") was incorporated in Spain on 19 March 2014 in accordance with the Spanish Companies Act 2010 under the name of Axia Real Estate Socimi, S.A. It changed to its current name on 7 May 2015. Its registered office is at José Ortega y Gasset 29, 28006 Madrid.

Its corporate objects are described in Article 2 of its Bylaws and consist of:

- The acquisition and refurbishment of urban properties earmarked for lease.
- The ownership of interests in the share capital of other Listed Corporations for Investment in the Real Estate Market (Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario or "SOCIMIs") or other companies not resident in Spain with a company object identical to that of the former, which are subject to a regime similar to that established for the SOCIMIs in relation to the obligatory profit distribution policy stipulated by law or the By Laws.
- The ownership of interests in the share capital of other companies, resident or not in Spain, the principal company object of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for SOCIMIs in relation to the obligatory profit distribution policy stipulated by law or the By Laws, and meet the investment requirements referred to in Article 3 of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, regulating SOCIMIs.
- The ownership of shares or ownership interests in property collective investment undertakings governed by Collective Investment Undertakings Law 35/2003, of 4 November.

The performance of other ancillary activities, which are deemed to be those that generate income that in the aggregate represents less than 20% of the Company's income in each tax period.

All activities required by law to meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially carried on indirectly by the Company through ownership interests in another company or other companies with a similar object.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

a) Regulatory Regime

The Company is regulated by the Spanish Companies Act.

Additionally, on 12 June 2014 the Company reported to the Tax Agency its decision to opt to apply the scheme for Listed Real Estate Investment Public Limited Companies (SOCIMIs) and is therefore subject to Law 11/2009, following its amendment through Law 16/2012, governing SOCIMIs. Article 3 of Law 11/2009, of 26 October, establishes certain requirements for this type of company, namely:

- a) They must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of Law 11/2009.
- b) At least 80% of the rental income from the tax period corresponding to each year, excluding the rental income deriving from the transfer of the ownership interests and the properties used by the Company to achieve its principal object, once the retention period referred to below has elapsed, should arise from the lease of properties and dividends or shares of profits arising from the aforementioned investments.
- c) The properties included in the Company's assets should remain leased for at least three years. The time during which the properties have been made available for lease will be included in calculating this term, with a maximum of one year.

Transitional Provision One of the SOCIMI Law permits the application of the SOCIMI tax scheme, as laid down in Article 8 of the SOCIMI Law, even when the requirements contained therein are not met on the date of incorporation provided that such requirements are met in the two years following the date on which it is decided to apply that scheme. In the opinion of the Company's Directors, these requirements will be fully met in time and form.

The Company has been listed on the Spanish stock exchange and Spanish markets since 9 July 2014.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

2. Basis of Presentation

a) True and fair view

The annual financial statements, have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 as amended by Royal Decree 1159/2010 and RD 602/2016, so as to present fairly the Company's equity, financial position and results and accurately reflect cash flow in the cash flow statement.

At 31 December 2016 the Company's working capital is positive by €135.102 thousand (€255.105 thousand positive at 31 December 2015).

b) Non-mandatory accounting principles

All mandatory accounting principles which would have a significant effect on the preparation of these annual financial statements have been applied.

c) Key Issues in Relation to the Measurement and Estimation of Uncertainty

The preparation of the accounts requires the use by the Company of certain estimates and judgements in relation to the future that are assessed constantly and are based on historical experience and other factors, including expectations of future events considered reasonable under the circumstances.

The resulting accounting estimates, by definition, rarely equal real results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value of Investment properties

The best evidence of the fair value of investment property in an active market is the price of similar assets. In the absence of such information and in light of the current market situation, the Company determines fair value using a range of reasonable values. When making such judgements, the Company uses a series of sources, including:

- i. Current prices on an active market of different kinds of properties in different condition or location, adjusted for differences with the Company's assets.
- ii. Recent prices of properties on other less active markets, adjusted for changes in economic conditions since the transaction date.
- iii. Discounting of cash flows based on projected estimates deriving from the terms and conditions of current lease contracts and, if possible, the evidence of the market prices of similar properties in the same location, through the use of discount rates reflecting the uncertainty of the time factor.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

Useful lives of investment properties

Company management determines the estimated useful life and corresponding depreciation charges for investment property. The useful lives of investment properties are estimated for the period during which the assets included under this heading will generate economic benefits. The Company reviews the useful lives of investment properties at the year end and if the estimates differ from previous estimates, the effect of the change is accounted for prospectively as from the year in which the change made.

Corporate income tax

The Company has availed itself of the system established in Law 11/2009 (26 October), governing Listed Real Estate Investment Companies (SOCIMI), which in practice means that provided certain requirements are met, the Company is subject to a corporate income tax rate of 0%.

The Directors are tracking compliance with the relevant legal requirements in order to secure the tax advantages established therein. In this respect, the Directors consider that such requirements will be met within the established terms and periods and have therefore not recognised no income or expense in respect of corporate income tax.

Share-based payments

The Company manages a share-based payment compensation plan, settled through equity instruments, under which the Company receives services from employees who in turn receive, as consideration, shares in the Company. The fair value of the employee services received in exchange for such shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- Including any market performance conditions.
- Excluding the impact of any service vesting or non-market performance conditions (for example, profitability, sales growth targets or remaining an employee of the entity over a specified time period).
- Including the impact of any other non-determining conditions on vesting (eg, requiring employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Company revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

d) Groupings of items

For clarity, the items presented in the balance sheet, income statement are grouped together and, where necessary, a breakdown is included in the relevant notes to the accounts.

3. Accounting policies

3.1 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the assets' estimated useful lives (6 years).

Software maintenance expenses are recognised when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique computer programs controlled by the Company which are deemed likely to generate future economic benefits in excess of costs for more than one year are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed 6 years.

3.2 Property, plant and equipment

Property, plant and equipment are stated at acquisition price or production cost less accumulated depreciation and accumulated impairment losses recognised.

The cost of major repairs is capitalised and depreciated over the estimated useful life of the asset, while recurring maintenance costs are charged to the income statement in the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. The estimated useful lives are as follows:

	<u>Depreciation rate</u>
Fixtures and fittings	10%
Furniture	10%
Data processing equipment	25%
Vehicles	25%
Other fixed assets	10%

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

3.3 Investment Property

Investment properties comprise office buildings, logistic warehouses and other constructions owned by the Company for rent on a long-term basis and not occupied by the Company. These assets are stated at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognized.

Depreciation of investment property is charged on a straight-line basis over the asset’s estimated useful life.

	<u>Depreciation rate</u>
Building constructions	2%
Equipment	8%

3.4 Impairment of investment property

Whenever there are indications of impairment, the Company tests the investment properties for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

An impairment loss is recognised for the excess between the asset’s carrying amount and its recoverable amount, the latter understood as the fair value of the asset less the higher of cost to sell and value in use.

The Company commissions independent valuers, CBRE, to determine the fair value of all its investment properties assets at period end. These valuations are carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

To calculate the value of investment property, the amount the Company expects to recover through its lease is taken into consideration. To this end, the cash flow projections generated on the basis of the best estimate of the lease payments are used, based on the expectations for each asset and taking into consideration in the calculation of the cash flows or the discount rate any uncertainty that may entail a reduction therein. The value in use of investment property does not have to be identical to its fair value since the former is due to entity specific factors, primarily the capacity to impose prices above or below market levels, due to assuming different risks or incurring costs (construction or marketing, in the case of investments in progress, cost of refurbishment, maintenance, etc.) other than those relating to companies in the industry in general.

The estimated yield depends on the type and age of the properties and their location. The properties were valued individually, considering each of the lease contracts in force at the period end and any foreseeable contracts.

The carrying amount of the Company’s investment property is adjusted at the end of each year, by recognizing the corresponding impairment loss, in order to bring it into line with the recoverable amount when the fair value is less than the carrying amount.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized as income.

3.5 Financial investment

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. This item is included under current assets, unless maturing in more than 12 months after the balance sheet date, in which case the item is recognised under non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their nominal value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

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

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognised in the income statement.

Equity investments in group companies

Investments are stated at cost less, where appropriate, accumulated value adjustments for impairment. If there is objective evidence that the carrying amount is not recoverable, the relevant value adjustments are recognised for the difference between the carrying amount and recoverable amount, understood as the higher of fair value less costs to sell and the present value of cash flows from the investment. Unless better evidence is available, impairment of this type of asset is estimated based on the investee's equity, adjusted for any unrealised capital gains at the measurement date. Impairment losses and any subsequent reversals are recognised in the income statement in the year in which they arise.

3.6 Financial derivatives and accounting hedge

Financial derivatives are valued, both initially and in subsequent valuations, at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge or not and, if applicable, the type of coverage.

Hedging instruments are valued and recorded according to their nature, to the extent that they are not, or cease being, effective hedges.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

In the case of derivatives not qualifying for hedge accounting, gains and losses in the fair value are recognized immediately in the income statement.

3.7 Equity and Shareholders' Equity

Share capital consists of ordinary shares.

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

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

Distribution of Profit and dividends distribution obligations

SOCIMIs are governed by the special tax scheme set out in law 11/2009, as amended by Law 16/2012, governing listed real estate investment companies. The Company will be required to distribute in the form of dividends to its shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each yearend, as follows:

- a) All the profit from dividends or shares in profits paid by the entities referred to in Article 2.1. of Law 11/2009.
- b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of Law 11/2009, of 26 October, performed once the deadlines referred to in Article 3.3 of Law 11/2009 have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years from the transfer date. Otherwise these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items subject to reinvestment are transferred prior to the end of the holding period, profits should be distributed in full, together with the part of the profits, appropriate attributable to the years in which the Company was not taxed under the special tax scheme enshrined in said Law.

If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.

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

The dividend has to be paid within the next month after resolving distribution. When dividends are distributed with a charge to reserves out of profit for a year in which the special tax regime had been applied, the distribution must be approved as set out above.

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The Company is required to appropriate 10% of profits for the year to the legal reserve until the balance of this reserve amounts to 20% of share capital. This reserve is not available for distribution to shareholders until it exceeds this 20% limit. The Bylaws of these companies may not establish any other restricted reserve.

3.8 Borrowings

Creditors and payables

This includes trade and non-trade payables. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

Payables are initially recognized at fair value, adjusted for directly attributable transaction costs, and subsequently valued at amortized cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Nonetheless, trade payables falling due in less than one year without a contractual interest rate are carried at their nominal value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

3.9 Current and deferred taxes

Following the special tax regime for SOCIMIs, the Company is subject to an income tax rate of 0%.

As established by Article 9.2 of Law 11/2009, of 26 October, with the modifications incorporated to it by Law 16/2012 of December 27, the Company will be subject to a special tax charge of 19% on the full amount of any dividends or shares in profit paid to shareholders with an ownership interest in the share capital of the Company equal to or more than 5%, when such dividends are tax exempt or taxed at a rate below 10% in the tax domicile of the shareholder (for these purposes, final tax due under the Spanish Non Resident Income Tax Law is also taken into consideration).

However, the aforementioned special charge will not be applicable when the dividends or shares in profit are paid to entities the object of which is the ownership of interests in the share capital of other SOCIMIs or other companies not resident in Spain with a company object identical to that of the former, which are subject to a regime similar to that established for the SOCIMIs in relation to the obligatory profit distribution policy stipulated by law or the Bylaws, with respect to shareholders with an ownership interest equal to or more than 5% in the share capital thereof and are taxed on these dividends or shares in profit at a tax rate of at least 10%.

3.10 Provisions and contingent liabilities

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to the provision due to the restatement are recognised as a financial expense as they accrue.

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

3.11 Revenue recognition

Revenues are stated at the fair value of the consideration to be received and represent the amounts to be collected for the services rendered during the ordinary course of the Company's activities, less returns, discounts, rebates and VAT.

Services provided

The Company provides lease services. Revenues from property rentals are recognised on a straight-line basis over the rental period.

The costs associated with each rental payment, including impairment, are recognised as an expense. Properties leased to third parties, all of which are leased under operating leases, are included in 'Investment properties' on the balance sheet.

Interest income

Interest income is recognised using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

3.12 Leases

a) When the Company is the lessee – Operating lease

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

b) When the Company is the lessor

When assets are leased under an operating lease, the asset is included in the balance sheet in accordance with its nature. Lease income is recognised on a straight-line basis over the lease period.

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3.13 Functional and presentation currency

These annual financial statements are presented in thousand euros, which is the Company's functional and presentation currency.

3.14 Related-party transactions

Related party transactions are initially recognised at fair value. Where the agreed price differs from fair value, the difference is recognised based on the economic reality of the transaction. Subsequent measurement is made in line with the relevant accounting standards.

3.15 Employee benefits

Share-based remunerations

The Company operates an equity-settled, share-based compensation plan. On the one hand, the Company recognises employee services in exchange for the grant of options as an expense at the time of obtainment and, in the other hand, the corresponding increase in equity. The total amount taken to expense over the accrual period is determined by reference to the fair value of the options granted (Note 18).

4. Financial risk management

4.1 Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Company's risk management program focuses on uncertainty in financial markets and seeks to minimize the potential adverse impact on its financial profitability.

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

a) Market risk.

(i) Interest rate risk

The Company's interest rate risk arises from financial debt. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. This is partially offset by cash held at variable rates.

At 31 December 2016, the Company holds several loans maturing in the long-term with a variable interest rate indexed to Euribor. The Company covers the interest rate rises with hedging derivatives (Note 14).

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b) Credit risk

The Company has no significant concentrations of credit risk, the possible impact on the income statement being understood as the default of receivables. The Company has policies which ensure that sales and rentals are arranged with customers with an appropriate credit standing.

c) Liquidity risk

The Company's financial management is responsible for managing the liquidity risk to cover the payments already committed and/or commitments deriving from new investments. In this respect, it prepares annual forecast cash flow projections.

The determined maturity of the Company's financial instruments under assets and liabilities at 31 December 2016 and at 31 December 2015 is shown in Note 6.

5. Investment Property

Investment properties comprise buildings, logistic warehouses and other constructions owned by the Company for rent on a long-term basis and not occupied by the Company.

Set out below is a breakdown of movements in the accounts recorded under investment properties:

	Thousand Euros		
	Lands	Buildings	Total
Opening value at 31-12-2014	136,741	266,046	402,787
Additions	172,754	180,649	353,403
Depreciation	-	(13,192)	(13,192)
Balance at 31-12-2015	309,495	433,503	742,998
Cost	309,495	448,813	758,308
Accumulated depreciation	-	(15,310)	(15,310)
Carrying value at 31-12-2015	309,495	433,503	742,998
Additions	98,757	97,476	196,233
Disposals	(4,048)	-	(4,048)
Depreciation	-	(13,329)	(13,329)
Balance at 31-12-2016	404,204	517,650	921,854
Cost	404,204	546,289	950,493
Accumulated depreciation	-	(28,639)	(28,639)
Carrying value at 31-12-2016	404,204	517,650	921,854

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During the year the Company acquired eight properties, mainly office premises. Note 23 includes a breakdown of properties acquired. Disposals relate to land transferred to the group company Axiare Investments, S.L.U. as a non-monetary contribution.

Similarly, property investments include an advance valued at cost amounting to €17,358 thousand (€0 thousand at 31 December 2015) for the acquisition of an asset located in the municipality of San Fernando de Henares (Madrid). The acquisition price of the asset amounts to €42,977 thousand while its market value at 31 December 2016 totals €57,200 thousand. During the year the Manuel de Falla property was acquired following the advance payments made amounting to €22,065 thousand at 31 December 2015. Additionally, investment properties include two options amounting to €7,650 thousand relating to the purchase of two assets with an acquisition price of €94,857 thousand and a market value at 31 December 2016 of €102,800 thousand.

The market value of investment properties at 31 December 2016 amounts to €1,283,600 thousand (€1,148,608 thousand including the advance on the San Fernando property and two purchase options). The market value of investment properties at 31 December 2015 amounts to €858,800 thousand (€841,865 thousand including the advance on the Manuel de Falla building).

At 31 December 2016, mortgages were arranged on certain properties, the market value of which amounts to €1,024,100 thousand (€665,350 thousand, at 31 December 2015) to secure compliance with the obligations resulting from the financing obtained by the Company. At 31 December 2016 the nominal amount of this financing totals €452,594 thousand (€286,423 thousand at 31 December 2015) (Note 13).

a) Impairment losses

During both years, 2016 and 2015 no impairment adjustments to investment properties were recognised or reversed.

b) Fully-depreciated assets

At 31 December 2016 and at 31 December 2015 there were no fully-depreciated assets.

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c) Income and expenses on investment property

The following revenues and expenses relating to investment property have been recognised in the income statement.

	Thousand Euros	
	2016	2015
Lease income	50,593	42,336
Expenses relating to operation of investment properties generating lease revenues	(12,671)	(10,875)
Expenses relating to operation of investment property not generating lease revenues	(302)	(355)
	37,620	31,106

Expenses relating to operation of investment properties include other operating expenses (Note 15) and taxes (mainly IBI).

d) Assets under operating leases

Total amount of future minimum collections under non-cancellable operating leases is as follows:

	Thousand Euros	
	2016	2015
Less than 1 year	36,053	36,821
One to five years	78,189	52,790
More than five years	7,960	20,607
	122,202	110,218

e) Insurance

It is Company policy to arrange all the insurance policies necessary to cover possible risks affecting investment properties. The coverage provided by these policies is considered sufficient.

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6. Analysis of financial instruments

6.1 Analysis by category

The carrying amount of each category of financial instruments stipulated in the standard “Financial instruments” excluding equity investments in group companies (Note 7) is as follows:

	Thousand Euros					
	Non-current financial investments					
	Equity instruments		Debt securities		Loans Derivatives Other	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans and receivables (Note 8)	-	-	-	-	38,688	8,878
	-	-	-	-	38,688	8,878
	Current financial investments					
	Equity instruments		Debt securities		Loans Derivatives Other	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans and receivables (Note 8)	-	-	-	-	25,353	11,536
	-	-	-	-	25,353	11,536
Total financial instruments	-	-	-	-	64,041	20,414

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
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Thousand Euros						
Non-current financial borrowings						
	Bank Loans		Debentures and other marketable securities		Derivatives and other	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Creditors and payables (Note 13)	442,568	270,852	-	-	17,904	8,268
	442,568	270,852	-	-	17,904	8,268
Current financial borrowings						
	Bank Loans		Debentures and other marketable securities		Derivatives and other	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Creditors and payables (Note 13)	2,847	10,024	-	-	11,065	14,969
	2,847	10,024	-	-	11,065	14,969
Total financial borrowings	445,415	280,876	-	-	28,969	23,237

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6.2 Analysis by maturity

Financial instruments at 31 December 2016 and at 31 December 2015 having fixed or determinable maturities are shown below by year of maturity:

At 31 December 2016:

	Thousand Euros						Total
	Financial assets						
	2017	2018	2019	2020	2021	Subsequent years	
Other financial investments:							
- Credits to group companies	-	-	-	2,000	25,000	-	27,000
- Credits to third parties	-	-	-	-	-	4,626	4,626
- Derivatives	-	-	-	-	47	-	47
- Long-term deposits	-	2,351	1,336	1,225	1,090	1,013	7,015
Accounts receivable:							
- Trade receivables	6,783	-	-	-	-	-	6,783
- Investments in group companies	18,401	-	-	-	-	-	18,401
- Credits to third parties	130	-	-	-	-	-	130
- Other financial assets	39	-	-	-	-	-	39
	25,353	2,351	1,336	3,225	26,137	5,639	64,041

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	Financial liabilities						Total
	2017	2018	2019	2020	2021	Subsequent years	
Debts:							
- Derivatives	-	-	-	-	266	9,217	9,483
- Long-term deposits	-	2,833	1,610	1,476	1,314	1,188	8,421
- Long-term bank loans	2,847	13,243	10,304	37,580	78,572	302,869	445,415
Accounts payable:							
- Trade and other payables	11,065	-	-	-	-	-	11,065
	13,912	16,076	11,914	39,056	80,152	313,274	474,384

At 31 December 2015:

	Thousand Euros						Total
	Financial assets						
	2016	2017	2018	2019	2020	Subsequent years	
Other financial investments:							
- Credits to group companies	-	-	-	-	2,000	-	2,000
- Derivatives	-	-	-	-	-	808	808
- Long-term deposits	-	2,868	1,159	860	431	752	6,070
Accounts receivable:							
- Trade receivables	11,412	-	-	-	-	-	11,412
- Other financial assets	124	-	-	-	-	-	124
	11,536	2,868	1,159	860	2,431	1,560	20,414

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	Financial liabilities						Total
	2016	2017	2018	2019	2020	Subsequent years	
Debts:							
- Derivatives	-	-	-	-	-	1,382	1,382
- Long-term deposits	-	3,227	1,304	968	485	902	6,886
- Bank loans	10,024	1,351	4,119	7,459	34,791	223,132	280,876
Accounts payable:							
- Trade and other payables	14,968	-	-	-	-	-	14,968
	24,993	4,578	5,423	8,427	35,276	225,416	304,113

7. Long-term investments in Group companies

At 31 December 2016, long-term Investment in group companies and associates are as follows:

Name	Domicile	Activity	Interest held		Voting rights	
			Direct %	Indirect %	Direct %	Indirect %
Axiare Investments, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate operations	100	-	100	-
Axiare Properties, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate operations	100	-	100	-
Axiare Investigación, Desarrollo e Innovación, S.L.U.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Industrial property Real estate operations	100	-	100	-
Venusaur, S.L.U.	Carrer Roselló 258, 1ª pl. 08037 Barcelona	Real estate operations	100	-	100	-

None of the Group companies in which the Company has an interest is listed on a stock exchange.

The group company Axiare Investments, S.L.U. (formerly Acotango Spain, S.L.) changed its name to its current name on 24 October 2016.

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At 31 December 2015, long-term Investment in group companies and associates are as follows:

Name	Domicile	Activity	Interest held		Voting rights	
			Direct %	Indirect %	Direct %	Indirect %
Acotango Spain, S.L.	Calle José Ortega y Gasset, 29 - 28006 Madrid	Real estate operations	100	-	100	-

At 31 December 2016 the figures for capital, reserves and results for the year together with other relevant information as per the companies' annual accounts are as follows:

Company	Equity						Thousand Euros	
	Share capital	Reserves	Other items	Operating results	Profit/(loss) for the year	Carrying amount of the interest	Dividends received	
Axiare Investments, S.L.U.	1,503	-	2,534	(7)	(14)	4,054	-	
Axiare Properties, S.L.U.	3	-	-	-	-	3	-	
Axiare Investigación, Desarrollo e Innovación, S.L.U.	3	-	-	-	-	3	-	
Venusaur, S.L.U.	3	10,001	58,270	416	10,075	64,109	15,000	

In 2016 the Company contributed land to the group company Axiare Investments, S.L.U. and investment properties were adjusted accordingly (Note 5).

On 2 December 2016 the Company acquired Venusaur, S.L.U. that owned the property located at Almargo 9, Madrid. This operation was treated as an asset acquisition as it did not meet the definition to be considered a business acquisition under accounting legislation.

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8. Loans and receivables

	Thousand Euros	
	2016	2015
Non-current loans and receivables		
- Loans to Group companies (Note 23)	27,000	2,000
- Loans to third parties	4,626	-
- Derivatives (Note 13)	47	808
- Other financial assets	7,015	6,070
	38,688	8,878
Current loans and receivables:		
- Trade receivables for sales and services rendered	2,463	1,891
- Receivables from related parties (Note 20)	18,401	-
- Sundry receivables	4,320	9,521
- Loans to third parties	130	-
- Other financial assets	39	124
	25,353	11,536
	64,041	20,414

The carrying amounts of Loans and receivables (both current and non-current) approximate their fair values, since the effect of discounting is immaterial.

Other long-term financial assets include the deposits made in the corresponding bodies.

Of total current loans and receivables, at 31 December 2016 overdue trade and sundry receivables amount to €355 thousand (€1,179 thousand at 31 December 2015), for which no provision has been established (€367 thousand at 31 December 2015) according to the trade receivable ageing policy in place, and their evaluation by the Company. Also, €827 thousand was recognised in the income statement (€90 thousand at 31 December 2015) in respect of bad debt write-offs.

This heading reflects an amount of €2,108 thousand (€712 thousand at 31 December 2015) relating to rent incentives granted and which have yet to accrue.

Sundry receivables mainly include a provision of funds for the Company's ordinary operations with notaries and registries amounting to €2,295 thousand (€4,674 thousand at 31 December 2015).

Additionally, €2,000 thousand was recognised as a result of the acquisition of Venusaur, S.L.U. (Note 7)

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The ageing analysis of trade receivables for sales and services rendered is as follows:

	Thousand Euros	
	2016	2015
Up to 3 months	244	753
Between 3 and 6 months	94	368
More than 6 months.	17	58
	355	1,891

The carrying amount of loans and receivables is denominated in euro.

Movements in this provision due to bad debts during the year were as follows:

	Thousand Euros	
	2016	2015
Opening balance	(367)	-
Appropriation	(460)	(544)
Reversal	-	177
Application	827	-
Closing balance	-	(367)

9. Cash and cash equivalents

	Thousand Euros	
	2016	2015
Cash	123,555	266,806
	123,555	266,806

These current accounts accrue market interest rates.

10. Capital

a) Capital

The Company was incorporated on 19 March 2014 through the issuance of 10,000 registered shares of €6 par value each. At the incorporation date, Rodex Asset Management, S.L. held 9,999 Ordinary Shares representing 99.99% of the issued share capital of the Company and Inmodesarrollos Integrados, S.L. held 1 Ordinary Share representing 0.01% of the issued share capital of the Company.

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On 10 June 2014 the Extraordinary General Shareholders' Meeting was held during which it was resolved to increase capital, the shareholders' waiving their preferential subscription right, through an offer for the subscription of the Company's shares to be carried out prior to their stock market flotation.

On 7 May 2015 the Company's General Shareholders' Meeting it was resolved to increase share capital. On 13 May 2015 the Board of Directors approved the agreements relating to the capital increase. On 10 June 2015, this was entered in the Madrid Mercantile Registry and 35,868,988 new shares were listed with a par value of €10 and €1 share premium.

After this share capital operation, authorised capital consists of 71,874,988 fully paid in ordinary shares.

The details of the share capital at 31 December 2016 and at 31 December 2015 is as follows:

	Thousand euros	
	31.12.2016	31.12.2015
Authorised capital	718,750	718,750
	718,750	718,750

At 31 December 2016 the companies participating in the share capital by a percentage equal to or greater than 3% are the following:

Shareholders	% of voting rights	% of voting rights through financial instruments
Citigroup Global Markets Limited	9.165%	-
Deutsche Bank, A.G.	4.995%	-
Einhorn, David	-	6.957%
GAM International Management Limited	5.750%	-
GIC Private Limited	3.159%	-
Gruss Capital Management LLP	-	4.824%
Inmobiliaria Colonial, S.A.	15.091%	-
JP Morgan Chase & Co	5.804%	-
Landsdowne Partners International Limited	-	2.015%
Pelham Capital LTD	-	9.219%
PGGM Vermogensbeheer B.V.	3.202%	-
T. Rowe Price Associates, Inc	9.782%	-
The Goldman Sachs Group, INC.	3.020%	-

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b) Share premium

These reserves are freely distributable.

c) Treasury shares

Movements in treasury shares are set out below:

	2016		2015	
	Number of treasury shares	Thousand Euro:	Number of treasury shares	Thousand Euro:
Opening balance	416,928	4,631	100,000	1,006
Purchases	1,444,453	17,793	111,652	1,297
Sales	(310,953)	(3,743)	(59,200)	(635)
Purchases incentive plan	1,353,479	15,901	264,476	2,963
Deliveries incentive plan	(1,367,641)	(15,904)	-	-
Closing balance	1,536,266	18,678	416,928	4,631

On 31 October 2014 Axiare Patrimonio entered into a liquidity contract with JB Capital Markets, S.V., S.A.U. in order to increase liquidity and favour the regular trading of the Company's shares. This contract came into effect on 2 January 2015.

The General Shareholders' Meeting of 7 May 2015 resolved to implement the manager incentive plan consisting of the delivery of shares or cash (on a discretionary basis) to Company management (Note 18).

The shares of the Company owning the same at 31 December 2016 represent 2.11% of the Company's Share Capital (0.58% at 31 December 2015) and total 1,536,266 shares (416,928 shares at 31 December 2015). The average acquisition price was €12.3428 per share (€11.1074 per share at 31 December 2015).

These shares are carried by reducing the Company's shareholders' funds at 31 December 2016 by €18,678 thousand (€4,631 thousand at 31 December 2015).

The Company has fulfilled the obligations triggered by Article 509 of the Spanish Companies Act which lays down, for shares listed on a secondary market, that the par value of the shares acquired, added to the shares held by the parent company and subsidiaries should not exceed 10% of capital. The subsidiaries do not hold treasury shares or shares in the parent company.

d) Dividends

In accordance with the tax scheme provided by the SOCIMI Law (Note 23), the Company distributed a dividend amounting to €2,983 thousand relating to profits for the year ended 31 December 2015. The proposed distribution of results for the year ended 31 December 2016 is set out in Note 12.

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11. Reserves

	Thousand euros	
	31.12.2016	31.12.2015
Other reserves:		
- Voluntary reserves	(30,778)	(31,021)
- Other reserves	532	201
	(30,246)	(30,820)

The Company has recognised in voluntary reserves the expenses related to the share issue carried out in 2014 (€19,429 thousand) as well as the expenses related to the capital increase which took place in 2015 (€12,000 thousand) (Note 10).

Legal reserve

Appropriations to the legal reserve should be made in compliance with Article 274 of the Spanish Companies Act 2010 which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. It should be used to offset losses in the event of no other reserves being available; it must be replenished out of future profits.

At 31 December 2016 €331 thousand was provided for this item (€201 thousand at 31 December 2015).

12. Profit/(loss) for the year

Distribution of Profit

The proposal to be presented to the General Shareholders' Meeting regarding the distribution of losses and reserves of the profit for the year is as follows:

	Thousand euros
	2016
<u>Available for distribution</u>	
Profit/(loss)	13,792
<u>Distribution</u>	
Legal reserve	1,379
Dividends	12,413
	13,792

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

The distribution of profits for 2015, which was approved by the general board of shareholders of May 12, 2016, was as follows:

	Thousand euros
	2015
<u>Available for distribution</u>	
Profit/(loss)	3,314
<u>Distribution</u>	
Legal reserve	331
Dividends	2,983
	3,314

13. Trade and other payables

	Thousand euros	
	2016	2015
Long-term credits and payables:		
- Bank Loans	442,568	270,852
- Derivatives (Note 14)	9,483	1,382
- Other financial investments (Note 6)	8,421	6,886
	460,472	279,120
Short-term creditors and payables (Note 6):		
- Bank loans	2,847	10,024
- Creditors and other payables	11,065	14,879
- Payables to related parties (Note 22)	-	89
- Outstanding remunerations	-	1
	13,912	24,993
	474,384	304,113

The carrying amount of creditors and payables (both long and short-term) approximates fair value since the effect of discounting is not significant. In the case of the bank loans, they are registered at amortised cost.

Deposits received from tenants under rental contracts are recognised as other non-current financial liabilities.

Creditors and other payables mainly reflect the amounts provided for property acquisition transactions carried out by the Company, the financing obtained during the present year and the balances payable for asset investments in progress.

The carrying amounts of the Company's creditors and payables are denominated in euro.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

Bank borrowings include the balance of 16 loans arranged by the Company during 2016 and 2015. The maturities of these bank borrowings at nominal amount are set out below:

Maturity	2016		2015	
	Non Current	Current	Non Current	Current
2016	-	-	-	-
2017	-	-	-	-
2018	7,000	-	-	-
2019	-	-	-	-
2020	25,225	375	24,100	-
>2021	418,348	1,646	261,712	611
Total	450,573	2,021	285,812	611

The Company includes €8,005 thousand in amortised cost on the balance sheet (€6,082 thousand in 2015) in respect of debt formalisation costs. At 31 December 2016 financial interest accrued and not paid amounts to €826 thousand (€535 thousand at 31 December 2015). Financial expenses accrued in the year amount to €7,685 thousand (€4,882 thousand in 2015) (Note 17).

During the year the Company arranged financing amounting to €125,382 thousand (€328,281 thousand in 2015).

These loans are subject to compliance with certain financial ratios, which are usual for the sectors in which the Company operates and are calculated at the year end. At 31 December 2016 the Company complies with all these ratios except for the financing ratios of properties being renovated for which banks have granted a temporary exemption from compliance.

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The loans are secured by mortgages amounting to €453,663 thousand (€286,881 thousand in 2015). Bank loans are secured on land and buildings as set out below:

Related assets	Nominal amount outstanding at 31/12/2016	Nominal amount outstanding at 31/12/2015	Maturity
Francisca Delgado 11	15,000	15,000	2030
Fernando el Santo 15	10,000	10,000	2030
Avenida de la Vega 15	27,913	28,054	2029
Cabanillas 1	2,530	2,543	2022
Cabanillas 2	3,698	3,123	2022
Cabanillas 3	2,909	2,924	2022
Azuqueca	9,143	8,440	2022
Guadalix	4,349	3,563	2022
Rivas Vaciamadrid	9,193	9,240	2029
Camarma	19,881	17,550	2022
Manuel de Falla 7	24,000	-	2021
Valls	4,954	4,624	2022
Dos Hermanas	5,446	5,473	2029
Diagonal 197	29,096	29,243	2029
Les Gavarres	14,673	14,747	2022
Ribera del Loira 28	24,100	24,100	2020
Cristalia 2 & 3	29,451	29,599	2022
Cristalia 5 & 6	27,500	27,500	2022
Luca de Tena 14	9,350	9,350	2028
Luca de Tena 14	1,500	-	2020
Velázquez	45,688	30,788	2022
Tucuman	10,562	10,562	2022
Hotel Rafael Madrid Norte	7,000	-	2018
Ramírez Arellano	7,438	-	2028
Don Ramón de la Cruz	21,000	-	2025
Constantí	11,015	-	2022
Avenida de Bruselas 38	14,400	-	2025
Alcalá 506	7,335	-	2021
Luca de Tena 6	4,500	-	2025
Las Mercedes Open Park	23,865	-	2021
Josefa Valcárcel 24	7,000	-	2021
Viapark	10,063	-	2028
Azuqueca 2	4,778	-	2022
Alcalá de Henares	3,264	-	2022
	452,594	286,423	

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

Deferral of payments to suppliers

Details of payments for commercial transactions carried out during the year and pending payment at the balance sheet date, compared with the maximum legal deadlines established by Law 15/2010, are as follows:

	2016	2015
Average payment period to suppliers	Days	Days
Ratio of paid operations	35	39
Ratio of outstanding payment transactions	36	39
	20	35
	Amount	Amount
	(Thousand Euros)	(Thousand Euros)
Total payments	221,378	381,786
Total outstanding payments	4,436	2,602

14. Financial derivatives instruments

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

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

	Principal covered	Maturity	Thousand Euro:			
			2015			
			Non Current		Current	
			Assets	Liabilities	Assets	Liabilities
Interest rate swap	22,000	Until 2022	69	-	-	-
Interest rate swap	25,410	Until 2022	739	-	-	-
Interest rate swap	18,650	Until 2022	-	554	-	-
Interest rate swap	9,350	Until 2024	-	13	-	-
Interest rate swap	30,000	Until 2025	-	364	-	-
Interest rate swap	43,152	Until 2028	-	337	-	-
Interest rate swap	39,900	Until 2025	-	114	-	-
			808	1,382		

The total fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is greater than 12 months and as a current asset or liability if the remaining time to maturity of the hedged item is less than 12 months.

Hedging of cash flows using interest rate swaps enables the variable rate debt to be changed to fixed rate debt; where future cash flows to be hedged are the future interest payments on the loans (Note 13). Changes in the fair value of derivatives are recognised in value change adjustments in equity.

15. Income and expenses

a) Net revenues

Revenue on the Company's ordinary activities may be analysed geographically as follows:

Market	2016	
	Percentage	Thousand euros
National	100%	50,593
	100%	50,593
Market	2015	
	Percentage	Thousand euros
National	100%	42,336
	100%	42,336

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
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The breakdown of net turnover is as follows:

	Thousand Euros	
	31.12.2016	31.12.2015
Revenue		
Income	43,434	35,918
Rebilling of expenses	7,159	6,418
	50,593	42,336

b) Staff costs

	Thousand Euros	
	2016	2015
Salaries, wages and similar items	15,996	9,072
Employee benefit expenses		
- Other staff welfare expenses	280	220
	16,276	9,292

Wages, salaries and similar remuneration include termination benefits amounting to €7 thousand (at 31 December 2015 there were no termination benefits).

The average number of employees in the period, by category, is as follows:

Categories	2016	2015
	Total	
Senior management	8	5
Graduates	8	8
Administrative personnel and other	4	3
	20	16

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
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At 31 December 2016 and 31 December 2015 the distribution by gender of the Company's personnel is as follows:

Categories	2016		
	Men	Women	Total
Senior management	5	3	8
Graduates	5	2	7
Administrative personnel and other	-	4	4
	10	9	19

Categories	2015		
	Men	Women	Total
Senior management	5	1	6
Graduates	6	4	10
Administrative personnel and other	-	3	3
	11	8	19

The Group has no employees with disabilities greater than or equal to 33% (or local equivalent rating) neither at December 31, 2016 nor 2015.

c) Operating expenses

The breakdown of operating expenses, is the following:

	Thousand Euros	
	2016	2015
Operating expenses of investment properties	8,422	7,675
Other operating expenses	2,083	1,952
	10,505	9,627

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

16. Corporate income tax and tax situation

Set out below is the reconciliation between net income and expense for the year and the income tax assessment base:

	Thousand Euros					
	Income statement			Income and expenses taken directly to equity		
	Increases	Decreases	Net effect	Increases	Decreases	Net effect
Income and expenses of the year	13,792	-	13,792	-	(8,288)	(8,288)
Income tax	-	-	-	-	-	-
Permanent differences	2,911	-	2,911	-	-	-
Temporary differences						
- With origin in the year	1,852	-	1,852	-	-	-
Taxable base			18,555			(8,288)

In accordance with law 11/2009, with the amendments included therein through law 16/2012, regulating SOCIMIS, current Corporate Income Tax is the result of applying 0% to the tax base. No deductions have been applied to tax payable during the year 2016 and withholdings and payments on account amount to €359 thousand (€350 euros at 31 December 2015).

Permanent differences relate to a profit obtained in the subsidiary Venusaur, S.L.U. on the capitalisation of the loans granted by Axiare Patrimonio, S.A. and taxed in the parent company.

Temporary differences relate to the deductible limit of financial expenses incurred during the year.

Tax Inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations period has expired.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax liabilities may arise in the event of a tax inspection. In any event, the Directors consider that such liabilities, if they arise, will not have a significant effect on the balance sheet and income statement for the period 1 January 2016 to 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

At 31 December 2016 and at 31 December 2015 the breakdown of the Company's collection rights and payment obligations with the Public Administrations is as follows:

	Thousand Euros	
	2016	2015
Collection rights		
VAT refundable	5,629	1,591
Withholdings and Payments on account	359	350
	5,988	1,941
Payment obligations		
Withholding payables	(148)	(92)
Social Security payable	(28)	(26)
	(176)	(118)

17. Net financial income (expense)

	Thousand Euros	
	2016	2015
Financial income		
- From participations in group company equity participations	15,000	-
- From marketable securities and other financial instruments (Note 9)	422	1,582
	15,422	1,582
Financial expenses		
- Payable to third parties	(7,685)	(4,882)
	(7,685)	(4,882)
	7,737	(3,300)

At 31 December 2016 financial income relates to the dividend distributed by the group company Venusaur, S.L.U.

Financial expense recognised derives from the financing obtained by the Company (Note 13).

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

18. Share-based payments

On 7 May 2015, the General Shareholders' Meeting approved a new compensation plan based on the Company's shares, granted to the Management Team made up of the CEO and persons appointed in this regard by the Company.

That plan is for 7 years and the right to receive shares as incentives will vest when for a specific calculation period, both of the plan conditions are met. These conditions are that shareholders' return exceeds a specific percentage, measured through the generation of value by the assets acquired. The right to the incentive accrues and is calculated annually. The calculation period runs from July to June the following year. Settlement is made through the delivery of shares after that period.

The next evaluation of compliance with the relevant thresholds will take place on 30 June 2017. Although the terms established in the plan for accrual may possibly be met given the condition of our portfolio, at the date of preparation of these annual accounts, 23 February 2017, we are unable to consider it probable as it will depend, inter alia, on other variables beyond the company's control. There are evidently difficulties which are implicit in all types of estimates concerning the future performance of economic variables.

Staff costs accrued under the 2015 amounted to €6,470 thousand (€557,787 shares) and €12,171 thousand (1,060,168 shares) under the 2016 plan. Both plans were settled in 2016.

The incentive plan expense is included in staff costs (Note 15.b).

19. Contingencies

Contingent liabilities

At 31 December 2016 and at 31 December 2015 the Company has no contingent liabilities.

20. Commitments

Operating lease commitments

The Company leases its offices under an irrevocable operating lease. This lease is for six years and may be renewed under market conditions.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

Total minimum future payments for irrevocable operating leases are as follows:

	Thousand Euros
	2016
Less than a year	177
Between one and five years	532
More than five years	-
	709

21. Board of Directors and Senior Management

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

The article 229 of the Spanish Companies, adopted by virtue of Royal Legislative Decree 1/2010, requires the Directors to notify the Company's governing body of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the company's objects, and also disclose the positions or duties they might have in the same. Appendix I sets out the information provided by the directors concerning the positions and functions exercised in companies having an identical, analogous or complementary kind of activity.

Directors' and senior management compensation

The total remuneration received by the members of the Board of Directors during the annual period ended 31 December 2016 is as follows:

- Expenses for the Board of Directors meetings attendance received by all of the Directors: 325 thousand euros (2015: 232 thousand de euros).
- Wages and salaries: 900 thousand euros (2015: 750 thousand euros), including a variable remuneration based on the objectives set and approved in the last instance by the Board of Directors.
- Life insurance premium: 18 thousand euros (2015: 9 thousand euros).
- Shared-based payments: an amount approximately of 50% of the incentive plan mentioned above in 2016 and 2015.

The Company has granted a loan to the Directors in connection with the execution of the incentive plan amounting to €3,850 thousand. The Company has no pension funds or similar commitments with them.

At 31 December 2016 and 2015 there are no employees considered senior management personnel. The Company's key planning, management and control decisions together with decisions affecting economic and strategic policies are taken by the Board of Directors.

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

22. Other operations with group companies and related parties

The following transactions were carried out with related parties:

	Thousand Euros	
	2016	2015
Group companies transactions		
Venusaur, S.L.U.	15,000	-
	15,000	-
Related parties transactions		
Rodex Agrupada Comunicación, S.L.	-	(49)
Alza Real Estate, S.A.	-	(15)
	-	(64)

At 31 December 2016 and at 31 December 2015 outstanding balances with the related parties break down as follows:

	Thousand Euros	
	2016	2015
Investments in group companies		
Credits	27,000	2,000
Investments in group companies		
Short-term credits with group companies	3,401	-
Dividend receivable from group companies	15,000	-
	45,401	2,000
Trade and other payables		
Sundry payables	-	(89)
	-	(89)

The amount recognised under loans to Group companies relates to three participating loans granted to the group company Axiare Investments, S.L.U on the following dates: 29 December 2015 (€2,000 thousand), 3 June 2016 (€21,000 thousand) and 22 July 2016 (€4,000 thousand). These loans are for a five year term and accrue interest at a market interest rate.

Short-term investments in group companies mainly reflect an amount receivable of €15,000 thousand in respect of the dividend distributed by the group company Venusaur, S.L.U. (Note 7)

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

23. Information requirements deriving from SOCIMI status, Law 11/2009, amended through Law 16/2012

- a) Reserves from years prior to the application of the tax scheme contained in Law 11/2009, amended by Law 16/2012.

Not applicable.

- b) Reserves from years in which the tax scheme contained in Law 11/2009, amended by Law 16/2012, has been applied.

Not applicable.

- c) Dividends distributed against profits each year in which the tax scheme contained in this Law is applicable, differentiating the part from income subject to tax at 0% or 19% from those where tax has been levied at the general rate.

The total dividend distributed comes from returns subject to a 0% rate.

- d) For distribution against reserves, identifying the year from which the reserves applied derive and if they have been taxed at 0%, 19% or the general rate.

This was not distributed against reserves (Note 12).

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

General Shareholders' Meeting at 7 May 2015 (Note 12).

- f) Date of acquisition of buildings for rent and interests in the capital of companies referred to in Article 2.1. of this Law.

The Company has interests in the capital of entities referred to in section 1 of article 2 of the Law of SOCIMIs. This participation refers to the company of the group Venusaur, S.L.U., which was acquired on December 2, 2016 (Note 7).

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)

	Property	Location	Acquisition date
1	F. Delgado	Plot TN-5B, Sector Único, calle Francisca Delgado, nº 11, Alcobendas (Madrid)	28 th July 2014
2	Cabanillas	Plot 2.4, Industrial premises 1,2 and 3, Poligono Industrial P-5, Cabanillas del Campo (Guadalajara)	29 th July 2014
3	Miralcampo	Logistics premises, Avda. de la Construcción, nº 9 y 11, Polígono Industrial Miralcampo, Azuqueca de Henares (Guadalajara)	30 th July 2014
4	Dos Hermanas	Plots 47 to 50, Polígono Industrial "La Isla", Dos Hermanas (Sevilla)	30 th July 2014
5	F. Santo	C/ Fernando el Santo número 15, 28010 Madrid	24 th September 2014
6	Av. Vega	Avda. Arroyo de la Vega, nº 15, Arroyo de la Vega, Alcobendas (Madrid)	24 th September 2014
7	Rivas	Plots 18-14 y 19-13, Calle Mariano Benlliure, Rivas-Vaciamadrid (Madrid)	24 th September 2014
8	Planetocio	Avda. Juan Carlos 1 número 46, Collado Villalba (Madrid)	24 th September 2014
9	Valls	Logistics premises, Avenida del Polígono, 5. Polígono Industrial de Valls, término municipal de Valls (Tarragona)	9 th October 2014
10	Guadalix	Department number 3, property part of U.A.-47, and building "B", San Agustín de Guadalix (Madrid)	9 th October 2014
11	Camarma	Logistics premises, sector S1-4 "La Raya Industrial", Camarma de Esteruelas (Madrid)	9 th October 2014
12	Manuel de Falla	C/ Manuel de Falla número 7, 28036 Madrid	6 th November 2014
13	Diagonal	Diagonal Building. Avenida Diagonal 197, 08018 Barcelona	4 th December 2014
14	Ribera del Loira	Ribera del Loira. C/ Ribera del Loira, 28, 28042 Madrid	4 th December 2014
15	Cristalia 2&3	Edificios 2 and 3 Parque Empresarial Cristalia. C/ Vía de los Poblados s/n (Madrid)	4 th December 2014
16	Les Gavarres	Tarragona Building, property number two, subpolígono PP-9, Polígono Industrial Les Gavarres (Tarragona)	4 th December 2014

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

	Property	Location	Acquisition date
17	Hotel	Building used as a hotel Parque Empresarial Omega. Carretera de Alcobendas a Barajas kilómetro 1.100. Alcobendas (Madrid)	20 th February 2015
18	Luca de Tena 14	C/ Juan Ignacio Luca de Tena número 14, 28027 Madrid	30 th March 2015
19	Tucumán	Tucumán Building. Glorieta del mar caribe número 1, Madrid	30 th March 2015
20	Cristalia 5&6	Buildings 5 and 6 Parque Empresarial Cristalia. Calle Vía de los Poblados s/n (Madrid)	22 nd May 2015
21	Velázquez	Premises located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	22 nd May 2015
		Twenty properties located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	15 th June 2015
		Premises located at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	29 th July 2015
		Parking spaces of at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	5 th August 2015
		Floors 6 and 7 and parking spaces of at calle Padilla número 17, esquina calle Velázquez, 28006 Madrid	22 nd December 2016
22	R. Arellano	Building located at Calle Ramírez de Arellano 15, Madrid	21 st July 2015
23	Constantí	Industrial premises located in the municipality of Constanti, Polígano Industrial Constanti (Tarragona).	30 th July 2015
24	Luca de Tena 6	Building located at Calle Juan Ignacio Luca de Tena 6, 28027 Madrid	23 rd September 2015
25	Alcalá 506	Building located at Calle Alcalá 506, 28027 Madrid	23 rd September 2015
26	Av. Bruselas	Building located at Avenida de Bruselas 38, 28108 Alcobendas (Madrid)	23 rd September 2015
27	Las Mercedes	Shopping mall located at Calle Campezo 12, 28022, Madrid	23 rd September 2015

AXIARE PATRIMONIO SOCIMI, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016
(Thousand euros)**

	Property	Location	Acquisition date
28	D. Ramón Cruz	Building located at Calle Don Ramón de la Cruz número 84, 28006 Madrid	8 th October 2015
29	Josefa Valcárcel 24	Building located at Calle Josefa Valcárcel número 24, 28027 Madrid	26 th January 2016
30	Viapark	Four shopping malls located in Vúcar, parajes del Cortijo Blanco, Cerrillo de los Vaqueros and Cerro de los Lobos (Almería)	14 th April 2016
31	San Fernando *	Industrial premises under construction located at sector SUP I-1, municipality of San Fernando de Henares (Madrid)	28 th April 2016
32	Sagasta	Building located at Calle Sagasta números 31 and 33, 28004 Madrid	17 th November 2016
33	Alcalá de Henares	Industrial premises located at Alcalá de Henares (Madrid)	25 th November 2016
34	Azuqueca de Henares	Industrial premises located at Azuqueca de Henares (Guadalajara)	25 th November 2016
36	Luca de Tena 7	Building located at Calle Juan Ignacio Luca de Tena 7, 28027 Madrid	23 rd December 2016

*This asset is under construction. It is expected to be completed by May 2018.

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

The assets taken into account in the 80% referred to in Section 1 Article 3 of the SOCIMI Law are reflected in the table above.

h) Reserves from years in which the tax system applicable in this Law was applicable, which were made available in the tax period, not for distribution or offsetting losses, identifying the year from which the reserves derive.

Not applicable.

24. Auditors' fees

The audit fees accrued during the period between January 1st and December 31st 2016 by PricewaterhouseCoopers Auditores, S.L. for the review of the Company's annual financial statement amounts to €104 thousand euros (2015: 94 thousand euros) and for other assurance services amounts to €47 thousand euros (2015: 95 thousand euros).

At 31 December 2016 the fees accrued by other companies of the PwC network amounted to €164 thousand euros (€99 thousand euros at 31 December 2015), of which 27 thousand euros correspond to tax advices.

AXIARE PATRIMONIO SOCIMI, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2016 (Thousand euros)

At 31 December 2016 31 December 2015, there are no transactions in the Company that differentiate basic earnings per share from diluted earnings per share.

25. Information on greenhouse gas emission allowances

During the year 2016 and 2015 the Company had no greenhouse gas emission rights.

26. Environmental information

The Company's activities do not have any environmental impact. Therefore, the Company has incurred no significant costs and made no significant investments the aim of which is to mitigate possible environmental impacts.

27. Subsequent events

On 20 January 2017 the Company acquired an office building located at Puerto de Somport 8, Las Tablas, Madrid, for €41,500 thousand. This is an asset with a gross leasable area of 9,280 m², and with 370 parking spaces.

On 24 January 2017 the Company entered into two bilateral financing agreements with Banco Santander, S.A amounting to €26,400 thousand and €7,800 thousand and maturing at 7 and 5 years, respectively. This represents leverage of 60% loan -to-value (LTV). The properties relate to an office building located at C/ Sagasta 31 and 33, with a gross leasable area of 7,054 m² and 93 parking spaces and two floors of the office building located at Padilla 17 with a gross leasable area of 1,837 m² and 33 parking spaces.

On 31 January 2017, through a corporate transaction, the Company acquired Chameleon (Cedro) S.L., which owns the Cedro building, located at C/ Anabel Segura. The property was valued for the purposes of its acquisition at €43,500 thousand. This is an asset with a gross leasable area of 17,032 m², and with 381 parking spaces.

Additionally, before these annual accounts were issued, Axiare completed the acquisition of a building of over 8,036 m² in calle Miguel Angel for €53.4 million.

On February 17, 2017, a bridge policy was signed for an amount of 51 million euros with CaixaBank.

AXIARE PATRIMONIO SOCIMI, S.A.

Appendix I – Detail of Positions and Ownership Interests held by the Directors in Companies with a similar Company Object

Luis Alfonso López de Herrera-Oria

Shareholders	Office or duty	% Interest
Rodex Asset Management, S.L.	Sole administrator	100.00
Agrodesarrollos Integrados, S. L.	Sole administrator	100.00
Inmodesarrollos Integrados, S.L.	Representative of the sole administrator	100.00
Puerto Feliz, S.A.	Representative of the sole administrator	78.88
Heracles Proyectos y Promociones Inmobiliarias, S.A.	Sole administrator	100.00

Luis María Arredondo Malo

Shareholders	Office or duty	% Interest
Nieve de Andalucía, S.A.	Attorney	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	Director	18.01
Aljaral, S.A.	Director	100.00
Xiaraxi de Negocios, S.A.	President	-

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

1. ORGANIZATIONAL STRUCTURE AND OPERATION

Axiare Patrimonio Socimi, S.A. (Axiare Patrimonio) was constituted in Spain on 19 March 2014, in accordance with the Law of limited liability Companies through the issuance of 10,000 registered shares with a par value of 6 euros each. On June 10, 2014 General Shareholders' Meeting was held through which capital increase was decided waiving the preferential subscription right of the shareholders through an offering of shares of the Company.

The Company reported with date 12 June 2014 to the Tax Agency, its option for implementing the arrangements for Listed Companies Investment in Real Estate Market.

On July 9, 2014, Axiare Patrimonio went public with the realization of a capital increase of 360 million euros by issuing 36 million ordinary shares with a nominal value of 10 euros each.

Axiare Patrimonio was a new company born without assets, which is considered a "blind pool" that allowed opportunities for the Spanish real estate sector. On 31 December 2014, the Company had invested 1.2 times the capital raised in the IPO, with a total investment of 424 million. The market value of this investment amounted to 31 December 2014 to 439 million (including Manuel de Falla).

In order to capture the necessary to continue with its investment plan funds, the Company initiated in May 2015 a process of capital increase of 395 million euros that covered successfully. In total 35,868,988 new shares were subscribed, amounting to 394,558,868 euros, doubling its capitalization in excess of 800 million euros. One of the peculiarities of this operation was that it was performed without underwriting or guarantee banks. The new shares were acquired at a price of 11 euros per share, representing a premium of 10 percent over the price set at the start of trading of the Company. After this capital increase operation, the subscribed capital consisted on 71,874,988 fully paid ordinary shares.

Axiare business strategy focuses on investments in rental assets of high quality and strong growth potential. Trade policy is based mainly on exploiting offices in the financial centers of Madrid and Barcelona, as well as in other premium locations outside the city center, logistic real estate in most centers of distribution Spain and consolidated shopping centers.

The Board of Directors of Axiare operates according to the rules of corporate governance contained mainly in the Corporate statutes, the Regulations of the Shareholders' Meeting and the Regulations of the Board of Directors.

The Board of Directors is the supervisory and control activity of the company, with jurisdiction over matters such as the adoption of policies and strategies of the Company's corporate governance policy and corporate social responsibility, and policy control and risk management and, in any case, on the fulfillment of the requirements for maintaining the status Socimi Society.

The Board of Directors has two committees, an Audit Committee and Control and Appointments and Remuneration Committee, which essential function is to support for the Board of Directors in its tasks of monitoring and control for the current business of the Company.

2. DEVELOPMENT AND PERFORMANCE OF THE BUSINESS

The Company since its release to the stock market last year, has made several acquisitions of real estate assets, which have led to a positive result amounting to 148,626 thousand euros in 2016 and 85,340 thousand euros in 2015, on a consolidated basis.

The amount of "Rendering of services" deriving from the lease of the acquired real estate assets amounted to 51.011 thousand euros (42,336 thousand euros in 2015).

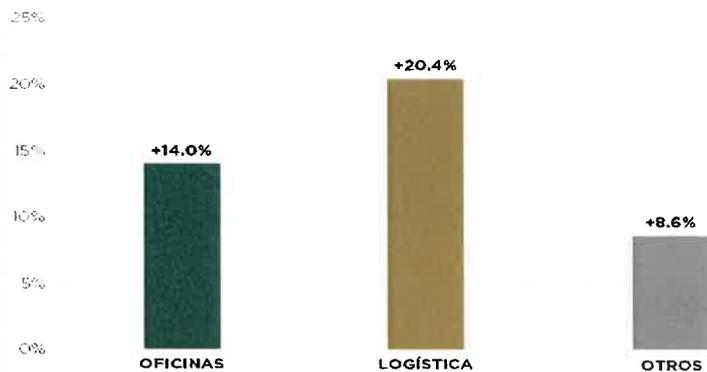
AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

EBITDA for 2016 amounted to 19,850 thousand euros compared to 2015 EBITDA reaching 19,872 thousand euros (EBITDA: earnings before interest, taxes, depreciation and amortization).

The market value of the assets of the company at 31 December 2016 amounted to 1,343 million euros (1,446 million euros having into account the market value of the two options), representing an increase of 25,7% on the purchase price and 14.3% of the portfolio like-for-like¹ at 31 December 2015.

The following chart breakdown by segment increased valuation on like-for-like¹ portfolio of 12 months:



The main reasons for this increase in the valuation of the portfolio in the past year due to:

- **Active management:** a part of the portfolio's growth potential is the consequence of active asset management. The leasing business, together with rent reviews and lease renewals during the period, covered 123.5 thousand m², assuring annual rental income of €10.3 million.
- **Assets under remodelling:** the value of assets under remodelling in 2016 rose by 24.5%.
- **Growth in rent:** since the start of the year, rent values increased by 5.3%. The quality of our portfolio continued to benefit from the shift by lessees to class-A real estate assets.
- **Investor appetite:** yields for the period fell due to the rise in demand for assets in our market.

The tables below show the breakdown of the market value of our portfolio at 31 December 2016 determined by CBRE Valuation Advisory, S.A. (RICS):

¹ Comparing the same assets of the portfolio as of 31 December 2016.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

	Acquisition Price EUR M	GAV 31/12/2016 EUR M	Weighting %	Valuation performance on acq Price EUR M	Valuation performance on acq Price %	12-months LFL Valuation performance %	12-months LFL Valuation performance EUR M
Offices	794.7	973.2	72.5%	178.5	22.5%	87.0	14.0%
Madrid	741.7	906.2	67.5%	164.5	22.2%	78.0	13.9%
CBD	334.9	402.0	29.9%	67.1	20.0%	33.7	18.7%
BD	406.9	504.2	37.5%	97.3	23.9%	44.3	11.6%
Barcelona	53.0	67.0	5.0%	14.0	26.4%	9.0	15.5%
Logistics	163.3	230.6	17.2%	67.3	41.2%	26.6	20.4%
Madrid	135.9	184.6	13.7%	48.7	35.9%	16.0	16.9%
Barcelona	18.0	29.5	2.2%	11.5	63.9%	7.7	35.3%
Other	9.4	16.5	1.2%	7.1	75.2%	2.9	21.3%
Others	110.5	139.2	10.4%	28.7	26.0%	9.3	8.6%
Total	1,068.5	1,343.0	100.0%	274.5	25.7%	122.9	14.3%

3. EPRA INFORMATION

The ratios defined in the recommendations of EPRA best practices are as follows:

EPRA indicators	€ thousand)	
	2016	2015
Adjusted EPRA earnings	24,036	22,707
Adjusted EPRA earnings per share	0.34	0.40
EPRA earnings	19,272	16,504
EPRA earnings per share	0.27	0.29
EPRA NAV	967,817	835,819
EPRA NAV per share	13.8	11.7
EPRA NNNAV	956,417	829,200
EPRA NNNAV per share	13.6	11.6
EPRA Net Initial Yield	3.9%	5.0%
EPRA "Topped-up" NIY	4.2%	5.0%
EPRA availability rate	16.8%	18.9%

AXIARE PATRIMONIO SOCIMI, S.A.
DIRECTOR'S REPORT FOR THE YEAR 2016

EPRA earnings and EPRA earnings per share	(Thousand €)	
	2016	2015
Profit for the year under IFRS	148,626	85,340
Adjustments to calculate the results EPRA, exclude:		
(i) Investment property revaluation	(129,354)	(68,836)
EPRA Result	19,272	16,504
EPRA result per share	0.27	0.29
Specific company adjustments:		
(a) Specific company adjustments	4,764	6,203
Adjusted earnings	24,036	22,707
Adjusted earnings per share	0.34	0.40
Average nº of shares (excluding treasury shares)	71.025.429	56.109.538

EPRA Net Asset Value (NAV)	(Thousand Euros)	
	31/12/2016	31/12/2015
NAV according to financial statements(*)	965,838	835,245
Effect of exercise of options, convertibles and other interests	-	-
NAV Diluted	965,838	835,245
Excluding:		
(iv) Fair value of financial instruments.	9,436	574
(v.a.) Deferred tax	(7,457)	-
EPRA NAV	967,817	835,819
EPRA NAV per share (in euros)	13.8	11.7

(*) Including capital gains of San Fernando, Miguel Angel y Peugeot

Triple Net Asset Value (NNNAV)	(Thousand Euros)	
	31/12/2016	31/12/2015
EPRA NAV	967,817	835,819
Including:		
(i) Fair value of financial assets	(9,436)	(574)
(ii) Fair value of debt	(9,421)	(6,045)
(iii) Deferred tax	7,457	-
EPRA NNNAV	956,417	829,200
EPRA NNNAV per share	13.6	11.6

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

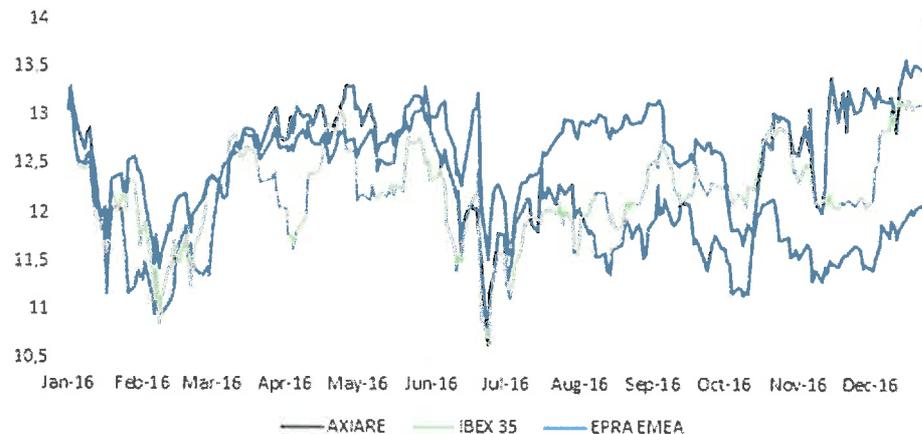
EPRA YIELDS				(Thousand Euros)
	Offices	Logistics	Others	Total
Investment properties	973,200	230,600	139,200	1,343,000
Minus assets under remodeling	(179,530)	(57,200)	-	(236,730)
Completed investment properties	793,670	173,400	139,200	1,106,270
Estimated costs of real estate transactions	12,302	2,688	2,158	17,147
Total investment portfolio valuation (B)	805,972	176,088	141,358	1,123,417
Annual return on investment properties	29,939	10,166	8,860	48,965
operating expenses associated with non-recoverable assets	(2,034)	(423)	(870)	(3,015)
Annual net income (A)	27,217	9,743	7,990	45,950
Bonuses or deficiencies	2,450	757	124	3,332
Maximum net return on investment (c)	30,667	10,500	8,114	49,281
EPRA NIY (A/B)	3.5%	5.5%	5.7%	4.1%
EPRA "topped-up" NIY (C/B)	3.8%	6.0%	5.7%	4.4%

VACANCY RATE				(Thousand Euros)
	Offices	Logistics	Others	Total
ERV available spaces	7,148	1,606	254	9,008
Total ERV	40,725	12,971	10,160	63,856
EPRA Vacancy rate	17.6%	12.4%	2.5%	14.1%

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

4. EVOLUTION OF SHARES



The figure shows the evolution of the share price during 2016, based on a price of € 13.05/ share on the first day of the year and reaching a value of 13.82 € / share on December 31, 2016.

5. TREASURY SHARES

On 31 October 2014, Axiare Patrimonio signed with JB Capital Markets, S.V, SAU a liquidity contract in order to increase liquidity and promote regularity of the share price of the Company. That contract entered into force on January 2, 2015.

The General Shareholders' Meeting of May 7, 2015 agreed to the entry into force of an incentive plan for executives consistent delivery of shares or cash at the discretion of the Company.

The Company shares held on December 31, 2016 represent a 2.11% of the share capital of the Company (0.58% at December 31, 2015) and represent a total of 1.536.266 shares (416.928 shares at 31 December 2015). The average acquisition price was of 12.3428 euros per share (11.1074 euros per share at December 31, 2015).

These shares are recognised as a reduction in the value of the Company's shareholders' funds at 31 December 2016 in the amount of €18,678 thousand (€4,631 thousand at 31 December 2015).

The average number of shares for the year 2016 is 71.874.988 (56.322.419 shares in 2015) and the average number of treasury shares is 849,559 in 2016 (212,881 shares in 2015). The average number of treasury shares in 2016 is 110,091 shares, that correspond to the liquidity contract and the rest with repurchase agreement of the incentive plan.

The Company has fulfilled its obligations under Article 509 of the Capital Companies Act which provides, in relation to shares listed on an official secondary market, the nominal value of the shares acquired, when added to those already held by the Company parent and its subsidiaries, may not exceed 10% of the capital. The subsidiaries have neither own nor the parent company shares.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

6. DIVIDEND POLICY

SOCIMIs are regulated through the special tax regime established by Law 11/2009 of October 26, amended by Law 16/2012 of 27 December, governing listed real estate investment companies. They will be required to distribute in the form of dividends to shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each year end, as follows:

- a) All the profit from dividends or shares in profits paid by the entities referred to in Article 2.1. of Law 11/2009.

- b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of Law 11/2009, carried out once the deadlines referred to in Article 3.3 of Law 11/2009 have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years of the transfer date. Otherwise, these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.

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

The dividend should be paid within the month following the date of the distribution agreement.

When dividends are distributed with a charge to reserves out of profit for a year in which the special tax scheme had been applied, the distribution must be approved as set out above.

The Company is required to transfer 10% of the profits of the year to a legal reserve, until it reaches 20% of the share capital. This reserve, until it exceeds the limit of 20% of capital, cannot be distributed to shareholders. The statutes of these companies may not require any other nature reserve unavailable different from the last.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

The table below includes the calculation of dividends according to the SOCIMI standard:

PROPOSAL OF DISTRIBUTION OF PROFIT		(Thousand €)
		2016
Profit or loss for the year		
Profit		13,792
Distribution		
Legal reserve	10% Profit	1,379
Dividends	100% Distributable profit	12,413
		13,792

7. RISK MANAGEMENT

Axiare has established a risk management system covering its activities and is suitable to their risk profile. Such policies are controlled by the Board of Directors.

The main risk to the achievement of the objectives of the Company is to comply with regulatory requirements to maintain their status as Socimi.

The risk management system also includes management of financial risk. Policies to cover each type of risk are detailed in the attached report.

Note 4 to the memory of financial statements it includes the Group's risk management.

AVERAGE PAYMENT PERIOD TO SUPPLIERS

The breakdown of payments for commercial transactions during the year and outstanding payments at the balance sheet in relation to the legal maximum limits laid down in Law 15/2010, amended by Law 31/2014, as follows:

	2016	2015
	Days	Days
Average payment period to suppliers	35	39
Ratio of paid operations	36	39
Ratio of outstanding payment operations	20	35
	(Thousand €)	(Thousand €)
Total payments	221,378	381,786
Total outstanding payments	4,436	2,602

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

8. THE TEAM

The team of professionals in Axiare Patrimonio is one of the main strengths of the Company. Since its establishment, Axiare has selected the personnel needed to develop its strategies and achieve its objectives.

Axiare Patrimonio is a group of self-managed real estate investment that integrates the management team in their organizational structure.

This internal team works exclusively - and with full dedication- for the company and its shareholders. They set this specialized professional with extensive experience and proven track record in real estate and a deep knowledge of the market. This expert group of professionals is able to address investment operations of great complexity in short periods of time and carried out comprehensively the entire value creation process: from identifying investment to active management and turnover potential of the property.

The company is supervised by a Board of Directors with a large majority of independent directors that bring together expertise in the real estate, financial and legal sector. This council has the advice of an Investment Committee, a Nominating Committee and Remuneration and Audit and Control Committee which monitors compliance with the investment requirements and profitability that marked the company.

Axiare has assembled a solid team of real estate professionals who together have more than 100 years' experience and are devoted exclusively to the creation of value for the company and shareholders, and to ensuring customer satisfaction. Their specialization and existing contact network provides the management team with access to distinctive investment opportunities in the Spanish real estate market.

AXIARE PATRIMONIO SOCIMI, S.A.

DIRECTOR'S REPORT FOR THE YEAR 2016

9. IMPORTANT CIRCUMSTANCES OCCURRED AFTER PERIOD END.

On 20 January 2017, the Company acquired an office building at calle Puerto de Somport 8, Las Tablas, Madrid for the sum of €41,500 thousand. The asset has a gross lettable area (GLA) of 9,280 m², with 370 parking spaces.

On 24 January 2017, the Company entered into two bilateral financing agreements with Banco Santander S.A. for €26,400 thousand and €7,800 thousand, maturing in seven and five years, respectively. This represents 60% Loan-to-Value (LTV) leverage. The properties funded are an office building located at calle Sagasta 31 and 33, with a gross lettable area (GLA) of 7,054 m² and 93 garage spaces, and two floors of the office building located at calle Padilla 17, with a gross lettable area (GLA) of 1,837 m² and 33 garage spaces.

On 31 January 2017, in a corporate transaction, the Company acquired the company Chameleon (Cedro) S.L., which owns the Cedro building in calle Anabel Segura; the building was valued at €43,500 for acquisition purposes. The asset has a gross lettable area (GLA) of 17,032 m², with 381 parking spaces.

Additionally, before these annual accounts were issued, Axiare completed the acquisition of a building of over 8,036 m² in calle Miguel Angel for €53.4 million.

On February 17, 2017, a bridge policy was signed for an amount of 51 million euros with CaixaBank.

10. OUTLOOK FOR THE COMPANY

The Axiare Patrimonio Group has investment capacity linked to the treasury and the affordability of outstanding fund assets. The group will continue during 2017 with its investment strategy focused on commercial real estate assets in Spain.

The Group will continue with the active management focused on improving those contracts maturing set in 2017, as well as improving the occupation.

The Group has several assets under renovation with completion expected for the year 2017.

ANEXO: Annual Report of Corporate Governance

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S IDENTIFICATION DATA FINANCIAL YEAR ENDED **31/12/16**

TAX ID NUMBER. A86971249

Company Name: **AXIARE PATRIMONIO SOCIMI, S.A.**

Address: **JOSÉ ORTEGA Y GASSET, 29, 5ª PL. 28006 MADRID**

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

A OWNERSHIP STRUCTURE

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

Date of last modification	Social Capital (€)	Number of shares	Number of Voting Rights
31/12/2016	718,749,880,00	71,874,988	71,874,988

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 Company Name	Number of Direct Voting Rights	Number of Indirect Voting Rights	% of the total voting rights
CITIGROUP GLOBAL MARKETS LIMITED	6,587,343	0	9.17%
DEUTSCHE BANK AG	3,586,562	0	4.99%
JPMORGAN CHASE & CO	0	4,171,624	5.80%
T. ROWE PRICE ASSOCIATES, INC	0	7,030,811	0.00%
GIC PRIVATE LIMITED	2,270,531	0	3.16%
PGGM VERMOGENSBEHEER B.V.	2,301,437	0	3.20%
DON DAVID EINHORN	0	5,000,343	6.96%
GAM INTERNATIONAL MANAGEMENT LIMITED	0	4,132,812	5.75%
GRUSS CAPITAL MANAGEMENT LLP	0	3,467,249	4.82%
INMOBILIARIA COLONIAL, S.A.	10,846,654	0	15.09%
PELHAM CAPITAL LTD	0	6,626,155	9.22%
THE GOLDMAN SACHS GROUP, INC.	0	2,170,625	3.02%

Shareholder's name or Company Name of the indirect owner of the share	Through: Shareholder's Name or Company Name of the direct owner of the share	Number of Voting rights
JP MORGAN CHASE & CO	JP MORGAN SECURITIES PLC	4,171,624
T. ROWE PRICE ASSOCIATES, INC	T. ROWE PRICE ASSOCIATES, INC	7,030,811
DON DAVID EINHORN	DON DAVID EINHORN	5,000,343
GAM INTERNATIONAL MANAGEMENT LIMITED	GAM INTERNATIONAL MANAGEMENT LIMITED	4,132,812
GRUSS CAPITAL MANAGEMENT LLP	GRUSS CAPITAL MANAGEMENT LLP	3,467,249
PELHAM CAPITAL LTD	PELHAM CAPITAL LTD	6,626,155
THE GOLDMAN SACHS GROUP, INC.	THE GOLDMAN SACHS GROUP, INC.	2,170,625

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

Shareholder's name or Company Name	Date of the Operation	Description of the Operation
GAM INTERNATIONAL MANAGEMENT LIMITED	06/09/2016	5% of the Social Capital has been exceeded
GRUSS CAPITAL MANAGEMENT LLP	25/05/2016	3% of the Share Capital has been exceeded
INMOBILIARIA COLONIAL, S.A.	18/10/2016	15% of the Share Capital has been exceeded
PERRY PARTNERS INTERNATIONAL INC	19/10/2016	15% of the Share Capital has been decreased
PGGM VERMOGENSBEHEER B.V.	10/08/2016	3% of the Share Capital has been exceeded
TAUBE HODSON STONEX PARTNERS LLP	06/09/2016	5% of the Share Capital has been decreased
ALKEN LUXEMBOURG, S.A.	03/10/2016	3% of the Share Capital has been decreased

A.3 Complete the following tables on company directors holding voting rights through company shares:

Shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
DON LUIS ALFONSO LOPEZ DE HERRERA-ORIA	471,776	0	0.66%

% total of voting rights held by the Board Members	0.66%
--	-------

Complete the following tables on share options held by directors:

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 Corporate Enterprises Act ("LSC"). 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 shares among the shareholders of the Company.

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

Yes

No

Observations

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

At year end:

Number of shares held directly	Number of shares held indirectly	% of total share capital
1,536,266	0	2.11%

(*) Through:

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

Detail the significant variations

- 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 stock.

The Extraordinary General Meeting held on May 12, 2016 agreed to authorize the derivative acquisition of own shares by the Company, or companies of its group, revoking previous authorizations.

- A.9.bis Estimated floating Capital

	%
Estimated Floating Capital	40,00

- A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate the existence of any restrictions on the takeover of the company by means of share purchases 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 the quorum required for constitution of the general shareholders' meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

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 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 Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

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

B.4 Indicate the attendance figures for the general shareholders' meetings held during the year:

Attendance Data					
Date	% of physical presence		% Distance vote		Total
			Electronic vote	Others	
07/05/2015	0.54%	56.18%	0.00%	0.00%	56.72%
12/05/2016	0.01%	47.94%	0.00%	2.58%	50.53%

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

Yes

No

B.6 Revoke Section.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on general meetings which must be made available to

shareholders on the website.

The company website is www.axiare.es.

In order to obtain information on corporate governance and general meetings, click on the tab "Investors Area" and then on the tab "Corporate Governance".

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

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 on the Board	Category	Date of first appointment	Date of last appointment	Election Procedure
MR LUIS ALFONSO LOPEZ DE HERRERA- ORIA		Executive	Managing Director and	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR LUIS MARIA ARREDONDO MALO		Indipendent	Chairman	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR FERNANDO BAUTISTA SAGÜES		Indipendet	Director	05/06/2014	05/06/2014	Resolution of Shareholders Meeting
MR DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ		Indipendent	Director	05/06/2014	05/06/2014	Resolution of Shareholders Meeting

Total number of Directors	4
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Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
Mr. CHETAN GULATI	Dominical	04/10/2016

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

EXECUTIVE DIRECTORS

Name or Corporate Name of Director	Position in the Board Chart
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	MANAGING DIRECTOR
Total number of Directors	1
% of the Board	25.00%

PROPRIETARY EXTERNAL COUNSELORS

INDEPENDENT EXTERNAL DIRECTORS

NAME OF THE BOARD MEMBER

Name or corporate name of director	Profile
Mr. Luis María Arredondo Malo	<p>Degree in civil engineering and graduate of the IE Business School in the Top Management Programme. In 1975 Mr Luis María Arredondo Malo was appointed General Manager of the Belgian company Sociedad Anónima de Construcciones y Revestimientos Asfálticos (S.A.C.R.A.) until 1978 and in 1980 he took over the general management of Corporación Inmobiliaria Hispamer. Later on, Mr Luis María Arredondo Malo became General Manager of Inmobiliaria Zabálburu, S.A. in 1988 and of the real estate company Urbis, in 1994.</p> <p>Between 2006 and 2013 he was Chairman and General Manager of Santander Global Property. He is currently manager of Santander Real Estate, S. A. SGIC, the company which manages the property investment fund of Santander Banif.</p>
Mr. Fernando Bautista Sagües	<p>Degree in Law from the Deusto University and diploma in economic science and business studies from ICADE, and has also been a member of the Bar Association of Madrid since 1981. Mr Fernando Bautista Sagües became a partner of the law firm J&A Garrigues in 1989 and, following its merger with Arthur Andersen, he became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, Mr Fernando Bautista Sagües was made a partner of Freshfields. He currently advises as an independent lawyer on matters of company and financial law, he is manager of Abante Asesores. S.A., secretary of the Corporate Social Responsibility Committee of Iberdrola, S.A. and member of the Board of the financial social network Unience.</p>

Mr. David Jiménez-Blanco Carrillo de Albornoz	He has a degree in Economic science and business studies from CUNEF. Mr David Jiménez-Blanco Carrillo de Albornoz worked in Goldman Sachs International between 1995 and 2006 as head of the European accounts team of the industrial sector and of the investment banking team in Spain and Portugal. Mr David Jiménez-Blanco Carrillo de Albornoz was Chairman of Merrill Lynch Capital Markets España, S.A., Sociedad de Valores, between 2006 and 2009, and also Manager of the Committee for Operations with Investment Banking for EMEA (Europe, Middle East and Africa). Between 2010 and 2013 he was a partner of BK Partners, a company concerned with investment management for the direct purchase of assets in Mexico. Mr David Jiménez-Blanco Carrillo de Albornoz was Chief Financial Officer (CFO) of the group World Duty Free SpA (WDF). Currently, Mr. David Jiménez- Blanco Carrillo de Albornoz is Chief Restructuring and Strategy Officer in Abengoa and belongs to the Board of Directors of Gawa capital.
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Total number of external independent	3
% of the Board	75.00%

List any independent directors who receive from the company or 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 manager of an entity which maintains or has maintained the said relationship.

Yes

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 which 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 category:

	Number of female directors				% of total directors of each type			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	0	0	0	0	0.00%	0.00%	0.00%	0.00%

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

Explanation of the reasons
Although there are no women on the Board of Directors, it is also true that the Board wishes to balance out this situation. With that aim, appropriate internal assessments are being made, though the success that was expected has so far not been achieved.

- 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:

Explanation of reasons
As stated above, the company is making the relevant internal assessments on the incorporation of women to the Board of Directors.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons
As stated above, the company is making the relevant internal assessments on the incorporation of women to the Board of Directors

- C. 1.6 bis Explain the conclusions of the Appointment Committee regarding the verification of compliance about the Directors' selection policy. And in particular, on how this policy is promoting the aim that the number of female councillors would represent at least 30% of the total members of the Board of Directors in 2020.

Explanation of the conclusions
The Company has established a policy of selecting Board Directors based on an analysis of needs of the Company. Candidates for Board Directors will be persons of recognized prestige, solvency, competence, qualification, training, availability and commitment to the role. In addition, they must be full 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 favor diversity of gender, 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 for the proper performance of the role.

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

The significant shareholder, Perry Partners International INC, had a proprietary director, Mr. Chetan Gulati, until October 4, 2016, given the share exchange that subsequently occurred on October 17, 2016. Currently, the Company is carrying out the steps in order to re-establish the representation on the Board of significant shareholders.

- C.1.8 Explain, if 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 equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

C.1.9 Indicate whether any director has resigned from office 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:

Name of director	Reasons for resignation
Mr. CHETAN GULATI	He was a proprietary Director who has resigned as such by ceasing to have a share in the company

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

Name or corporate name of the shareholder	Brief description
Mr. Luis Alfonso López de Herrera-Oria	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 the shareholder	Corporate name of the Group company	Position	Executive Functions
Mr. Luis Alfonso López de Herrera-Oria	Axiare Investments S.LU	Physical person representative of the sole administrator	YES
Mr. Luis Alfonso López de Herrera-Oria	Axiare Properties S.LU	Physical person representative of the sole administrator	YES
Mr. Luis Alfonso López de Herrera-Oria	Axiare Investigación, Desarrollo e Innovación S.LU	Physical person representative of the sole administrator	YES

Mr. Luis Alfonso López de Herrera-Oria	Venusaur S.LU	Physical person representative of the sole administrator	YES
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C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

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

Yes

No

Explanation of rules
In accordance to Article 21, paragraph 2.a), of the Board Regulations, no director shall be entitled to be a member of more than five Boards of Directors simultaneously.

C.1.14 Revoke Section

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

Board remuneration (thousands of Euros)	1,225
Amount of total remuneration corresponding to accumulated pension rights (thousands of Euros)	0
Amount of total remuneration accumulated by the Former Director in pension rights (thousands of Euros)	0

C.1.16 List any members of senior management who are not executive directors and indicate 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, if appropriate, 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 appointing, reelecting, 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 will ensure the following principles:

1. It will be sought that the Board of Directors have a balanced composition, with a large majority of Non-Executive Directors and an adequate proportion between proprietary and independent Directors.
2. The Board of Directors shall ensure that the selection procedures of Directors will favour the diversity of gender, experience and knowledge and are free of implicit biases that may imply any discrimination. It will also ensure that candidates for non-executive directors have sufficient time available for the proper performance of their duties.
3. Additionally, in the process of selecting candidates for a Director, it will start from 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 meeting of shareholders to which the ratification, appointment or re-election of each Director is submitted
5. The Appointment and Remuneration Committee will annually verify the compliance of the policy of selecting Directors and will be informed 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 Board of Directors and of the different directors, paying special attention to the heads of the different commissions and committees of the council and will take the appropriate measures for their improvement.

C.1.20 Indicate whether the board has evaluated its performance during the year:

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

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

C. 1.2.0 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 carry out an annual self-assessment of its operation and of its Commissions and Committees, taking into account the diversity in the composition and powers of the Board of Directors, as well as the performance of the Chief Executive of the Company and of the various directors, paying special attention to those responsible for the various Commissions and

Committees of the Board and shall take appropriate measures to improve them.

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

The evaluation of the Commissions and Committees shall be based on the report raised to the Board of Directors and to this last one, from which the Appointment and Remuneration Committee is prepared.

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. ter **Detail the business relations that the consultant or any company of its group maintain with the company or any company of its group**

They do not 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 it had in the Company or reduces it to such a level that demands a reduction in the number of its shareholders.
- 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 obligations as such, with a prior proposal or report from the Appointment and Remuneration Committee, or when his 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 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 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 appointment as an independent director. Notwithstanding the above, it shall also be possible to propose the removal of independent directors resulting from take-over 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 post before the end of his term, whether by resignation or due to any other

cause, he shall explain his reasons in a letter sent to all members of the Board, notwithstanding the resignation being notified as a relevant fact and the reason for the resignation being noted in the Annual Report on Corporate Governance. 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 reservations and as a consequence of this has decided to resign, this circumstance shall be expressly stated in his resignation letter. This provision also applies to the secretary of the Board, even if he is not a director.

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

C.1.22 Revoke section

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

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 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.

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 Bylaws 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 Bylaws or the board regulations set any age limit for directors:

Yes

No

C.1.27 Indicate whether the Bylaws or the regulations of the Board of Directors set a limited term of office for independent directors different from the stated by the regulation:

Yes No

C.1.28 Indicate whether the Bylaws 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. If so, give brief details.

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 and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions:

Number of board meetings	11
Number of board meetings held without the Chairman's	0

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

Number meetings	0
------------------------	----------

Indicate the number of meetings of the various board committees held during the year:

Number of meetings of the audit committee	4
Number of meetings of the appointment and remuneration committee	4
Board of Directors	11

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:

Directors' attendance	11
% of attendances of the total votes cast during the year	100,00%

C.1.31 Indicate whether the consolidated and individual financial statements 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 financial statements 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 financial statements it prepares from being laid before the general shareholders' meeting with a qualified Audit Report.

Article 39 of the Board Regulations regulates relations with the outside auditors in the following terms:

1. Relations between the Board and the Company's outside auditors shall be channelled via the Audit and Control 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 Control 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 the Secretary	Representative
Mr. IVAN AZINOVIC GAMO	

C.1.34 Revoke section.

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 of the Board Regulations states the following duties of the Audit Committee in relation to the outside auditor:

- (i) To bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the outside auditor (having to deal with international firms of acknowledged standing), along with the terms of their contracting.
- (ii) To receive information from the outside 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 outside 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 relevant fact 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 outside auditor having resigned, to examine the circumstances that gave rise to this.

The Audit and Control 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 1998.

(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 about 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 service referred to in section b), point (iii), above.

C.1.36 Indicate whether the company has changed its external audit 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 nonaudit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes

No

	Company	Group	Total
Amount of non-audit work (in thousand euros)	0	164	164
Amount of non-audit work as a % of the total amount billed by the audit firm	52.00%	0.00%	52.00%

C.1.38 Indicate whether the audit report on the previous year's financial statements 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 financial statements have been audited:

	Company	Group
Number of consecutive years	3	2
No. of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	100.00%	100.00%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes No

Details of the procedure
<p>Articles 23 and 24 of the Board Regulations regulate the information for directors in the following terms:</p> <p>Article 23. Powers of information and inspection</p> <p>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 its books, records, documents and other background concerning corporate operations, being able to inspect all its facilities and communicate with the Company Managers.</p> <p>2. In order not to disturb the ordinary 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 intermediaries at a suitable level of the organisation.</p> <p>Article 24. Help from experts</p> <p>1. With the aim of being helped in the exercise of their duties, outside directors are entitled to obtain the necessary advice from the Company that they need in order to perform their tasks, as well as the advice and services of the Secretary and, when necessary and with the Company paying for this, advice from legal, accounting, financial or other experts, always provided it concerns specific matters of a certain importance and complexity that arise in the fulfilment of their post.</p> <p>2. The request to contract outside 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:</p> <p>a) It is necessary for the proper fulfilment of the duties entrusted to the directors;</p> <p>b) Its cost is reasonable, in view of the importance of the problem and of the assets and income of the Company;</p> <p>c) The technical assistance that is received cannot be adequately provided by the Company's own experts and technical staff; and</p> <p>d) It does not endanger the confidentiality of the information that has to be provided to the expert.</p> <p>3. In the event that the request for the help of experts is made by any of the Committees of the Board, 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.</p>

C.1.41 Indicate whether there are procedures 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 appropriate, give details of whether the company has established rules 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 rules
Article 21 of the Board Regulations governs the duty of notification on the part of Directors: 1. Directors must notify the Company of any stakeholdings 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: 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. 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 president, 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 Capital Corporations Act. 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. Of any direct or indirect stakeholdings 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 stakeholdings. 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 November 11th, 2005, developing the Securities Market Act (Law 24 dated July 28th, 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 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.

Not applicable.

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.

Number of beneficiaries	1
Type of beneficiary	Managing Director
Description of the resolution	<p>The services agreement entered into by the company and its Managing Director, Mr. Luis Alfonso López de Herrera-Oria, on 5 June 2014, establishes that if the agreement is terminated without fair cause (i.e., inappropriate termination as defined by the Statute of Workers), the Managing Director 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 Managing Director a four-year seniority for these purposes.</p> <p>In addition, if the company decides to terminate the services agreement and Mr. D. Luis Alfonso López de Herrera-Oria is denied the unemployment benefit by the relevant public authority, the company will compensate the Managing Director with the amount equivalent to the unemployment benefit he would be entitled to if he was unemployed according to the applicable laws for two years.</p>

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

	Board of directors	General shareholders' meeting
Body authorising clauses	Yes	No

	YES	NO
Is the General Meeting informed of such clauses?	X	

C.2 Board Committees

C.1.46 Give details of all the board committees, their members and the proportion of proprietary and independent directors:

AUDIT COMMITTEE

Name	Position	Type
Mr. David Jiménez-Blanco Carrillo de Albornoz	Chairman	Independent
Mr. Luis María Arredondo Malo	Member	Independent

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

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize 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 periodically 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 considering his knowledge and experience in accounting, auditing or both, and report of the number of years held by the Chairman of this Committee.

Name of the Board Director with experience	Mr. DAVID JIMÉNEZ-BLANCO CARRILLO DE ALBORNOZ
Number of years of the Chairman in the position	3

APPOINTMENT AND REMUNERATION COMMITTEE

Name	Position	Type
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Mr. Fernando Bautista Sagüés	Chairman	Independent
Mr. David Jiménez-Blanco Carrillo de Albornoz	Member	Independent

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

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize the most important actions during the year.

This Committee focuses its functions on supporting the Board of Directors in relation to proposals for the appointment, re-election, ratification, and dismissal of directors, the establishment and control of the remuneration policy of directors and executives of the company, the control in the performance of the duties of the directors, particularly in relation to situations of conflict of interest and related operations and supervision of compliance with internal codes of conduct and corporate governance rules.

BOARD OF DIRECTORS

Name	Position	Type
Mr. LUIS MARIA ARREDONDO MALO	Chairman	Independent
Mr. LUIS ALFONSO LÓPEZ DE HERRERA-ORIA	Member	Independent
Mr. FERNANDO BAUTISTA SAGÜES	Member	Independent
Mr. DAVID JIMÉNEZ-BLANCO CARRILLO DE ALBORNOZ	Member	Independent

% of executive directors	25.00%
% of proprietary directors	0.00%
% independent directors	75.00%
% of other external directors	0,00%

Explain the functions attributed to this commission, describe the procedures and rules of organization and operation of the same and summarize the most important actions during the year.

The Board of Directors is competent for the adoption of resolutions on all kinds of matters not attributed by law to the bylaws or the General Meeting, with the highest powers and powers to manage, and represent the company in and out of court. Without detriment of which it will focus its activity essentially in the approval of the strategy of the Company and the precise organization for its implementation

C.2.1 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors			
	Year 2016	Year 2015	Year 2014	Year 2013
Executive Committee	0	0	0	0
Audit committee	0	0	0	0
Appointment and	0	0	0	0

remuneration committee				
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C.2.2 Revoke section.

C.2.3 Revoke section.

C.2.4 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The rules for the organization and operation of the Board's committees are set out in articles 33, 34 and 35 of the Board Regulations, explained in section B.2.3 above. The Board Regulations are available consultation on the Company's web page.

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

C.2.5 Revoke section.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions:

Procedure for the approval of related-party transactions
<p>Article 22 of the Board Regulations establishes the following procedure in its sections 3, 4 and 5 for the approval of related transactions:</p> <ol style="list-style-type: none"> 1. Subject to the authorization of the board, following a favourable report from the Audit and Control 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. 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, or commission. 2. The Audit and Oversight Committee and the Board of Directors, prior to authorizing 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 transaction affect a director, he or she will not be furnished 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 Oversight 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 Oversight Committee. 4. The prior authorization of the Board foreseen in sub-section 1 of this article shall not be required when the following three conditions are simultaneously met: <ol style="list-style-type: none"> a) When the transactions in question are carried out pursuant to standard contracts with pre-established conditions that are applied <i>en masse</i> 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; and 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 authorization 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 (in 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 a private individual, the following:

- (i) The spouse or other person with an analogous emotional relationship.
- (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, hold 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 bodies corporate, the following:

- (i) Partners or shareholders holding or able to hold control, either directly or indirectly, in accordance with the scenarios contemplated in article 42 of the Business Code with respect to the body corporate subject to these Regulations.
- (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) Any private individual designated as the Company's representative, its Directors, whether de iure or de facto,

Receivers and proxies with general powers of attorney for the body corporate subject to these Regulations.

- (v) Any persons who, with respect to the representative of the body corporate subject to these Regulations, would be considered Related Parties in accordance with the provisions established in the preceding subsection for Directors who are not bodies corporate.

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

a) Notification: Directors must inform the Board, through its President 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 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 to resolve potential conflicts of interest between the listed subsidiary company and the other companies in the Group

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 considers both the actual characteristics

of the company and those of the environment in which it undertakes its activities, at the economic level and also geographical and regulatory.

The risk management strategy and policy is the responsibility of the Board of Directors, which relies on the Top Management for its definition and implementation. Nevertheless, all members of the organisation take part in the risk management system and are responsible for ensuring its success.

E.2 Identify the bodies responsible for preparing and implementing the risk management system.

The governing bodies with responsibility for risk management and control 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. It will also make sure that the laws and regulations are respected with regard to relations in everything having a direct or indirect interest in the company, that obligations and contracts are fulfilled in good faith, that the uses and good practices of the sectors and territories where it carries out its activity are respected, and that those additional principles of social responsibility that have been voluntarily accepted by the company are observed. Article 43 of the Company Articles of Association states that the Board of Directors must create and maintain within itself an Audit and Control Committee on a permanent and internal basis.

Audit and Control Committee

Article 44 of the Company Articles of Association attributes to the Audit and Control 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 task risk, which may prevent the company from achieving its targets.

In carrying out our activity, regarding both real estate and equity, we can find ourselves faced with different kinds of risks. Shown below is a non-exclusive outline of the main risks, all of them covered by the risk control systems:

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 rates expose the company to the interest rate risk of cash-flows, which is partially compensated by the cash maintained at variable rates. Additionally, the increase of the interest risk is also compensated through the hedging derivatives signed by the company.

b) Credit risk

The company does not have any significant concentrations of credit risk, this being understood as the impact which any defaulting in accounts receivables could have on the profit and loss account. The company has policies that ensure that sales and leases are made to clients with a suitable credit history.

c) Liquidity risk

The company's financial management is responsible for managing the liquidity risk in order to meet payments that are already committed and/or commitments deriving from new investments. For this, it draws up annual projections of expected cash-flows.

2. Market risks

The Company minimizes this type of risk through its own strategy and business model. Axiare Patrimonio invests in prime real estate assets in offices, logistics and other segments, with strong potential for revaluation, in most of Spain's consolidated areas. 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 operations, examining and foreseeing the problems that might arise in the future, and considering the possible solutions to them. In disposals, the main risk is the failure to collect the prices agreed in the contracts, because of breach on the part of the buyers. 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. A change in this legal and fiscal environment can affect the general planning of the company's activities. Via the corresponding internal departments and with the help of its legal advisors, the company supervises, analyses and, as the case might be, takes the required measures in this regard.

As risks associated with complying with the specific legislation, there 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 taken out in order to lessen this type of risk.

b) Responsibilities of the company deriving from its classification as SOCIMI. In all its actions the company has to comply with Law 11/2009, regulating the SOCIMI. As a result of this, the company is constantly monitoring and checking to make sure that its activities accord with the legislation in force on this matter.

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

These risks are controlled by means of the prevention and control of the operations carried out by the company in accordance with the applicable legislation.

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 on the subject of consumers and users. In fact, it has specific standard contracts for those autonomous regions having specific legislation in this field. The company also has an Internal Code of Conduct focused on matters relating to the 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 task risk.

The risk tolerance in Axiare Patrimonio will be defined as the level of risk that the organization is willing to accept in order to achieve the established strategic goals. 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 periodically).

Risk tolerance is defined as the level of variation that the organization accepts in achieving an objective. It is, therefore, the acceptable threshold for each risk and objective. Risk tolerance is defined by the

appetite and must be updated periodically by those in charge of reporting to each department and appropriately communicated to the compliance supervisor and internal audit.

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

Throughout the financial year none of the risks described above have been materialised.

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 control processes, approving policies, procedures, limits and structure. In its periodical 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 Control 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 in the Management Committee in its periodical meetings. The Management Committee proposes to the Board of Directors the specific plans for response to any critical risk. The Board of Directors takes the proposal into consideration, accepting it or modifying it as the case might be.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (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 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 supervision 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 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 Chair, 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 an internal code of conduct, having obligatory compliance, approved by the Board of Directors, whose aim is to demarcate the criteria of action for directors, managers, outside advisors and employees of the company, independently of the category of contract that determines their working relation, the position they occupy or the geographical scope within which they carry out their work. This code of conduct is a complement to the internal code of the security market, the social regulation, statutory and the rest of legislation that applies to the activities of Axiare Patrimonio and it is also mandatory to all of the companies with which the commercial relation is significant. The non-compliance of this code of conduct will be considered an infringement and could be adopted disciplinary measures regulated by the 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 incidents at the financial and accounting level having potential importance.

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

Within the Financial Department and the Internal Auditing Department, it has been provided some seminars about the evaluation of the internal control of the company. Additionally, it has been organised the attendance of some seminars about the current state of the economy and accountancy and financial regulation.

F.2 Risk assessment in financial reporting.

Report, at least:

F.2.1 The main characteristics of the risk identification process, 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 with what frequency.

The company's risk identification process covers all the objectives of financial information and is updated annually at least. 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 to be revealed, (i), circumstances not previously identified highlighting possible errors in the financial information or (ii), substantial changes in the operations of the company, then the Economic Financial Management 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 organizational structure of Axiare Patrimonio is simple and is composed by Axiare

Patrimonio Socimi S.A and its subsidiaries:

Axiare Investments S.L.U
Axiare Properties S.L.U
Axiare Investigación, Desarrollo e Innovación, S.L.U
Venusaur, 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 that 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 in the course of its activities.

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

The function of the Internal Audit area, which comes under the supervision of the Audit and Control Committee, is to take responsibility for coordinating and supervising the periodical updating of the risks map, which it does along with the heads of each of the Functional Areas, who in the end are the ones who identify the risks which the company is subject to.

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 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, accounts for intermediate periods and the Annual Report on Corporate Governance) 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 Control 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 Control 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, control of 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 basically 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 a manual of accounting policies regularly updated and communicated 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 in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning 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 homogeneity in its presentation.

F.5 Monitoring

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

F.5.1 The ICFR monitoring activities undertaken by the audit committee and 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 Control Committee is responsible for, among other duties, the periodical review of the process of drawing up the economic-financial information, for its internal controls and for the independence of the outside auditor. The company has an internal auditing function which reports to the Audit and Control Committee and to the company Chair, presenting them with the Annual Audit Plan and informing them of the work done and any control weaknesses that have been detected. Regarding the scope of evaluation of the ICFR, during the course of 2015 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 Control Committee via the Internal Audit function.

F.5.2 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 financial statements or other assignments, 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 Control 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 periodical review of the process of drawing up economic-financial information, of the function of the internal audit and of the independence of the outside 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 necessary information so that, in compliance with the functions of the Audit and Control Committee, it can check the independence of the Internal Auditor.

2) Discussion with the External Auditors (of special relevance when they have carried out any action: 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 Outside Auditor of those questions that could affect its work.
- Discuss with the Outside Auditor the expected content of its reports.
- Obtain the necessary information so that, in compliance with the functions of the Audit and Control Committee, it can check the independence of the Outside Auditor.

In addition, the Audit and Control 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 The ICFR information supplied to the market 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 outside 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 corporate governance recommendations.

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

1. The Bylaws 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 a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
 - 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 annual general 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 taking place since the previous annual general meeting.
 - b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant Partially compliant Explain Not applicable

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

Compliant Partially compliant Explain

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.
When a Board approves the 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 General Meeting held on May 12, 2016 agreed to authorize the Board of Directors to increase the share capital as set in article 297.1.b) of the Capital Companies Act, 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 authorizations. The authorization was also approved for the derivative acquisition of own shares, revoking previous authorizations.

6. 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) Reviews of the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Corporate social responsibility policy.

Compliant Partially compliant Explain

7. The company should broadcast its general meetings live on the corporate 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 content.

Compliant Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general 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 meeting, the company should:

- a) Immediately circulate the supplementary items and new 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 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 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 concrete 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 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 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 Bylaws, 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 discharge 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 Partially compliant Explain

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 Bylaws, 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 Bylaws 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 nonexecutive 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 of relevance 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 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. Companies should establish a risk control 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 control 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 control 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 separately constituted appointments and remuneration committees.

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.

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 sharebased 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 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 independents.
- 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 should be able to engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes should be drawn up of 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 compliance in their respect.
- 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, the award 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 defray costs related to their acquisition.

Compliant Partially compliant Explain

58. In the case of variable awards, 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

In relation to the objectives that can arise from the variable remuneration, these may refer to the investment or revenues, the efficient management and other issues relevant to the good running of the Company's business, but there may be a will of discretion.

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 major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant Partially compliant Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

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

Compliant Partially compliant Explain Not applicable

According to the incentive plan 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 agreement contract signed between the Company and the CEO.

64. 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. You may include in this section 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 applicable identify the Code and date of adoption.

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

Mr. Luis Alfonso López de Herrera-Oria / Executive President
Mr. Guillermo Fernández-Cuesta Laborde / Vocal
Mr. Fernando Arenas Liñán / Member
D Stuart William McDonald / Vocal
Mr. Iván Azinovic Gamo / Secretary

This annual corporate governance report was adopted by the company's board of directors at its meeting held on 23/02/2017.

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

YES NO



AXIARE PATRIMONIO SOCIMI, S.A.

**PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND DIRECTORS'
REPORT FOR THE YEAR 2016**

The Board of Directors of the Company Axiare Patrimonio Socimi, S.A. with date February 23, 2017, and in compliance with the requirements of Article 253 of the Capital Companies Act and Article 37 of the Commercial Code, proceeds to prepare the consolidated financial statements and the management report for the period between 1 January 2016 and 31 December 2016, which are formed by the attached documents preceding this writing.

D. Luis María Arredondo Malo
Chair

D. Luis Alfonso López de Herrera-Oria
Director

D. Fernando Bautista Sagüés
Director

D. David Jiménez-Blanco Carrillo de Albornoz
Director

As determined in Article 8.1 (b) of Royal Decree 1362/2007, dated on the 19th October, the members of the Board of Directors of Axiare Patrimonio Socimi, S.A.

Declare:

As far as they are concerned the financial statements of Axiare Patrimonio Socimi, S.A. (Balance sheet, profit and loss account, statement of changes in net equity, statement of cash flows and memorandum) of the year ended on 31st December, 2016, formulated by the Board of Directors at its meeting held on 23rd February, 2017 and prepared in accordance with applicable accounting principles, provide an exact and fair view of the equity, financial situation and results of Axiare Patrimonio Socimi, SA,

Additionally, they state that the supplementary management report of the annual accounts includes a fair analysis of the Company's performance and results and the position of Axiare Patrimonio Socimi, SA, as well as a description of the main risks and uncertainties to be dealt with.

Madrid, 23rd February, 2017

D. Luis María Arredondo Malo
Chairman of the Board of Directors

D. Luis Alfonso López de Herrera-Oria
Vice-Chairman of the Board of Directors

D. Fernando Bautista Sagüés
Member

D. David Jiménez-Blanco Carrillo de Albornoz,
Member