

## **ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES**

### **ISSUER'S PARTICULARS**

**FINANCIAL YEAR-END** 31.12.2016

**COMPANY TAX ID N° (C.I.F.)** A-83.246.314

**Corporate name:**

Bolsas y Mercados Españoles, Sociedad Holding de Mercados  
y Sistemas Financieros, S.A.

**Registered office:**

Plaza de la Lealtad, 1, Madrid.

## A. OWNERSHIP STRUCTURE

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

Last modified	Share capital (€)	Number of shares	Number of voting rights
02/07/2013	250,846,674.00	83,615,558	83,615,558

### 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:

The information disclosed in this section is based on the Shareholder Register, which contains transactions carried out in 2016.

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Corporación Financiera Alba, S.A.	10,084,949	0	12.06%

At 31 December 2016 "Chase Nominees" and "State Street Bank and Trust Co" appeared in the Shareholder Register with stakes in the share capital of BME exceeding 3%. However, the Company understands that these shares are held in custody on behalf of third parties.

### Indicate the most significant movements in the shareholder structure during the year:

(-)

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

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
D. ANTONIO J. ZOIDO MARTÍNEZ	24,928	0	0.03%
D. IGNACIO GARRALDA RUIZ DE VELASCO	1,000	0	0.00%
D <sup>a</sup> . MARGARITA PRAT RODRIGO	100	0	0.00%
D. MANUEL OLIVENCIA RUIZ	2,000	0	0.00%
D. CARLOS FERNÁNDEZ GONZALEZ	600	0	0.00%
D. JOAN HORTALÁ I ARAU	3,950	0	0.00%
D. JUAN MARCH JUAN	500	0	0.00%
D. SANTOS MARTINEZ-CONDE GUTIERREZ-BAQUÍN	7,500	0	0.01%
<b>% of total voting rights held by the Board of Directors</b>			<b>0.04% (*)</b>

(\*) This figure does not include the equity held by two (2) shareholders represented on the Board of Directors, of which three (3) Members qualify as proprietary Directors. At 31 December 2016, the stake held by these shareholders was 14.38% of the share capital.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2016 stood at 14.42%.

**Complete the following tables on share options held in the company by company directors:**

The executive Directors are beneficiaries of a Share-based Variable Remuneration Plan to be implemented by the Company and its subsidiaries for members of the management team which, in accordance with article 219.1 of the Companies Act, was approved by the General Shareholders' Meeting on 30 April 2014 and notified to the Spanish Securities Market Commission (CNMV) the same day.

The Share-based Variable Remuneration Plan, which covered the years 2014, 2015 and 2016, consisted of the promise to deliver in 2017, 2018 and 2019 ordinary shares of BME to the members of the Company's management team, including executive Directors, provided that the conditions stipulated were met.

The specific number of shares to be granted in 2017, 2018 and 2019 shall depend on the performance of the Efficiency Ratio and **Total Shareholder Return** at BME, compared with those of another 5 benchmarked companies, and shall be calculated by dividing in two the number of theoretical units assigned in each financial year, 2014, 2015 and 2016, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to BME's final ranking among the benchmarked companies.

The maximum number of BME shares included in the plan is 555,048, representing 0.66% of BME's share capital, of which a maximum of 79,992 shares shall be awarded to Mr. Antonio Zoido Martínez and 6,894 shares to Mr. Joan Hortalá i Arau, as executive Directors.

In execution of the plan, at meetings on 26 June 2014, 24 February 2015 and 25 May 2016 the Appointments and Remuneration Committee granted Mr. Zoido Martínez and Mr. Hortalá i Arau the notional units generated in the three periods during which the plan was in effect.

**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 which affect it pursuant to articles 530 and 531 of the Companies Act. Provide a brief description and list the shareholders bound by the agreement, as applicable:**

Yes  No

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders: If so, give a brief description:**

Yes  No

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

**A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify:**

Yes  No

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

**At year-end:**

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
524,833	0	0.63%

(\*) Through:

**Explain any significant changes during the year, pursuant to Royal Decree 1362/2007:**

**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting for the Board to issue, purchase or transfer treasury stock.**

Authorisation for the issue of shares.

Pursuant to item seven on the agenda, the Ordinary General Shareholders' Meeting on 28 April 2016 agreed to grant authorisation to the Board to increase share capital, within a maximum period of five (5) years, up to 50% of the Company's share capital at the time of such authorisation, on one or more occasions, in the amount determined by it, and to set the terms and conditions of the capital increase, and also granted authorisation to the Board to exclude preferential subscription rights, limited to share capital increases not exceeding, either individually or together, 20% of the Company's share capital at the time of such authorisation.

Pursuant to item eight on the agenda, the same Ordinary General Shareholders' Meeting empowered the Board of Directors to issue, among other instruments, securities convertible to and/or exchangeable for BME shares, and warrants (options to subscribe to new shares or to purchase outstanding shares of the Company), and other similar securities granting the direct or indirect right to subscribe to or to purchase new or outstanding Company shares, on one more occasions, within a maximum period of five (5) years from the date of adoption of said agreement, in a total maximum amount of €1,500 million, with authorisation extended to the following aspects and powers: to set the conditions for each issue; increase share capital by the amount necessary to cater for conversion or subscription requests; exclude preferential subscription rights; and determine the conversion and/or swap ratio, and the time of occurrence.

This agreement clearly stipulates that authorisation to increase share capital may only be exercised if the sum of the capital required to execute the issue of convertible debentures or bonds, the exercise of warrants and any other share capital increases agreed pursuant to the authorisations granted by the General Meeting do not exceed 50% of the Company's share capital at the time of authorisation, and 20% of this total share capital if the issue of convertible debentures or bonds or warrants on newly issued shares waives preferential subscription rights.

Authorisation to acquire treasury shares.

Pursuant to item eight on the agenda, the Ordinary General Shareholders' Meeting on 30 April 2015 agreed to grant authorisation to the Company's Board to, either directly or through any of its subsidiaries, over a maximum period of five (5) years from the date of approval, at any time and on as many occasions as it deems appropriate, proceed to purchase shares in compliance with the conditions established in the legislation applicable, and particularly the following: (i) that at no time may the nominal value of the treasury shares purchased, directly or indirectly, when added to any already held by BME and its subsidiaries, exceed 10% of BME's subscribed share capital; (ii) that purchase may not render equity less than the amount of share capital plus the reserves legally restricted or restricted by the Articles of Association; (iii) that the shares acquired must be fully paid up and free of any liens or encumbrances, and not subject to the fulfilment of any kind of obligation; and (iv) that the acquisition price per share must not be less than the par value or more than 20% of the share price listing on the Spanish Electronic Trading Platform (SIBE) at the time of the acquisition.

**A.9 bis Estimated floating capital:****Estimated floating capital**

84.95%

%

**A.10 Indicate any restriction on the transfer of securities and/or the exercise of voting rights. In particular, refer to the existence of any restrictions on the takeover of the company by means of share purchases on the market.** Yes No

There are no restrictions under the law or under the Articles of Association on the acquisition or transfer of holdings in BME's share capital.

Despite the absence of legal restrictions on the acquisition of a shareholding in BME, the revised text of Spain's Securities Market Act, approved by Royal Legislative Decree 4/2015 of 23 October, grants the CNMV the power to object to the acquisition of significant stakes in the terms established in Royal Decree 361/2007 of 16 March implementing Securities Market Act 24/1988 of 28 July concerning stakes in the capital of companies which manage secondary markets or securities registration, clearing and settlement systems.

In accordance with the aforementioned Royal Decree the CNMV must be previously informed of any acquisition of BME shares which could reach directly or indirectly any of the following percentages of its capital or voting rights: 1%, 5%, 10%, 15%, 20%, 25%, 33%, 40% or 50%, or a lesser percentage that nonetheless permits the exercise of significant influence over the Company. "Significant influence" shall in any case be understood as the ability to appoint or remove at least one member of the Board.

The CNMV shall have a time limit of sixty working days from the date of its acknowledgement of receipt of the notification to object to the intended acquisition, notwithstanding interruptions in the computation of the time limit allowed under article 176 of the Securities Market Act. If, during this time, the CNMV issues no statement, no objection will be deemed to exist.

This period is reduced for acquisitions of a significant stake equal to or higher than 1% but lower than 5%, or equal to or greater than 5% but less than 10%, of the Company's capital, in which case it will be understood that the CNMV does not object if it has not issued a statement within the ten (10) working days or thirty (30) working days, respectively, following the date on which the information is relayed or from the time at which any additional information is furnished.

Furthermore, the Ministry of Finance, Industry and Competitiveness may, at the behest of the CNMV, oppose the acquisition of a significant stake in BME's capital if it deems this to be necessary to ensure smooth operation of the markets and to avoid distortions, or if Spanish companies are not provided with equivalent treatment in the acquirer's country of origin, or that of the entity which directly or indirectly controls the acquirer.

In addition, even though there are no legal restrictions on voting rights, article 178 of the Securities Market Act restricts the exercise of this right in the event of the irregular acquisition of significant holdings, i.e. shares acquired without the express authorisation of the CNMV, in the terms described in the following section.

**A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid under Act 6/2007.**

Yes  No

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

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

Yes  No

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

## B. GENERAL SHAREHOLDERS' MEETING

### B.1 Indicate and, where applicable, detail the quorum required to convene the General Shareholders' Meeting with respect to the system of minimum quorums established in Spain's Companies Act.

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 Companies Act:

Yes  No

Describe how they differ from the rules established in the Companies Act.

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

The Company's Articles of Association and the Regulations of the Shareholders' Meeting set no special rules for amendments to the Articles of Association.

The procedure for amending the Company's Articles of Association is governed by sections 285 et seq of the Companies Act, according to which changes in the Company's Articles of Association must be agreed by the Shareholders' Meeting and the following requirements must be met:

- a) The Directors or, as appropriate, the shareholders submitting the proposal, shall draft the wording of the proposed amendment in full and shall also draft a written report justifying the proposal.
- b) The notice convening the Shareholders' Meeting must clearly set out the points to be amended and make reference to shareholders' right to inspect, at the registered office, the full text of the proposed amendments and of their supporting rationale, and to demand gratuitous delivery of such documents, which must also be made available to shareholders on the corporate website in accordance with article 518 of the Companies Act.
- c) The resolution must be approved at the Shareholders' Meeting in accordance with the rules on quorum and majorities laid down in sections 194 and 201 of the Companies Act.

Article 197 bis of the Companies Act includes the requirement for separate votes on items or groups of items that are substantially independent and, under all circumstances, amendments to the Articles of Association.

As well as being subject to the normal rules governing Spanish public limited companies, as a holding vehicle for companies that manage central counterparties, central securities depositories and secondary markets in Spain, BME is also subject to Additional Provision Six of the Securities Market Act, which states that amendments to its Articles of Association must be authorised by the CNMV.

**B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year to which this report refers and those of the preceding year:**

ATTENDANCE DATA

Date of General Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic vote	Other	
30/04/2015	2.39%	39.49%	0.02%	3.12%	45.02%
28/04/2016	14.16%	27.90%	0.06%	1.41%	43.53%

For the purposes of the provisions of article 148 of the Companies Act, in the quorum necessary for the General Shareholders' Meeting held on 30 April 2015, the 263,706 treasury shares held by the Company at the corresponding date were calculated, equivalent to 0.32% of the share capital, and in the quorum necessary for the General Shareholders' Meeting held on 28 April 2016, the 195,916 treasury shares held by the Company were calculated, equivalent to 0.23% of the share capital.

**B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.**

Yes  No

**B.6 Section revoked.**

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

In the "Information for shareholders and investors" section of the address of the corporate website: [www.bolsasymercados.es](http://www.bolsasymercados.es).



General Shareholders Meeting 2016



## C. STRUCTURE OF COMPANY ADMINISTRATION

### C.1 Board of Directors

#### C.1.1 List the maximum and minimum number of directors included in the Articles of Association:

Maximum number of directors	15
Minimum number of directors	9



BME Board of Directors.

#### C.1.2 Complete the following table with Board members' details:

Name or corporate name of director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR. ANTONIO J. ZOIDO MARTÍNEZ	-	EXECUTIVE	CHAIRMAN	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. IGNACIO GARRALDA RUIZ DE VELASCO	-	INDEPENDENT	FIRST DEPUTY CHAIRMAN	27/02/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MRS. MARGARITA PRAT RODRIGO	-	INDEPENDENT	SECOND DEPUTY CHAIRMAN	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. MANUEL OLIVENCIA RUIZ	-	INDEPENDENT	LEAD INDEPENDENT DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA	-	INDEPENDENT	DIRECTOR	28/04/2016	28/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. ÁLVARO CUERVO GARCÍA	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. CARLOS FERNÁNDEZ GONZÁLEZ	-	OTHER EXTERNAL	DIRECTOR	25/03/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. JOAN HORTALÁ I ARAU	-	EXECUTIVE	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. KAREL LANNOO	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. JUAN MARCH JUAN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. RAMIRO MATO GARCÍA-ANSORENA	-	PROPRIETARY	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION

Total number of directors	12
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### Indicate any Board members who left during the reporting period:

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

##### Executive directors

Name or corporate name of director	Position held in the company
MR. ANTONIO J. ZOIDO MARTINEZ	Chairman
MR. JOAN HORTALÁ I ARAU	Director
<b>Total number of executive directors</b>	2
<b>% of the Board</b>	16.67%

##### External proprietary directors

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
MR. RAMIRO MATO GARCÍA-ANSORENA	BNP PARIBAS, SOCIÉTÉ ANONYME
MR. JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.
MR. SANTOS MARTINEZ-CONDE GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.
<b>Total number of proprietary directors</b>	3
<b>% of the Board</b>	25.00%

##### External independent directors

###### Name or corporate name of director

MR. IGNACIO GARRALDA RUIZ DE VELASCO

###### PROFILE

Law Degree from Madrid's Universidad Complutense.

He was Trade Collegiate Broker (1976 - 1982), stock-broker agent of "Ilustre Colegio de Agentes de Cambio y Bolsa de Madrid" (1982-1989) and Notary on unpaid leave since 1989.

He was Founding Member of "AB Asesores Bursátiles, S.A." where he served as Deputy Chairman to 2001. He was Deputy Chairman of "AB Morgan Stanley Dean Witter, S.V., S.A." (1989 to 2001) and Chairman of "Bancoval, S.A." (1994 - 1996). Between 1991 and 2009 he was a Director of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. He has been Chairman of "Mutua Madrileña" since 2008, where he has been a Director since 2002 and was Second Deputy Chairman from 2005 to 2008.

He has also occupied the position of external independent Director at ENDESA since 2015 and since 2013 he has been Director of "Faes Farma, S.A." and "Consortio de Compensación de Seguros", Vice-President of "Fundación Lealtad" and member of the Board of Trustees of "Museo y Fundación Reina Sofía", "Fundación Teatro Real", "Real Instituto Elcano" and "Fundación Príncipe de Asturias".

###### Name or corporate name of director

MRS. MARGARITA PRAT RODRIGO

###### PROFILE

Graduate in Law from Madrid's Universidad Complutense in 1971 and in Economics and Business from Madrid's Universidad Pontificia Comillas in 1982, receiving an extraordinary prize, and holder of a PhD in Economics and Business (1989). She has also published several works and articles since 1989.

She was Director of the Financial Management Department in the Economics and Business faculty of Madrid's Universidad Pontificia Comillas from 1984 to 2000, Vice Dean at the same university from 1990 to 1993 and Dean from 1993 to 2002. From 2004 to 2012, she was Head of Internal Audit at Universidad Pontificia Comillas de Madrid.

She was also previously visiting lecturer at Universidad de Deusto in San Sebastian, Instituto Tecnológico de Monterrey in Mexico and Universidad Católica Argentina in Buenos Aires.

Until September 2014, she chaired the Audit Committee at the Institute of Internal Auditors in Spain, of which she is a member. She is also member of the Management Board of the Spanish Institute of Financial Analysts.

**Name or corporate name of director**

MR. MANUEL OLIVENCIA RUIZ

**PROFILE**

A Law graduate of Seville University, where he was awarded the Extraordinary Graduation Prize (1951), he took his doctorate in law at Bologna University (1953). He is the author of numerous academic works. He has been decorated with four Great Crosses (Isabel la Católica, Alfonso X el Sabio, San Raimundo de Peñafort and Military Merit crosses).

He has also been Dean of the Law Faculty (1968-1971) and Economics and Business Faculty (1971-1975) at Seville University, Under-secretary for Education (1975-1976), Director of Banco de España (1982-1991) and Chairman of the Special Committee for Drafting the Good Governance Code (1997).

Since 1960, professor of Commercial and Company Law at Seville University, where he is currently professor emeritus, a permanent member of the General Codification Committee and of the Royal Academy of Jurisprudence and Legislation and the Royal Seville Academies of Letters and Legislation and Jurisprudence. He is also an Extraordinary Ambassador for Spain, a Delegate on the United Nations International Law Commission and a specialised arbitration lawyer.

**Name or corporate name of director**

MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA

**PROFILE**

She is an economist, who studied at the Faculty of Economics and Administration of the University of São Paulo (FEA-USP).

She is a member of the Board of Directors and Chairman of the Corporate Governance Committee of COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO, S.A.; member of the Audit Committee at ITAU UNIBANCO HOLDING, S.A.; member of the Board and Coordinator of the Audit Committee at TOTVS, S.A.; member of the Management Board at the IFRS FOUNDATION, a body forming part of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB); and a member of the Consultative Committee of the MERCADO DE GOVERNANÇA DE ESTATAIS de BM&FBOVESPA and of the Mergers and Acquisitions Committee ("CAF").

She was also a member of the Board of Directors of CPFL ENERGÍA, S.A. from 2013 to April 2015; Executive Chairman of the Brazilian Securities And Exchange Commission (COMISIÓN DE VALORES MOBILIARIOS (CVM)) between 2007 and 2012; Director of this Commission between 2006 and 2007; and representative of this Commission on the FINANCIAL STABILITY BOARD (FSB) between 2009 and 2012.

She was previously Chairman of the Executive Committee of the International Organization of Securities Commissions (IOSCO) between 2011 and 2012, while also a member of the INTERNATIONAL INTEGRATED REPORTING COMMITTEE (IIRC); and Vice Chairman of the Brazilian Institute of Corporate Governance or INSTITUTO BRASILEIRO DE GOVERNANÇA between 2004 and 2006, and member of its Board of Directors since 2001.

She worked in Special Projects at the SÃO PAULO STOCK EXCHANGE (BOVESPA, now BM&FBOVESPA) between 1994 and 2006, and was Executive Superintendent of Corporate Relations between 2000 and 2006. In this post, she was responsible for the supervision of listed companies and development of the "Novo Mercado" or New Market segment, which requires high standards of corporate governance.

**Name or corporate name of director**

MR. ÁLVARO CUERVO GARCÍA

**PROFILE**

Professor of Economics at Madrid's Universidad Complutense, Director of Colegio Universitario de Estudios Financieros (CUNEF), winner of the Rey Jaime I Economics Prize (1992), the Castilla-León "Infanta Cristina" Economics Prize (1999) and recipient of honorary doctorates from the universities of Oviedo, León, Castilla-La Mancha, Las Palmas de Gran Canaria, Salamanca and Rey Juan Carlos.

He is a member of the Board of Directors of ACS (Actividades de Servicios y Concesiones, S.L.), of BA Vidro, S.A., a member of the Global Advisory Board of SONAE SGPS, S.A. (Portugal) and a member of the Spanish Government's Consultative Committee on Privatisations.

**Name or corporate name of director**

MR. KAREL LANNOO

**PROFILE**

Karel Lannoo is the chief executive of the Centre for European Policy Studies, CEPS, based in Brussels. CEPS is one of Europe's major independent think tanks, leading the way in its research on economic and financial policies.

Mr. Lannoo is an expert on the regulation of financial markets, banking supervision and economic policy. He has written various books on these issues (most recently 'The Great Financial Plumbing: From Northern Rock to Banking Union' 2015), in addition to reports and a large number of press articles. He has also been involved in surveys and has addressed a number of national and international institutions.

He holds a degree in Philosophy and an MA in History from the University of Leuven (Belgium) and a postgraduate degree in European Studies from the University of Nancy (France).

Mr Lannoo also heads up the ECMI and ECRI, research institutes specialising in Europe's capital and credit markets. He is also a director of Lannoo Publishing Group. He is a member of the Steering Committee of the European Money Markets Institute (EMMI), which oversees the Euribor.

Total number of independent directors	6
% of the Board	50.00%

List any independent directors who receive from the company or group any amount or payment other than standard directors' remuneration or who maintain or have maintained during the last year 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 that maintains or has maintained such relationship.

If applicable, include a reasoned statement from the Board detailing the reasons why this director can carry out their duties as an independent director.

### Other external Directors

Identify the other external directors and list the reasons why they cannot be considered proprietary or independent directors, and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Company, executive or shareholder with whom the relationship is maintained	Reasons
MR. CARLOS FERNÁNDEZ GONZÁLEZ	MEDIACIÓN BURSÁTIL, S.V., S.A. AND SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	<p>He is Chairman of Mediación Bursátil, S.V., S.A., which holds a stake of less than 1% of BME's share capital.</p> <p>He is also a member of the Board of Directors of "Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U.", a BME Group company, for which he receives per diems, and also its Investor Ombudsman, for which he receives remuneration.</p>

Total number of other external directors	1
% of the Board	8.33%

List any changes in the category of each director which have occurred during the period:

**C.1.4 Complete the following table on the number of female directors over the past 4 years and their category:**

	Number of female directors				% of total directors of each type			
	FY 2016	FY 2015	FY 2014	FY 2013	Exercise 2016	Exercise 2015	Exercise 2014	Exercise 2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	2	1	2	2	33.33%	20.00%	33.33%	40.00%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	2	1	2	2	16.67%	9.09%	16.67%	14.29%

At 31 December 2016 and 31 December 2014 the Board was composed of 12 Directors, of 11 Directors at 31 December 2015 and 14 Directors at 31 December 2013. At 31 December 2016 and 31 December 2014 the Board was composed of 6 independent Directors, of 5 independent Directors at 31 December 2015, and also of 5 independent Directors at 31 December 2013.

**C.1.5 Explain the measures, if applicable, that have been adopted to ensure that there is a sufficient number of female directors on the Board to guarantee an even balance between men and women.**

**Explanation of measures**

At a meeting on 23 December 2015 the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors and, in order to attain this percentage, agreed that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.

Thus, in the process to select Directors to fill the vacancy on the Board following the resignation of Mrs. García García, an independent Director, more than 50% of the professional CVs considered by the Appointments and Remuneration Committee belonged to women, and the Committee submitted a proposal to the Board to appoint a woman as Director, Mrs. Maria Helena dos Santos Fernandes de Santana.

In addition to the foregoing, it should be borne in mind that almost all the proposals of appointees as independent Directors submitted by the Appointments and Remuneration Committees since shares were admitted for trading on the Stock Exchanges have been women.

Moreover, with regard to the other categories of Director, the Appointments and Remuneration Committee ensures that selection procedures are not biased against female candidates.

**C.1.6 Explain the measures taken, if applicable, by the Appointments 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 and include in its selection process female candidates with the required professional profile:**

**Explanation of the measures**

As stipulated in section C.1.5 above, the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors, and that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.

Notwithstanding the foregoing, at a meeting on 29 November 2007 the Appointments and Remuneration Committee, on commencing the analysis of the criteria to be met for procedures to select independent Directors, had already established that "female candidates must not be discriminated against in the selection processes".

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

**Explanation of the reasons**

As indicated in section C.1.5 above, within the scope of its duty to propose the appointment of independent Directors and "other external Directors", the Appointments and Remuneration Committee has actively sought female candidates to fill vacancies for independent Directorships arising since the Company's shares were first admitted for trading, also ensuring that the Director selection processes do not discriminate due to gender diversity.

Thus, in order to ensure this objective for the gender with lesser representation on the Board to account for 30%, more than 50% of the professional CVs considered by the Appointments and Remuneration Committee in the process of selection of Directors to fill the vacancy on the Board following the resignation of Mrs. García García belonged to women, and the proposal submitted to the Ordinary General Shareholders' Meeting was to appoint a woman, Mrs. Maria Helena dos Santos Fernandes de Santana, as an independent Director.

With respect to other Director categories, within its powers and duties under prevailing law, the Appointments and Remuneration Committee reports on the extent to which the candidates proposed satisfy the requirements for appointment to a Directorship.

**C.1.6.bis Explain the conclusions of the Appointments Committee on the verification of compliance with the directors' selection policy. And in particular, how this policy is promoting the objective for the number of female directors to account for at least 30% of total Board members by the year 2020.**

Since November 2014 BME has operated medium and long-term planning of the structure and composition of the Board (hereinafter, "Medium and long-term Planning for the Board of Directors"), which includes the criteria that must determine the structure and composition of the Board of Directors, and defines the profile of knowledge, skills and professional experience required of Board appointees in due consideration of each category.

The Appointments and Remuneration Committee considers that the Board's medium and long-term planning identifies the needs of the Board's composition at any given time, in addition to the most suitable personal and professional profiles to cover these needs, and simultaneously addresses the diversity of knowledge, skills and gender which is considered a positive feature to enable this body to carry out its functions.

In this regard, the Medium and long-term Planning for the Board of Directors includes the agreement by the Appointments and Remuneration Committee referred to in sections C.1.5 and C.1.6 above to set the percentage of the gender with lesser representation on the Board as 30% by the year 2020.

In 2016 the Appointments and Remuneration Committee and the Board complied with the Medium and long-term Planning for the Board of Directors in the proposed appointment to fill the vacancy on the Board.

The Appointments and Remuneration Committee conducted an analysis of the size and composition of the Board by categories, from which it transpired that the vacancy on the Board ought to be filled by a person who met the conditions to be appointed as an independent Director.

On the basis of this prerequisite, the Appointments and Remuneration Committee defined the profile, skills and professional experience it felt were most suitable to cover the needs of the Board at that time, and this profile was used to conduct a search which ended with the proposal to appoint Mrs. María Helena dos Santos Fernandes de Santana to the Board.

During this selection process, since the vacancy was to be covered by a person qualifying as an independent Director, more than 50% of the professional CVs considered by the Appointments and Remuneration Committee belonged to women.

The Appointments and Remuneration Committee considers that compliance with the Medium and long-term Planning for the Board of Directors in the selection process carried out in 2016 was satisfactory, because it ended with an appointment which both boosted the level of independence of the Board, now standing at 50%, and also raised the percentage of women on the Board.

Irrespective of the independence of the conclusions drawn by the Appointments and Remuneration Committee, in due consideration of suggestions to improve the organisation and functioning of the Board of Directors and its Committees, set out in the assessment report by the independent expert referred to in section C.1.20 below, the Appointments and Remuneration Committee felt it was proper to have a procedure for the selection of independent Directors or "other external Directors" to boost the role of the Committee in terms of identifying the profiles of candidates, and this procedure was approved by the Board at a meeting on 27 October 2016.

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

At 31 December 2016 the Company's sole significant shareholder was represented on the Board by two (2) Directors qualifying as proprietary.

### C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the behest of shareholders who hold less than 3% of the share capital:

#### Name or corporate name of shareholder

BNP PARIBAS, SOCIÉTÉ ANONYME

#### JUSTIFICATION

Although this company does not hold 3% of the share capital, at the date on which the proprietary Director representing it on the Board was appointed, and at the date on which he was last re-elected, it indirectly held a significant share of voting rights in BME pursuant to Royal Decree 361/2007. This shareholder also holds a higher percentage of voting rights than the other shareholders which are not represented on the Board of Directors and who hold greater stakes, apart from the custodian entities.

**Indicate whether formal requests have been rejected 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 been rejected:**

Yes

No



**C.1.9 Indicate whether any director has resigned before his/her term of office has expired, whether that director has given the Board his/her reasons and through which channel. If made in writing, list below the reasons given by that director:**

(-)

**C.1.10 Indicate what powers, if any, have been delegated to the managing director(s):**

The Company has no Managing Director.

Article 13 of the Board of Directors' Regulations states that the Chairman, as the Company's most senior institutional representative, has the power to represent it on an individual basis and be the guiding force behind the governance of the Company and Group companies. He also promotes the Board's functions of stimulating, directing and supervising the Company's ordinary business, and watching over the Board's responsibilities with regard to relations with shareholders and the markets.

Additionally, BME's chairman holds the power required to ensure the day-to-day running of the Company. These powers include the commercial and legal representation of the Company, representation of the Company at Shareholders' Meetings and meetings of the Board of Directors and similar Boards of companies in which it holds a stake; the power to incorporate companies, associations, foundations and all types of legal entities; the power to hire and lay off employees, establish their duties and compensation; draw up all types of contract in the name of the Company; delegate power to whoever he sees fit and other powers necessary to ensure the day-to-day running of the business.

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

Name or corporate name of director	Corporate name of the group entity	Post	Does he/she have executive functions?
MR. ANTONIO J. ZOIDO MARTINEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	CHAIRMAN	YES
MR. ANTONIO J. ZOIDO MARTÍNEZ	SOCIEDAD DE BOLSAS, S.A.	DIRECTOR	NO
MR. CARLOS FERNÁNDEZ GONZÁLEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	DIRECTOR	NO
MR. JOAN HORTALÁ I ARAU	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BARCELONA, S.A.U.	CHAIRMAN	YES
MR. JOAN HORTALÁ I ARAU	SOCIEDAD DE BOLSAS, S.A.	CHAIRMAN	YES

**C.1.12 List any company Board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, that have been disclosed to the company:**

Name or corporate name of director	Name of listed company	Post
MR. IGNACIO GARRALDA RUIZ DE VELASCO	FAES FARMA, S.A.	DIRECTOR
MR. IGNACIO GARRALDA RUIZ DE VELASCO	ENDESA, S.A.	DIRECTOR
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA	COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO, S.A.	DIRECTOR
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA	TOTVS, S.A.	DIRECTOR
MR. JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	MANAGING DIRECTOR
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	ACERINOX, S.A.	DIRECTOR
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	INDRA SISTEMAS, S.A.	DIRECTOR



**C.1.13 Indicate and, where appropriate, explain whether the Board of Directors' regulations have established rules regarding the maximum number of boards on which its directors can sit:**

Yes  No

**Explanation of rules**

Article 23 of the Board of Directors' Regulations establishes that the Company's non-executive Directors may not hold directorships in more than four (4) companies the shares of which are listed for trading on domestic or foreign stock exchanges, with those held in companies belonging to the same Group and those held in representation of the same significant shareholder they represent in the Company being considered as one role.

Executive Directors may not hold directorships at any listed company.

**C.1.14 Section revoked.**

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

<b>Board remuneration (thousands of euros)</b>	2,528 (*)
<b>Amount of cumulative pension rights of serving directors (thousands of euros)</b>	2,526
<b>Amount of cumulative pension rights of former directors (thousands of euros)</b>	0

(\*) This figure does not include the value of shares that, if appropriate, might be transferred to executive Directors on expiry of the first period of the Share-based Variable Remuneration Plan described in section A.3 of this Report.

### C.1.16 List any members of senior management who are not executive directors and indicate the total remuneration paid to them during the year: (\*)

Name or corporate name	Post
MR. RAMÓN ADARRAGA MORALES	DIRECTOR OF INTERNATIONAL COORDINATION AND HEAD OF INFORMATION, IT AND CONSULTING
MR. JAIME AGUILAR FERNÁNDEZ-HONTORIA	DIRECTOR OF LEGAL COUNCIL
MR. LUIS MARÍA CAZORLA PRIETO	GENERAL SECRETARY AND SECRETARY TO THE BOARD
MR. JAVIER HERNANI BURZAKO	GENERAL MANAGER AND FINANCE DIRECTOR
MR. JOSÉ MASSA GUTIÉRREZ DEL ÁLAMO	CHAIRMAN OF IBERCLEAR AND HEAD OF SETTLEMENT AND REGISTRATION
MR. FRANCISCO NICOLÁS TAHOCES	TECHNOLOGY DIRECTOR
MRS. ARANTZA TELLERÍA DE LA FUENTE	DIRECTOR OF INTERNAL AUDIT DEPARTMENT
MR. JORGE YZAGUIRRE SCHARFHAUSEN	CHAIRMAN OF MEFF AND AIAF AND HEAD OF EQUITIES AND DERIVATIVES
<b>Total remuneration received by senior management (thousands of euros)</b>	4,201 (**)(***)

(\*) Senior management includes members of the Coordination Committee and the General Secretary and Secretary to the Board and, in accordance with the instructions in the model corporate governance report, the Head of the Internal Audit Department.

In addition to those listed, BME has a number of employees holding posts of senior responsibility in the Group who meet the conditions for joining senior management in the near future. These include: Beatriz Alonso-Majagranzas Cenamor, Deputy Manager of Equities, Berta Ares Lomban, Head of the Projects Office, Cristina Bajo Martínez, Deputy General Secretary and Secretary to the Board, Marta Bartolomé Yllera, Financial Controller, Elena Carnicero Alonso, Managing Director of REGISTR, María Teresa Casterá Mata, Head of Trading Platform Development, Ana Ibañez Díaz-Bustamante, Deputy Manager of Iberclear, Mercedes Irigaray Lorea, BME Clearing Operations Director, María Parga Landa, General Manager of BME Innova, Clotilde Salmerón Berdejo, General Manager of MEFF Sociedad Rectora del Mercado de Productos Derivados, and María Santos Montesinos, General Manager of Infobolsa.

(\*\*) The total remuneration received by senior management includes remuneration received from both BME and the other Group companies.

This amount includes the estimated amount of variable remuneration for 2016; post-employment benefits in favour of these executives in the amount of €345,000, consisting of the annual periodic contribution to the insurance arranged as a supplementary pension; premiums payable for a collective life assurance policy carrying social provision benefits to cover retirement, death and permanent disability; and the Group's contributions to defined-contribution plans.

This figure does not include the €338,000 paid in 2016 to the members of the senior management as per diems, or the amount of the shares that, where appropriate, shall be received by the members of the senior management as a result of expiry of the first validity period of the Share-based Variable Remuneration Plan described in section A.3 of this Report.

(\*\*\*) This amount includes the amounts received from BME and the other companies in the Group, including compensation for termination of the contractual relationship, by Mr. Antonio Giralta Serra, Chairman of Bolsas y Mercados Españoles Sistemas de Negociación, S.A. and by Mr. Francisco de Oña Navarro, Chairman of AIAF and of BME Clearing and Head of Fixed Income and Clearing, who retired on 31 January and 29 February 2016 respectively.

**C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies with significant shareholders and/or in group companies:**

Name or corporate name of director	Corporate name of significant shareholder	Post
D. JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
D. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	MANAGING DIRECTOR

Mr. Juan March Juan, who is an external proprietary Director of the company on behalf of the significant shareholder Corporación Financiera Alba, S.A., is a Director of Banca March, S.A. and Deputy Chairman of Artá Capital S.G.E.C.R., S.A., entities in the significant shareholder's group.

Mr. Santos Martínez-Conde y Gutiérrez-Barquín, who is an external proprietary Director of the company on behalf of the significant shareholder Corporación Financiera Alba, S.A., is a Director of Banca March, S.A., Artá Capital S.G.E.C.R., S.A., Artá Partners, S.A., Deyá Capital, S.C.R., S.A. and Deyá Capital IV, S.C.R., S.A., entities in the significant shareholder's group.

**List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors to significant shareholders and/or their group companies:**

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

Yes  No

**Description of amendments**

At meetings on 28 September and 30 November 2016, the Board agreed to amend Article 18 of its Regulations concerning the Executive Committee and Article 19 concerning the Audit Committee.

Specifically, the amendment of section 4 of Article 18 eliminated the need to hold monthly meetings of the Executive Committee, which would be held as deemed appropriate to address strategic issues or any other issues deemed appropriate.

Sections 1 and 2 of Article 19 were amended in order to adapt the composition and competences of the Audit Committee to the latest version of Article 529 quaterdecies of the Companies Act implemented by Act 22/2015, eliminating the requirement that at least two (2) of its members must be independent, and including the provisions established by the Act concerning the competences previously attributed to the Audit Committee.

The Company shall notify the General Shareholders' Meeting of this amendment when it next meets.

**C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing directors. List the competent bodies, measures and criteria used for each of these procedures.**

Procedures for appointing, selecting, re-electing, evaluating and removing Directors are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 10, 20, 22 and 23 of its Board Regulations. The criteria for selecting candidates are set out in the Medium and long-term planning for the Board of Directors referred to in section C.1.6.bis of this report.

1. Appointment.

1. A. Responsibility.

The number of Company Directors as per the maximum (15) and minimum (9) set by the Articles of Association, as well as the appointment of Directorships, shall be established at the General Shareholders' Meeting.

In accordance with the agreement approved at the ordinary General Shareholders' Meeting held on 30 April 2014, the Board of Directors shall comprise twelve (12) members.

However, if any vacancies exist, the Board of Directors, by virtue of the powers of co-option legally attributed to it, may appoint the persons to fill such vacancies until the next General Shareholders' Meeting is held, for which the condition of shareholder shall not be necessary. Should a vacancy arise after the General Shareholders' Meeting has been called but before it has been held, the Board of Directors may appoint a Director until the next General Shareholders' Meeting is held.

1. B. Appointment requirements.

Candidates proposed by the Board of Directors for appointment or re-election as Directors must be persons of high standing, integrity and reputability, who also have the necessary expertise for the performance of their functions. The Medium and long-term planning for the Board of Directors sets out the additional requirements that must be met by the candidates for Director depending on the category of directorship that they are to undertake.

The proposed Board candidates must not be affected by any conflict of interests or prohibition pursuant to the Company's Articles of Association and Board of Directors' Regulations, and need not be shareholders to be appointed as Directors.

In accordance with the provisions of article 23 of the Board of Directors' Regulations, the Company's non-executive Directors may only hold the position of director on four (4) Boards, under the terms set out in section C.1.13 of this report, and the executive Directors may not hold the position of director in any listed company.

1. C. Term of office.

The Directors shall hold office for a period of four (4) years and may be re-elected on one or more occasions for the same term of office.

1. D. Procedures.

The Appointments and Remuneration Committee is responsible for proposing the appointment or re-election of members of the Board of Directors if they are independent or other external Directors, and the Board of Directors is responsible for doing so in all other cases. In the latter case, a preliminary report shall be issued by the Appointments and Remuneration Committee.

Pursuant to regulations, the proposals for appointment shall be accompanied by an explanatory report by the Board of Directors in which the proposed candidate's competence, experience and merit is evaluated. This shall be attached to the minutes of the General Meeting or the Board meeting.

The Appointments and Remuneration Committee, as part of its competences to propose the appointment of Directors qualifying as independent or other external Directors, takes the appropriate measures to identify persons of recognised prestige in the business or academic field, whose professional knowledge and experience means that they could actively collaborate to the benefit of the Company. It also analyses their career records, verifies whether they meet the requirements which, with regard to the type of Director, are established in the

Medium and long-term planning for the Board of Directors and, where appropriate, proposes the appointment of the person who has been considered the most suitable. In particular, it shall comply with the measures established to achieve the target for the gender with the lesser representation on the Board.

In this regard, in order to boost the role of the Appointments and Remuneration Committee and in keeping with suggestions to improve the functioning of the Board of Directors arising from the report by the independent expert referred to in section C.1.20 of this report, at a meeting on 27 October 2016 the Board approved the procedure for the selection of candidates qualifying as independent or “other external Directors”.

The General Shareholders’ Meeting votes separately on the appointments, ratifications or re-elections of Directors so that shareholders may exercise their voting preferences separately.

#### 1. E. Breakdown of Directorships by type.

The Board of Directors shall seek to distribute its members among the different types of Director after the fashion best suited at any given time to the Company’s ownership structure and its corporate purpose and the corporate purpose of group companies. However, the Board shall be obliged to submit its proposals at the General Shareholders’ Meeting and appointments by co-option in such a way that external or non-executive Directors are a majority over executive Directors and that there is a significant presence of independent Directors.

#### 2. Re-election.

Proposals for the re-election of Directors, in addition to observing the same procedures as for appointments, also take into account the quality of the services provided by the Director and their commitment during the previous term. Directors standing for re-election shall not take part in any discussions or decisions concerning their re-election.

#### 3. Appraisal.

The Board of Directors shall annually assess the efficiency of its operation and the quality of its work on matters within its remit. The Board shall also assess the operation of its Committees based on the reports they prepare on the performance of their tasks.

In addition to this assessment, in 2015 the composition, competences and functioning of the Board were evaluated by an independent expert, Egon Zehnder International S.L., as described in the following section C.1.20.

#### 4. Resignation and removal.

Directors shall vacate office at the end of the term for which they were appointed, unless they are re-elected, or when it is so decided at the General Shareholders’ Meeting.

The Board of Directors may not propose the removal of any independent directors before the expiry of the term for which they were appointed, unless they have just cause on the basis of a proposal from the Appointments and Remuneration Committee. Just cause shall be deemed to exist when the Director occupies new posts, undertakes new obligations preventing him/her from devoting sufficient time to performing Director functions, when he/she breaches the duties inherent in his/her post or when any of the circumstances arise causing a conflict with his/her status as independent.

Directors who stand down from the Board before the end of their term for any reason must explain their reasons for doing so in a letter sent to all Board members.

### C.1.20 Explain to what extent the annual assessment of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

#### Description of amendments

In 2015 the Company commissioned an independent external consultant, Egon Zehnder International, S.L., to perform an assessment of the Board and its Committees, which addressed the composition and competences of the Board, the quality and efficiency of its functioning and the composition and functioning of its Committees.

This assessment process terminated with the presentation to the Board at a meeting on 16 March 2016 of the report with the conclusions drawn by the independent expert, which stated that in general Directors had expressed considerable satisfaction with the organisation, functioning, responsibility and effectiveness of both the Board and its Committees, and contained a number of suggestions for improvements in the various areas assessed.

The Board of Directors detailed the Appointments and Remuneration Committee to conduct an analysis of the suggestions for improvements stated by the expert, notwithstanding the fact that some of them were adopted by the Board immediately.

The Appointments and Remuneration Committee performed an analysis of these suggestions at a number of meetings, and submitted to the Board the measures it considered appropriate to improve the composition and functioning of the Board and its Committees.

As a result, the following measures were adopted in 2016, inter alia:

a) Concerning the structure and composition of the Board. In order to boost the level of independence and diversity on the Board with the appointment referred to in section C.1.6., the following internal procedures were approved:

- the procedure to select Directors qualifying as independent or other external Directors, in order to boost the role attributed by regulations and the Medium and long-term planning for the Board of Directors attribute to the Appointments and Remuneration Committee in the process to select Directors qualifying as independent or other external Directors;
- a Succession Plan for the Chairman and chief executive, to replace that approved by the Board at a meeting on 20 September 2012; and
- a procedure for assessment of functions by the Chairman of the Board that enables active participation by all Directors.

b) Concerning the functioning and responsibilities of the Board of Directors, a number of organisational measures were taken - schedule for meetings and the creation of a Directors' Portal - in addition to measures to prioritise the issues to be discussed at Board meetings.

c) Concerning the composition and functioning of the Board Committees:

- a Director qualifying as a proprietary Director was included in the Executive Committee and the Appointments and Remuneration Committee;
- the number of Executive Committee meetings was reduced, and the Committee was tasked with analysing strategic issues; and
- improvements were made to the information furnished by the Committees concerning their activities to the Board.

In 2016 the Board assessed its functioning in the terms described in section C.1.20.bis, and this report did not state the need for any further changes to the internal organisation of the Board or to the procedures applicable to its activities.

**C.1.20.bis Describe the assessment process and the areas assessed by the Board of Directors aided, where appropriate, by an external consultant, regarding the diversity of its structure and competences, the functioning and breakdown of its committees, the performance of the Chairman of the Board of Directors and of the company's chief executive, together with the diligence and contributions of each director.**

In accordance with the provisions of article 10.3 of the Board of Directors' Regulations, each year the Board of Directors assesses the efficiency of its operation and the quality of its work on matters within its remit. The Board also assesses the operation of its Committees based on the reports they prepare on the performance of their tasks.

Every year each of the Board's Committees, with the participation of all their members and under the management and coordination of their respective Chairmen, prepares and approves a Report on the actions undertaken in the financial year, to be furnished to the Board of Directors. Following the same procedure, and also with the participation of all the Directors, the Board of Directors prepares a report on its own actions.

On the basis of these reports, the Board of Directors in full assesses the internal organisation and operation of the Board and its Committees; the suitability of the procedures followed for calling meetings; the quality and suitability of the documentation issued to the Directors; the advance notice with which this documentation has been issued; the level of attendance of the Directors at the meetings of the collegiate bodies of which they form part; and the running of their meetings. The Board of Directors also assesses the support and information received from each of the Board's Committees within the scope of their respective powers.

In 2016 the Board's assessment was carried out without the assistance of an independent external consultant.

Also, in accordance with the provisions of article 10.4 of the Board of Directors' Regulations, this collegiate body annually assesses the performance of duties by the Chairman of the Board and managing director of the Company, an assessment process directed by the Lead Independent Director, and involving the full participation of the Appointments and Remuneration Committee, which approves it to be submitted subsequently to the Board of Directors.

The report assesses the performance of the Chairman in his duties as Chairman of the General Shareholders' Meeting, the Board of Directors and the Executive Committee, and of those arising from his role as chief executive of the Company, and to this end, inter alia, it assesses the performance of the Chairman in the ordinary management of the Company and the Group companies, which is coordinated and supervised by the Chairman, developments in the markets and systems managed by the Company during the period being assessed and developments in the main management indicators from recent financial years.

At a meeting on 27 October 2016, pursuant to the suggestions for improvements to the functioning of the Board arising from the report by the independent external consultant referred to in section C.1.20, the Board approved the procedure for assessment of the performance of functions by the Chairman of the Board, the purpose of which is to encourage active participation of all Directors in the process to conduct an assessment of the Chairman.

**C.1.20.ter Breakdown, where appropriate, of the business relationships that the consultant or any of its group companies holds with the company or any of its group companies.**

The Company which carried out the independent assessment of the Board of Directors in 2015, Egon Zehnder International S.L., provided its services in 2016 as part of the process to seek candidates to fill the vacancy on the Board referred to in section C.1.6.

**C.1.21 Indicate the cases in which directors must resign.**

Under article 38.2 of the Company's Articles of Association and sections 3 and 4 of article 22 of the Board of Directors' Regulations, members of the Board of Directors must tender their resignation in the following circumstances:

- in cases of incompatibility or prohibition stipulated by the Company's Articles of Association and Board of Directors' Regulations;
- in the case of proprietary Directors, when the shareholder they represent sells its entire shareholding, or in the appropriate numerical proportion to any reduction in that shareholder's stake;
- in general, when their continuation as Board members could jeopardise the Company's interests.

When the aforementioned circumstances affect an individual representing a legal entity that is a Director, the entity must proceed immediately to replace that representative.

In addition to the above, and as stated in section C.1.19, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may propose the removal of independent Directors when the Director occupies new posts or assumes new obligations preventing him/her from devoting sufficient time to performing Director functions, breaches the duties inherent in his/her post, or when any of the circumstances arise causing a conflict with his/her status as independent.

**C.1.22 Section revoked.****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:

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

Yes  No

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

Yes  No

**Matters involving a casting vote**

Under article 30 of the Company's Articles of Association and article 13 of the Board of Directors' Regulations, the Chairman of the Board of Directors shall hold the casting vote in the event of a tie.

Likewise, as stipulated in article 34 of the Articles of Association and articles 13 and 18 of the Board of Directors' Regulations, the Chairman of the Executive Committee shall hold the casting vote in all votes put to it.

**C.1.26 Indicate whether the Articles of Association or the Board regulations set any age limit for directors:**

Yes  No

**C.1.27 Indicate whether the Articles of Association or the Board regulations set a limited term for independent directors, other than that set forth in the regulations:**

Yes  No



**C.1.28** Indicate whether the Articles of Association or Board regulations stipulate specific rules on proxy voting within the board, the procedures therefor and, in particular, the maximum number of proxy votes a director may hold. Also indicate whether any restrictions have been imposed on the categories of directors that may be appointed as a proxy, beyond the limitations imposed by law. If so, give brief details.

The Articles of Association and Board Regulations do not establish specific rules for proxy voting on the Board of Directors. Article 29.2 of the Company's Articles of Association and article 11 of the Board of Directors' Regulations stipulate that in the event of members of the Board of Directors being unable to attend a meeting in person they may appoint another Director to represent them. No upper limit is specified on the number of proxy appointments a single Director may hold. It is specified that non-executive Directors can only delegate their representation to another non-executive Director.

Proxies must be appointed in writing specifically for each meeting and the appropriate instructions as to how to represent the Director appointing them must be given.

**C.1.29** Indicate the number of Board meetings held during the year. Also indicate, where appropriate, the number of times the Board has met without its Chairman in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of Board meetings	14
Number of Board meetings held without the Chairman in attendance	0

If the Chairman is an executive director, indicate the number of meetings held, without the attendance or representation of any executive director or under the chairmanship of the lead independent director.

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

Executive or delegate committee	9
Audit Committee	10
Appointments and Remuneration Committee	14
Market and Systems Operating Procedures Committee	11

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

Number of Board meetings held with all directors in attendance	6
% of attendances with respect to total votes cast during the year	91.36 %

**C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board are previously certified:**

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.**

The mechanisms established to prevent the individual and consolidated financial statements from being laid before the General Shareholders' Meeting with a qualified audit report are set out in articles 8, 19 and 31 of the Board of Directors' Regulations.

Specifically, article 8 of the Board of Directors' Regulations states that the Board of Directors shall be responsible for ensuring that the Company's individual and consolidated financial statements and directors' report provide a true and fair view of its assets, financial position and results, according to legal requirements. Furthermore, each of the Directors should have access to all the necessary information before they put their signature to the financial statements.

Article 31 of these Regulations also establishes that the Board of Directors shall adopt the necessary measures to ensure that the half-yearly and quarterly reporting and any other financial reporting that is made available to the securities markets is prepared in accordance with the same principles and practices as are used in the preparation of the annual financial statements, and that it is equally reliable.

Likewise, article 19 of the Board of Directors' Regulations tasks the Audit Committee with maintaining the relationship with the external auditors in order to receive information on any issues connected with the auditing

procedure, carrying out the other communication tasks envisaged in legislation on auditing accounts and in the technical auditing standards, and it receives regular information on the audit plan and the results of its execution, and verifies that senior management takes account of its recommendations.

In the exercise of its duties, the Audit Committee invites the external auditor to attend its meetings whenever it is deemed appropriate and, in any event, when the agenda includes the audit assessment preceding the issue of the Company's and the Group's financial statements and Directors' report or the release of the Company's half-year report.

The Company's General Manager, in the performance of his duties as Finance Director, shall also attend meetings of the Audit Committee so that the Committee may rigorously monitor the preparation of the periodic public information.

Article 8.1 of the Board of Directors' Regulations establishes that in the event the auditors' report on the financial statements contains reservations or qualifications, the Chairman of the Audit Committee and the auditors themselves shall explain to shareholders and to the markets the content and scope of such reservations and qualifications.

**C.1.33 Is the Secretary of the Board also a director?**

Yes  No

**If the Secretary of the Board is not also a director, fill in the following table:**

Name or corporate name of secretary	Representative
MR. LUIS MARÍA CAZORLA PRIETO	-

**C.1.34 Section revoked.**

**C.1.35 Indicate, where applicable, the specific mechanisms implemented by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.**

1) Mechanisms established by the Company to preserve the independence of external auditors.

In accordance with article 7.4 of the Board of Directors' Regulations, the Board of Directors, acting in full and through its Committees, with the support of the Audit Committee, is responsible for ensuring the external auditor is both independent and professionally acceptable.

Article 19 of the Board of Directors' Regulations authorises the Audit Committee to maintain relations with the external auditors in order to receive detailed individual information on any issues that might jeopardise the auditors' independence and, where applicable, to authorise services other than those prohibited in the terms established by regulations, and to monitor compliance with the regulations in force concerning the provision of additional services of any kind, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence.

Each year it shall receive from the auditors written confirmation of their independence of the Company, in addition to detailed individual information on any other type of service provided by the auditors and the fees received by the auditors or persons or entities related to them and shall issue a report each year, prior to the auditor's report, stating an opinion on whether the independence of the auditors has been compromised. The report must contain a motivated assessment of provision of each and every additional service, considered individually and together, other than statutory legal services, and in relation to the regime of independence or to the regulations governing the auditing of accounts.

2) Mechanisms established by the Company to preserve the independence of financial analysts.

The Investor Relations Department, a division of the Finance Department, shall provide institutional investors and financial analysts with all possible information on the Company's performance, periodic results and strategy.

The management of information by the department of Investor Relations is carried out with the utmost respect for the principles of transparency and non-discrimination, and always in the strictest compliance with regulations relating to the securities markets and the policy for communicating with shareholders, analysts, institutional investors and voting advisers.

3) Mechanisms established by the Company to preserve the independence of investment banks and rating agencies.

In 2016 the Company did not hire the services of investment banks or rating agencies.

**C.1.36** whether the company changed its external auditor during the year.

If so, identify the incoming and outgoing auditors:

Yes  No

Explain any disagreements with the outgoing auditor and the reasons therefor:

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

Yes  No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	6	0	6
Amount of non-audit work as a % of the total amount billed by the audit firm	2.15 %	0.00 %	1.15 %

**C.1.38** Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of such 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	4	4
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	26.66%	26.66%

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

Yes  No

**Detail the procedure**

Article 29.3 of the Articles of Association establishes that the Chairman of the Board *“may invite Company executives and technical staff, as well as Directors and executives of group companies, or any expert or third party that he considers appropriate to attend the proceedings based on the matters to be discussed at the meeting. These attendees shall have the right to speak but not vote.”*

**C.1.41 Indicate, and where appropriate detail, 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

**Detail the procedure**

The Board of Directors meeting is generally called at least six days in advance of the date on which it is scheduled to be held. The call notice includes the agenda of the Board meeting and the relevant documentation and information concerning the items on the agenda.

In accordance with articles 13.2.c) and 16.2 of the Board of Directors' Regulations, the Chairman of the Board of Directors, assisted by the Secretary, ensures that the Directors receive, with sufficient notice and in the appropriate format, the information necessary to discuss the matters included in the agenda of the corresponding meetings.

Furthermore, under article 24 of Board Regulations, Directors shall have the powers to obtain information on any aspect of the Company and its group, and shall be granted access to any documents, registers, past records or any other information they may require.

All requests for information shall be addressed to the Chairman and shall be dealt with by the Secretary of the Board who shall directly provide the information required or put the Director in contact with the appropriate person within the Company, while ensuring that the necessary measures are taken to guarantee that the Directors' right to information is met to their full satisfaction.

**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 company's name or reputation, tendering their resignation as the case may be:**

Yes  No

#### Explique las reglas

In a general sense, in relation to the duty of Directors to disclose information, article 28 of Board Regulations stipulates that Directors shall disclose any fact or situation which may affect the nature or terms under which their appointment as Directors was made, or which could materially influence their activity as Directors. More specifically, this article establishes that they must disclose any legal, administrative or other types of claims affecting them which, due to their importance, could seriously affect the Company's image.

In addition to this obligation to disclose information, article 38.2 of the Articles of Association and article 20.4 of Board Regulations stipulate that, among other scenarios, Directors must resign when their continuation in office could jeopardise the Company's interests.

**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 Companies Act:**

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 action taken or expected to be taken by the Board up to the date of this report.**

**C.1.44 List the significant agreements entered into 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.**

The Company has not formalised significant agreements with the characteristics described.

**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, warranties or lock-in clauses in the event of resignation, unfair dismissal or termination as a result of a takeover bid or other types of operations.**

**Number of beneficiaries**

6

### Type of beneficiary

The Chairman, in connection with his executive duties, and five (5) senior executives.

### Description of the resolution

#### 1.- Executive directors.

There are no such clauses which include benefits for executive Directors except for the Chairman. With regard to the Chairman, qualifying as an Executive Director, at BME's Extraordinary General Shareholders' Meeting held on 5 June 2006 the following resolution was adopted:

*"The General Shareholders' Meeting agrees that in the event of the Chairman of the Board of Directors being removed from his post, he shall have the right to receive an amount equivalent to three times his annual fixed compensation established by the Shareholders' Meeting at the time of this event. Payment of this amount implies a non-competition duty binding the Chairman for three years with respect to companies other than the BME Group pursuing identical or similar corporate purposes or activities. In the event the Chairman fails to comply with this obligation, he shall have to return the amount received. The Chairman shall not be paid the amount mentioned above if he voluntarily leaves the post or fails to fulfil his duties, or in the event of any of the scenarios enabling Bolsas y Mercados Españoles to take corporate action against him. (...)"*

The terms of this resolution by the Extraordinary General Shareholders' Meeting have been listed in the provision of services contract between BME and Antonio J. Zoido Martínez, dated 29 June 2007, subsequent to a report by the Appointments and Remuneration Committee and approval by the Board of Directors.

#### 2.- Senior management.

With respect to senior management, two (2) senior executives have signed senior management contracts entitling them to receive compensation in the event of dismissal equivalent to forty-five (45) days' salary per year of service and twenty-two (22) months' gross annual salary, respectively, unless employment law stipulates higher compensation. In addition, three (3) senior executives are under ordinary employment contracts. Two of the executives are entitled to severance compensation equivalent to forty-five (45) days' salary per year of service, while the third is entitled to two (2) years' gross annual salary.

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

The five (5) contracts of employment for executives of the BME Group that contain indemnity or "golden parachute" clauses were entered into before BME shares were listed on stock exchanges. Three (3) of these contracts were signed by Group companies other than BME itself.

The indemnity clause in favour of the Chairman of the Board was adopted by the shareholders of BME at an Extraordinary General Meeting.

## C.2 Board Committees

### C.2.1 Give details of all the Board Committees, their members and the proportion of executive, proprietary, independent and other external directors forming part thereof:

#### Executive or delegate committee

Name	Post	Category
MR. ANTONIO J. ZOIDO MARTINEZ	Chairman	Executive
MR. ÁLVARO CUERVO GARCÍA	Member	Independent
MR. IGNACIO GARRALDA RUIZ DE VELASCO	Member	Independent
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	Member	Proprietary
MRS. MARGARITA PRAT RODRIGO	Member	Independent

<b>% of executive directors</b>	20.00%
<b>% of proprietary directors</b>	20.00%
<b>% of independent directors</b>	60.00%
<b>% of other external directors</b>	0.00%

### Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.

The Executive Committee is regulated by article 34 of the Articles of Association and article 18 of the Board of Directors' Regulations.

#### Organisation and operation

- The Executive Committee shall consist of at least three (3) and not more than seven (7) Directors designated by the Board of Directors. The Company shall endeavour to ensure that the size and composition of the Executive Committee complies with efficiency criteria and the Board of Directors' basic guidelines on composition.

At its meeting after the ordinary General Shareholders' Meeting of 30 April 2014, the Board of Directors established the number of members of the Executive Committee as five (5).

- The Chairman and Secretary of the Executive Board shall be the same as for the Board of Directors and their substitution shall be approved by the Board in the event of absence, inability to attend or vacancies whereby the Chairman shall be substituted by one of the Vice Chairmen in descending order. Likewise, the Secretary shall be substituted by the Deputy Secretary of the Board of Directors and in the event of there being various Deputies, the longest standing or the eldest Deputy shall be chosen.
- Except when higher voting majorities are required by law or under the Articles of Association, resolutions shall be adopted by an absolute majority of the Board members who are either present or represented at the meeting. In the event of a tie, the Chairman shall have the casting vote.
- The Executive Committee met once a month, until the amendment of section 4 of article 18 of Board Regulations as described in section C.1.18. As of that date, the Chairman shall call meetings of the Executive Committee, provided they are requested by at least two (2) of its members.
- At each meeting of the Board of Directors, the Executive Committee shall report on the issues discussed and resolutions adopted at the meetings it has held since the previous Board meeting, so that the Secretary can send a copy of the minutes of the Committee's meetings to its members.



Responsibilities

The Committee shall have the following responsibilities:

- a) The continuous monitoring and supervision of the day-to-day management of the Company, also ensuring that there is adequate coordination between the Group companies for their mutual benefit and that of the Company.
- b) Supervising the strategy for communication and relation with investors and shareholders.
- c) Supervising implementation of the Company's corporate social responsibility policy and monitoring the strategy and practices of corporate social responsibility.
- d) Assessing matters related to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks, and coordinating the process of reporting of non-financial information.
- e) Discussing and reporting to the Board of Directors on all issues relating to the following:
  - The Company's individual and consolidated annual budget.
  - Significant tangible or financial investments and their economic rationale.
  - Cooperation agreements with other companies the size or nature of which make them significant for the Company.
  - Financial operations of particular economic importance for the Company.
  - Assessment of the Company's achievement of its objectives.

- f) Adopting resolutions relating to the acquisition or disposal of the Company's treasury shares, if and as authorised at the General Shareholders' Meeting and the general policy regarding treasury shares established by the Board of Directors.

In addition to the responsibilities described above, all the Board's powers have been delegated to the Executive Committee, except for those which cannot be delegated by law, in accordance with the resolution adopted by the Board of Directors at its meeting on 27 July 2006.

Notwithstanding the foregoing, at a meeting on 20 July 2016 the Executive Committee agreed to focus its encounters on the analysis of strategic issues or any other issues it saw fit to discuss, in accordance with the conclusions drawn in the independent assessment of the composition and structure of the Board of Directors referred to in section C.1.20 of this report.

Action taken in 2016

The Executive Committee held nine (9) meetings in 2016, at which it addressed all the responsibilities attributed to it. None of these can be described as more important than others, since they are all important.

All these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2016, which is available in the section of information for shareholders and investors on the Company's corporate website: [www.bolsasymercados.es](http://www.bolsasymercados.es).

Indicate whether the breakdown of the Delegate or Executive Committee reflects participation on the Board of the different types of directors:

Yes  No

#### Audit committee

Name	Post	Category
MRS. MARGARITA PRAT RODRIGO	CHAIRMAN	Independent
MR. ÁLVARO CUERVO GARCÍA	MEMBER	Independent
MR. RAMIRO MATO GARCÍA-ANSORENA	MEMBER	Dominical

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

Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.

The Audit Committee is regulated by article 35 of the Articles of Association and article 19 of Board Regulations.

#### Organisation and operation

- The Audit Committee shall be composed of a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed and removed by the Board of Directors. All the Committee members must be non-executive Directors, and a majority must qualify as independent Directors.

The Audit Committee currently comprises three (3) members pursuant to the agreement adopted by the Board of Directors at its meeting on 27 July 2006.

- The Chairman of the Audit Committee shall be appointed by the Board of Directors from among its independent Directors and must be replaced every four (4) years. The Chairman may be re-elected one year after completing his term.

In the event of the absence or temporary unavailability of the Chairman, his place shall be taken by the independent Director Committee member designated for that purpose by the Board of Directors and, in his absence, by the eldest independent Director Committee member and, if the independent members are the same age, by the member chosen by lot.

- The Secretary to the Committee shall be appointed by the Board of Directors from among its members and shall draw up the minutes of the resolutions adopted. The Board may also appoint the Board Secretary or any of the Deputy Secretaries as Secretary to the Committee even if they are not Committee members, as well as a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but may not vote.
- The Audit Committee shall meet whenever it is convened by the Chairman or a meeting is requested by at least two (2) of its members, and at the request of the Board of Directors.

- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting by proxy. When there is a tie in voting, the Chairman, or the person standing in for him, shall have the casting vote.
- In order to perform its tasks the Committee may seek the assistance and collaboration of independent experts and request the attendance at its meetings of Company or group executives.
- The Audit Committee must report to the Board of Directors on its activities in the course of each year, and the Secretary shall send the members of the Board of Directors a copy of the minutes of Committee meetings.

#### Responsibilities

The Audit Committee has been assigned the duties established in article 529 quaterdecies of the Companies Act, in the version furnished by Act 22/2015 of 20 July on the Auditing of Accounts, as well as the following additional competences:

- To supervise the Group's regulatory compliance function, under the authority of the Audit Committee.
- Supervision of the effectiveness of risk control systems includes supervision of tax risks.
- To be informed of the fiscal policies applied by the Company.
- To analyse information on structural and corporate changes the Company plans to carry out and report on the economic conditions thereof and their accounting impact.

#### Action taken in 2016

The Audit Committee held ten (10) meetings in 2016, at which it addressed all responsibilities attributed to it. None of these can be described as more important than others, since they are all important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2016, which is available in the section of information for shareholders and investors on the Company's corporate website: [www.bolsasymercados.es](http://www.bolsasymercados.es).

#### **Identify the director on the Audit Committee appointed in the light of his/her knowledge and experience of accounting, audit or both, and report on the number of years the Committee Chairman has held the post.**

<b>Name of the director with experience <sup>(1)</sup></b>	MRS. MARGARITA PRAT RODRIGO
<b>Nº of years the Chairman has held this post <sup>(2)</sup></b>	3

(1) Mr. Ramiro Mato García-Ansorena was also appointed as a member of the Audit Committee on the basis of his knowledge and experience in accounting and auditing.

(2) Mrs. Margarita Prat Rodrigo has been Chairman of the Audit Committee since 30 April 2014. She previously held this post from 27 July 2006 to 29 April 2010.

### Appointments and remuneration committee

Name	Post	Category
MR. MANUEL OLIVENCIA RUIZ	Chairman	Independent
MR. ÁLVARO CUERVO GARCÍA	Member	Independent
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	Member	Proprietary
MR. CARLOS FERNÁNDEZ GONZÁLEZ	Member	Other external

<b>% of proprietary directors</b>	25.00%
<b>% of independent directors</b>	50.00%
<b>% of other external directors</b>	25.00%

### Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.

The Appointments and Remuneration Committee is regulated by article 36 of the Articles of Association and article 20 of the Board of Directors' Regulations.

#### Organisation and operation

- The Appointments and Remuneration Committee shall comprise at least three (3) and at most five (5) Directors, appointed by the Board of Directors from among its non-executive members, of which at least two (2) must be independent Directors. The members of this Committee shall remain in office for as long as they continue to be Company Directors, unless the Board of Directors resolves to remove them.

The Appointments and Remuneration Committee currently comprises four (4) members pursuant to the agreement adopted by the Board of Directors at its meeting on 27 February 2014.

- The Chairman shall be appointed by the Board of Directors from among its independent Directors.
- The Board of Directors shall also appoint a Committee Secretary, an office which need not be held by a member of the Committee and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but not vote.
- The Committee shall meet as often as is necessary in the Chairman's opinion for the performance of its functions, at the request of the Board of Directors and whenever a meeting is requested by at least two (2) Committee members.
- There shall be quorum at Committee meetings when a majority of Committee members are present or represented by proxy, and resolutions shall be adopted by an absolute majority of the members who are present or represented. In the event of a tie, the Chairman shall have the casting vote.

- The Committee shall report to the Board on the performance of its functions and tasks in the course of each year and the Committee Secretary shall send a copy of the minutes of all Appointments and Remuneration Committee meetings to all Board members.

#### Responsibilities

The Appointments and Remuneration Committee has been assigned the duties established in article 529 *quindecies* of the Companies Act, as well as the following additional responsibilities:

- To report on compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment, re-election and removal of members of the Board of Directors proposed to sit on any of the Board Committees, as well as, where applicable, to hold any office thereon.
- To report on compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment and removal of the Deputy Secretaries of the Board.
- To verify compliance with the Company's remuneration policy.
- To verify information on remuneration received by Company Directors and senior executives contained in corporate documents.
- To monitor the independence of the external advice provided to the Committee.
- To supervise, at the request of the Board of Directors, compliance with the rules of corporate governance.

#### Action taken in 2016

The Appointments and Remuneration Committee held fourteen (14) meetings in 2016, at which it addressed all responsibilities attributed to it. None of these can be described as more important than others, since they are all important.

All these activities are set out in the report approved by this Committee on its responsibilities in 2016, which is available in the section given over to shareholders and investors on the corporate website of the company at [www.bolsasymercados.es](http://www.bolsasymercados.es).

#### **Market and systems operating procedures committee**

Name	Post	Category
MR. JOAN HORTALÁ I ARAU	Chairman	Executive
MR. KAREL LANNOO	Member	Independent
MR. JUAN MARCH JUAN	Member	Proprietary

<b>% of executive directors</b>	33.33%
<b>% of proprietary directors</b>	33.33%
<b>% of independent directors</b>	33.33%
<b>% of other external directors</b>	0.00%

Mr. Luis María Cazorla Prieto is Secretary (non Member) of all the Committees.

### **Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.**

The Markets and Systems Operating Procedures Committee is regulated by article 37 of the Articles of Association and article 21 of Board Regulations, and also by the Regulations of the Markets and Systems Operating Procedures Committee.

#### Organisation and operation

- The Markets and Systems Operating Procedures Committee shall consist of a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed, re-elected and removed by the Board of Directors.

The Markets and Systems Operating Procedures Committee currently comprises four (4) members pursuant to the resolution adopted by the Board of Directors at its meeting on 29 November 2007, and there is one vacancy.

- The Board of Directors shall appoint the Chairman of the Markets and Systems Operating Procedures Committee from among its members.
- The Board of Directors shall appoint a Committee Secretary, an office which need not be held by a member of the Board and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's Legal Advisory Services. In these cases, the Secretary may speak at meetings but not vote.
- The Markets and Systems Operating Committee shall meet at least once a month, and whenever it is convened by the Chairman, and there shall be quorum when a majority of Committee members are present or represented by proxy.
- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting. When there is a tie in voting, the Chairperson shall have the casting vote.
- The Markets and Systems Operating Committee must report to the Board of Directors on its activities, and to this end the Secretary must send the members of the Board of Directors a copy of the minutes of Committee meetings.

#### Responsibilities

The Markets and Systems Operating Procedures Committee has the following responsibilities, as directed in the Committee's own regulations:

- To analyse and monitor the procedures and regulations laid down by Group companies for the proper functioning of the markets and systems they manage.
- To be cognisant of the procedures established so that normal market conditions and the principle of equal treatment are applied to the transactions, operations and actions which the Company, its Directors or shareholders with significant and stable capital shareholdings perform as issuers, clients or users in the markets and systems managed by Group companies.
- To be cognisant of the application of the Internal Regulations of Conduct of the Company and its Group. Therefore, it shall periodically receive information in this regard from the Standards of Conduct Committee or equivalent body as envisaged in the aforementioned Regulations, and shall also report prior to any amendment of those Regulations submitted to the Company's Board of Directors for approval.
- Any other general or specific tasks commissioned by the Board.

#### Action taken in 2016

The Markets and Systems Operating Procedures Committee held eleven (11) meetings in 2016, at which it addressed all responsibilities attributed to it. None of these can be described as more important than others, since they are all important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2016, which is available in the section of information for shareholders and investors on the Company's corporate website: [www.bolsasymercados.es](http://www.bolsasymercados.es).

**C.2.2 Complete the following table on the number of female directors on the various Board committees at the end of the last four years:**

**Number of female directors**

	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive or delegate Committee	1	20.00%	1	25.00%	1	25.00%	1	16.67%
Audit Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Appointments and Remuneration Committee	0	0.00%	0	0.00%	1	25.00%	1	33.33%
Market and Systems Operating Procedures Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

The number of members on the Company's Executive Committee at 31 December 2016 was 5, at 31 December 2015 and 2014 it was 4, and at 31 December 2013 it was 6.

The number of members on the Company's Appointments and Remuneration Committee at 31 December 2014 was 4, and at 31 December 2013 it was 3.

**C.2.3 Section revoked.**

**C.2.4 Section revoked.**

**C.2.5 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 operation of the Board Committees is governed by the Board of Directors' Regulations. The Markets and Systems Operating Procedures Committee also has its own operating regulations.

As mentioned above, in accordance with the provisions of article 10.3 of the Board of Directors' Regulations, the Committees prepare a report on their responsibilities, which is sent to the Board of Directors so that their activities can be assessed.

The Regulations of the Board of Directors and of the Markets and Systems Operating Procedures Committee and the activity reports of the Board's Committees from each financial year can be found in the "Information for Shareholders and Investors" section of the corporate website [www.bolsasymercados.es](http://www.bolsasymercados.es).

**C.2.6 Section revoked.**

## D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

### D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

#### Procedure to notify the approval of related-party transactions

Article 7.4.d) of Board Regulations establishes that the Board of Directors, acting in full and through its Committees, shall approve the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto. The transactions that simultaneously meet the following three characteristics are excluded from the aforementioned approval:

- they are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
- they are performed at prices or rates established on a general basis by the person supplying the goods or services; and
- the amount does not exceed 1% of the Company's annual revenue.

Section I) of article 19.2 of the Board of Directors' Regulations also states that the Audit Committee shall report on the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto.

Moreover, given the market/systems activities carried on by the Group companies, article 29 of Board Regulations establishes that transactions, operations or actions undertaken by Directors and significant shareholders and their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.

### D.2 List any significant 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 significant 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 Report on significant transactions performed 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, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**

### D.5 Indicate the amount from transactions performed with other related parties.

0 (in thousands of euros)



## **D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interests between the company and/or its group, and its directors, management or significant shareholders.**

### 1. Conflicts of interests between the Company and/or its group and its Directors

The general duties of diligences and loyalty, which include the duty to avoid conflicts of interests, are regulated by articles 25, 26 and 27 of the Board of Directors' Regulations, under the same terms as established in the current legislation.

Directors must abstain from participating in the deliberations and voting on resolutions and decisions in which the Director or a related person has a direct or indirect conflict of interests. This obligation to abstain shall not include resolutions or decisions that affect their status as Director, such as their appointment or removal for positions on the Board of Directors or other similar decisions.

Proprietary Directors must not participate in votes on matters in which the shareholders who proposed their appointment and the Company have a direct or indirect conflict of interests.

For these purposes, Directors shall notify the other Directors and, where applicable, the Board of Directors of any situation that may entail a direct or indirect conflict of interests between them or any persons related thereto and the Company.

Directors of the Company must also notify the Audit Committee before accepting any Directorship or management position in another company or entity.

Moreover, transactions, operations or actions undertaken by Directors and/or their related parties in their activities in the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.

The above is understood as notwithstanding the fact that members of the Company's Board of Directors are also affected by the obligations established in this respect by the Internal Regulations of Conduct for BME and Group companies described below.

### 2. Conflicts of interests between the Company and its Group and employees

Rule V of the Internal Regulations of Conduct of BME and companies in its Group, applicable to members of the Board, management and employees of BME and companies in its Group, stipulates that all those subject to the Internal Regulations must act with due impartiality and in no case place their own interests before those of the Company, and must base their decisions on that which best serves the interests and legally attributed functions of BME.

Section B of Rule V of the Internal Regulations of Conduct states that BME's Directors, senior management and employees shall endeavour to avoid conflicts of interests with BME shareholders, members of or participants in the markets or systems governed or managed by companies belonging to the BME group, or with the issuers of the securities affected listed on those markets or systems or which have applied for listing.

If affected by a conflict of interests, they shall refrain from intervening in or influencing discussions and decisions concerning the persons or entities to which the direct interest in conflict refers, and shall notify whoever is responsible for decision-making accordingly. Notwithstanding the foregoing, the individuals affected may participate in the discussion and approval of any rules, instructions or decisions that shall apply generally to all investors, market members or companies with securities admitted for trading.

All individuals affected by the Internal Regulations of Conduct must notify the Standards of Conduct Unit of any possible conflicts of interests, which may affect them or related parties, as stipulated by the same Internal Regulations of Conduct.

The existence of any conflict of interests must be notified within five (5) days of the moment it becomes known and notification must be given before any decision or measure is taken which may be affected by the existence of this conflict of interests. Individuals affected must keep the information they supply up to date, giving notice of the termination of or any change in the situation of conflict and the emergence of new situations of this type.

Section G of Rule V stipulates that if they have any doubts about the existence of a possible conflict of interests, the individuals affected should consult the Standards of Conduct Committee on the matter before taking any decision or action that could be affected by the possible conflict.

### 3. Conflicts of interests between the company and its significant shareholders.

Article 21.2.b) of the Board of Directors' Regulations and article 7.1b) of the Regulations of this Committee stipulate that the Markets and Systems Operating Committee must oversee the procedures established so that normal market conditions and the principle of equal treatment are applied to the transactions, operations and actions which the Company, its Directors or shareholders with significant and stable shareholdings perform as issuers, clients or users in the markets and systems managed by Group companies.

In this regard, article 29 of the Board of Directors' Regulations stipulates that transactions, operations or actions undertaken by Directors and significant shareholders and/or their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject

to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties. Otherwise, such operations or activities must be authorised by the Board in full.

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

Yes  No

#### **Listed subsidiary**

**Indicate whether the type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies have been publicly and accurately defined:**

**Define any business dealings between the parent and the listed subsidiary and between the latter and other group companies**

**Identify the mechanisms in place to resolve possible conflicts of interests between the listed subsidiaries and the other group companies:**

**Mechanisms to resolve possible conflicts of interests**

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

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

The inherent risks of the activity carried out by BME Group companies are managed with criteria which allow the Company to pursue its interests and maximise its value, profitability and efficiency along with its other legitimate interests, both public and private, in a way whereby it is able to grow and operate in the markets and systems where Group companies operate and abide by EU law, the Securities Market Act and its implementing provisions.

BME is directly or indirectly the owner of companies operating in securities registration, clearing and settlement systems, central counterparty companies, official secondary markets in Spain and multilateral trading systems, and, as such, is responsible for the unity of action, decision and strategic coordination of those companies.

Implementation of the risk control and management policy, defined by the Board of Directors and managed by the Coordination Committee, falls to the Risk Committee in its capacity as the body responsible for monitoring and analysing the risks arising from the various activities carried on by Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas. The Risk Committee also draws up the corporate Risk Map, which is maintained by the parties in charge of managing the risks identified, and by the Internal Audit Department.

The Risk Committee has constructed an integrated risk management system (IRMS) following the methodological framework specified in the COSO II paper. According to the nature of each specific risk, the following lines of action are carried on in parallel:

- Business risks are managed on a decentralised basis; each Business Unit or Corporate Area is autonomous, and they all report to the Risk Committee.
- Corporate risks (strategic, financial, regulatory, technology, human resources) are managed on a centralised basis, coordinated among the different areas and treated at corporate level with standardised reporting to the Risk Committee.

The preparation and maintenance of the corporate Risk Map requires that each risk officer regularly update the information on each identified global risk needed for management and control; new events are identified and action plans are rearranged as necessary. Internal Audit assesses the controls established, and also residual risk.

As per the IRMS methodology, Business Unit and Corporate Area managers submit half-yearly assessment reports to the Risk Committee detailing any occurrences of the identified representative risks materialising, any changes in how they are assessed, measures to mitigate them, actions plans and the status thereof.

All reports drawn up by the Business Unit and Corporate Area managers are consolidated by the Risk Committee, together with any information on risks which it is responsible for managing, to produce the half-yearly IRMS Assessment Report. Once approved by the Risk Committee, this report is distributed to the members of the Coordination Committee and the Director of the Internal Audit Department, and its conclusions are explained by the General Manager, in his capacity as Chairman of the Risk Committee, every six months to BME's Board of Directors.

The BME Group's **risk control system** has been drawn up in accordance with international standards. Its functioning is governed by the following aspects:

1. BME Group companies that manage securities registration, clearing and settlement systems, Spanish official secondary markets and multilateral trading systems are governed by European Union law and the Securities Market Act and its implementing provisions.
2. In accordance with this legal framework, BME's financial statements and those of most of its Group companies are verified by an external auditor. Likewise, as required by the laws and regulations governing all markets, multilateral trading systems, central counterparties, and registration, clearing and settlement systems, in addition to their audit report the external auditors must review the internal control systems and assess the appropriateness of each.

3. The Company has an Internal Audit Department reporting to the Audit Committee which operates throughout the BME Group and which acts in keeping with the Framework for Professional Practice of the Institute of Internal Auditors.
4. The Company also has a Regulatory Compliance Department that operates independently from the Company's executive officers and bodies, reporting to the Audit Committee. Its role is to ensure compliance with the laws and regulations applicable to the Group's activities and to support the Audit Committee in supervising related regulatory compliance risk.
5. In order to establish common control systems there are regulations governing the different business units and corporate areas which regulate basic matters including:
  - a. Financial and accounting matters. The financial reporting process is subject to an internal control system (ICFR) which has been reviewed and documented in accordance with BME's IRMS methodology. This shall enable it to comply with the new regulatory requirements aimed at improving the transparency of listed companies' reports to the market. These include, inter alia:
    - i. A Procedures Manual for subprocesses containing a description of the operations, identification of the main risks and controls in place to mitigate them, valuation rules and accounting recognition criteria for the activities and transactions that could have a material impact on financial reporting.
    - ii. Corporate Accounting Plan.
    - iii. Annual calendar for financial and accounting information.
  - b. Information to markets:
    - i. Policies on the collection, treatment and disclosure of information to the markets.
    - ii. Procedure for drawing up and sending periodical information to Supervisory Bodies
  - c. IT Security. This area constantly strives to meet the most demanding standards and the sector's best practices. To this end it has:
    - i. An Information Security Management System ("SGSI") in accordance with ISO/IEC 27001, which includes policies, procedures and organisational structures to ensure that the BME Group's assets are efficiently and suitably protected.
    - ii. A Comprehensive Security Policy for each and every company belonging to the BME Group, in which security applies to protection against any type of risk that could jeopardise the interests of BME, as well as the people, processes, information, facilities etc. under their responsibility as set out in the Logical Security Policy, the Business Continuity Policy and the Physical Safety Policy.
    - iii. A Policy on Handling Sensitive Information in order to establish a criterion to classify and handle documents according to the level of confidentiality in order to reduce the risk of unauthorised access to sensitive information belonging to the BME Group.
    - iv. A Risk Committee, which reports to the Coordination Committee, comprising senior managers from the various corporate areas in charge of monitoring and analysing the risks arising from the various activities carried on by the companies in the BME Group in the framework of management coordinated through Business Units and Corporate Areas, as well as of logical security and physical safety risks. Meetings of this Committee are attended by the Heads of Compliance and Internal Audit, as well as the Head of Logical Security, but they cannot vote at meetings.
    - v. A Security Committee, reporting to the General Manager, in charge of defining and applying the BME Group's Security Policy on information security, through the Head of Logical Security, who is responsible for implementing, operating and maintaining the SGSI in accordance with the guidelines issued by the Security Committee, and on IT systems, through the Head of Physical Safety, who is in charge of safeguarding the physical infrastructures.
    - vi. A Joint Business Continuity and Contingency team specifically designed to meet the information and trading needs, the breakdown and settlement of securities and transparency to customers which does not affect its structure or make the contingency operations difficult.

- d. Project Management Office. The Project Management Office defines and maintains the standards for managing the projects of the BME Group, following best practices in project management and the strategy defined for the organisation. This Office is responsible for centralising the information and status of all the group's projects and regularly reporting to the project managers, the heads of the different departments and the management of BME regarding the status of the projects and the progress, risks or changes identified in the different monitoring tasks.
6. The Company is a member of CECON (Consortio Español de Continuidad de Negocio, the Spanish business continuity consortium), together with the leading players in the financial services industry (regulatory bodies and commercial entities). It was created to contribute to financial stability by improving awareness concerning business continuity and disseminating the best practices applicable. CECON initiatives include the creation of the 'CONTINUAM' business continuity institute. The Company, through BME Innova, is a founding partner of the institute, together with AENOR and leading players in the financial sector. The mission of CONTINUAM is to create, disseminate and promote a holistic business continuity culture at all levels of society, with the help of leaders from the various sectors.
  7. The Board of Directors approved the Company's Internal Regulations of Conduct which apply to all members of the Boards of Directors and employees of all Group companies, and establish the duties they are liable to perform in the area of confidentiality and integrity, developed by the Board of Directors through the approval of the "Policy for the processing and transfer of inside information" as well as allowing BME Group companies to approve special rules of conduct. In these cases, the Internal Regulations of Conduct shall apply in the absence of such special rules.
  8. On 30 September 2010 BME embraced the Code of Best Tax Practices, approved by the Large Businesses Forum on 20 July 2010 and, following up the recommendations of the Code, approved the policies and courses of action in relation to tax, which were updated by the Board of Directors at a meeting on 30 July 2015, after the Company's tax strategy had been defined. The process for Group companies to adhere to the aforementioned Code of Best Tax Practices terminated in 2016, and the practices were approved by their respective tax policies in 2016.
  9. At the behest of the Audit Committee, the Board of Directors approved the BME Group's Crime Risk Prevention System which, among other issues, included a Code of Conduct that comprises the ethical principles and conduct to which all BME Group directors, legal representatives, managers and employees must adhere. A Whistleblowing Channel is in place to enable employees to report any improper or illegal activities.
  10. Liquidity management is standard throughout the BME Group and the criteria established by the Company's Board of Directors, following a report by the Audit Committee, are duly followed. Within those bounds, in order to comply with applicable laws and regulations Group companies may prioritise investment in assets offering higher liquidity as opposed to returns. In this respect, the latest amendment to criteria for investing the Group's liquidity, approved by the Board of Directors at a meeting on 17 December 2014, sets out the criteria for investing the minimum own funds of BME Clearing, S.A.U. to cover the types defined in Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012, on OTC derivatives, central counterparties and trade repositories, and its implementing provisions.  
  
This specifies the criteria pursuant to which the Company should purchase assets, the term of such operations and authorisation levels. The main objective is to prioritise security and minimise investment risk, and this rules out the possibility of carrying out speculative operations.
  11. The Company also has in place a Communication Procedure regarding deficiencies in the risk control and management systems which has been approved by the Audit Committee, whereby personnel from the Company and the Group's companies may anonymously report any irregularities in the aforementioned systems.

In addition to the Group's risk control system, which applies to all Group companies, BME Clearing, S.A.U., the central counterparty managing entity, has an additional governance system and mechanisms for internal control and managing specific risks in accordance with the provisions of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on over-the-counter (OTC) derivatives, central counterparties and trade repositories, and its implementing provisions.

Finally, up to 25 November 2016, the date of the CNMV's resolution to revoke and withdraw MEFF Euroservices, S.V., S.A.U. from the Administrative Register of investment services companies, this Company had the governance systems and control mechanisms required by Royal Decree 358/2015 of 8 May, and CNMV Circular 1/2014 of 26 February, and also the internal bodies responsible for implementation of policies and procedures for preventing money laundering and the financing of terrorism in accordance with the provisions of Act 10/2010 of 28 April.

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

### Board of Directors.

The Board of Directors is BME's most senior governing and administrative body, in charge of stimulating, directing and supervising matters that are of particularly importance to the Company.

The general functions of the Board of Directors, which are set out in article 7 of the Board of Directors' Regulations, include defining the policy for the control and management of risks, including tax risks, and supervising the internal information management and control systems, including those that are tax-related, and the internal audit systems.

To perform this duty, the Board of Directors has the support of the Audit Committee.

### Audit Committee

Pursuant to article 19 of the Board of Directors Regulations, the Audit Committee shall have the following responsibilities, among others:

- To supervise the effectiveness of the Company's internal control and risk control systems, including tax risks, which shall involve the review, at least once a year, of the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported. The Audit Committee is also charged with discussions with the auditors or, as the case may be, experts appointed for that purpose, regarding any significant weaknesses detected in the auditing process, and also with the submission of recommendations or proposals to the Board of Directors.
- To supervise the Company's internal audit services. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports.

The Company also has in place a communication procedure regarding deficiencies in the control and risk management systems which is directly supervised by the Audit Committee.

The Audit Committee has set up a Crime Prevention Committee, which is responsible for the prevention of criminal risks, and implementation and development of and compliance with the BME Group's criminal risk prevention system.

#### Markets and Systems Operating Procedures Committee

Pursuant to article 21 of the Board of Directors' Regulations, and article 7 of the Regulations of the Markets and Systems Operating Procedures Committee, the Committee shall have the following functions, among others:

- To analyse and monitor the procedures and regulations set forth by group companies for the correct operation of the markets and systems managed thereby.
- To be cognisant of the application of the Internal Conduct Regulations, periodically receiving information in this regard from the Standards of Conduct Committee, created in these Regulations.

#### Coordination Committee and Risk Committee

The Coordination Committee, comprising the managers of the Business Units and Corporate Areas, is the body responsible for considering proposed new activities, projects and business opportunities and permanently coordinating the management and execution of such initiatives on an ongoing basis with the various Company and Group areas.

The Risk Committee reports to the Coordination Committee and is in charge of monitoring and analysing the risks arising from the various activities carried on by the Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas.

The Risk Committee is responsible for implementing the risk management and control policy laid down by the Board of Directors and overseen by the Coordination Committee. Specifically, the Risk Committee is in charge of:

- a) implementing the risk assessment model adopted by the Coordination Committee in pursuance of the risk management policy defined by the Board of Directors.
- b) producing the corporate Risk Map, subsequently to be maintained by the various officers responsible for managing identified risks and by the Internal Audit Department.
- c) reporting to the Coordination Committee on all matters relevant to the Group's risk management policy.
- d) laying before the Coordination Committee proposed actions to improve risk monitoring and control procedures.

#### Security Committee

The Security Committee, which reports to the General Manager, is in charge of establishing the BME Group's Security Policy, covering both logical and physical security.

### E.3 Indicate the main risks, including tax contingencies, that can prevent the company from achieving its business targets.

BME is present throughout the whole value chain in the management of several financial markets, exposing it to a variety of risks:

Operational risks: The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are classified in terms of their applicability to the BME Group overall, or exclusive identification for one of the business units or corporate areas.

Operational risks affecting all BME business units and corporate areas include:

- Risk of fraud: This is the risk of action taken to avoid a regulation, which may cause damage to a third party or to the Group itself.
- IT risk: This is the risk of faults in the IT and electronic systems used by the Group, either internally or in relation to the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information, and also any alterations and/or intrusions that may arise in system security. The operational component of this risk makes it critical to the BME Group.
- Risk of administrative errors: These arise from erroneous calculations, improper execution, faulty manual operations or because databases have not been updated. They also include any events arising from errors during billing or monitoring of collections.

Risks affecting the Securities Settlement System: Sociedad de Gestión de los Sistemas de Registro, Liquidación y Compensación de Valores, S.A.U. (IBERCLEAR) is Spain's Central Securities Depository, governed by articles 47 and thereafter of Royal Legislative Decree 4/2015 of 23 October approving the revised text of the Securities Market Act, which manages the accounting records and settlement of securities listed for trading on Spanish stock exchanges, the book-entry public debt market, AIAF and Latibex, the market for Latin American stocks traded in euros and the MAB ("Mercado Alternativo Bursátil").

These responsibilities make IBERCLEAR responsible for fulfilling specific regulations applicable to the keeping of book entries of securities admitted for trading on the system and the settlement of transactions carried out on markets on the strict principle of delivery against payment.

- Depository risk. Possibility of incorrect balances registered in the system in comparison to the balances issued, arising from duplicate calculations, incorrect breakdowns in third-party accounts etc., which may affect the normal course of operations and national or international appraisals, and the system overall.

In 2016 the risks of the Securities Settlement System were amended as a result of the introduction of the reform of the equities clearing and settlement system. The reform introduced a mandatory Central Counterparty for settlement of equity transactions on Stock Exchanges. The Central Counterparties eliminated the risks previously undertaken by Iberclear in terms of insufficient collateral furnished by participants and guaranteed delivery in the event of non-settlement.

The settlement and registration of equities are managed on a new platform (ARCO), on which all transactions are treated as bilateral operations during the settlement process, and some of these operations entail involvement as a participant by the Central Counterparty, which now intervenes in stock exchange operations.

Since the reform was introduced, therefore, two applications are used at Iberclear for the registration and settlement of securities: ARCO for equities, and CADE for fixed-income securities. In the event of a default by a counterparty, at the intended date of settlement, operations are not settled, and are cancelled on the CADE platform or recycled on the ARCO platform.

Market risks: These are the current or potential risk posed by adverse movements in interest rates or changes in prices or share prices, or variations in trading volumes.

Liquidity and solvency risk: Defined as the risk that a Group company is unable to meet its payment commitments.

Credit or counterparty risk: The risk of a Company debtor failing to meet its payment commitments, or an impairment of its credit rating. We can identify two main risks affecting the BME Group.



- Counterparty risk associated with BME Clearing: In its role as the Central Counterparty, the risk undertaken by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk and controlling the collateral called in from and paid by clearing members with respect to that risk.
- Risk arising from non-payment of invoices or fees

Industry risk: Compliance risks in connection with regulatory changes, the Company's reputation, sector competency, relations with stakeholders, and the political, economic, legal and tax environment.

#### **E.4 Identify if the company has a risk tolerance level, including with respect to tax contingencies**

As mentioned in section E.1, BME, directly or indirectly, is ultimately the sole shareholder of the companies managing securities registration, clearing and settlement systems, central counterparties, official Spanish secondary markets and multilateral trading systems.

BME's Group companies are members of the European Association of CCP Clearing Houses (EACH), the European Central Securities Depositories Association (ECSDA) and the Federation of European Securities Exchanges (FESE). These bodies share a common goal of obtaining greater efficiency and integration in the capital markets based on the best practice recommendations for settlement systems proposed by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO).

Group companies operate specific governance systems and mechanisms for internal control, risk management and ongoing supervision which enable them to design response plans in alignment with specified risk tolerance levels, in due consideration of applicable laws and regulations and to the recommendations issued by the organisations referred to above (see section E.6).

The BME Risk Committee is responsible for monitoring and analysing all risks arising from the activities performed by Group companies. These tasks are conducted as part of the coordinated management through the business units and corporate areas.

In accordance with the IRMS methodology discussed earlier, the Risk Committee considers and determines the risk tolerance level to be managed by each corporate area, in due consideration of the levels prescribed by the regulations specifically applicable to Group companies.

The Risk Committee is also responsible for implementing the risk management and control policy laid down by the Board of Directors and overseen by the Coordination Committee. In particular, implementation and monitoring of the risk assessment model adopted by the Coordination Committee.

Based on the most advanced standards (Basel, BIS), for each of the Group's main activities and sources of risk, the model estimates contingent losses in extreme but realistic worst-case scenarios for exposures to various risks. The Group's expected loss model is an internal probabilistic model calibrated at the 99% confidence level for reasonable timeframes that provide a good fit with each activity segment. Some Group companies, however, use a higher confidence interval in compliance with the regulations specifically applicable to their activities. The model is supplemented by stress tests (extreme worst-case scenarios) to gain an insight into how risk exposures might behave in extreme and improbable situations.

### **E.5 Identify any risks, including tax contingencies, that have occurred during the year.**

Of the risks covered by the system, as mentioned in E.3 above, IT risk is particularly noteworthy.

The systems supporting Group companies' activities undergo continuous review and adaptation in response to regulatory changes and the implementation of IT recommendations and best practices as they emerge. Given their connections to public and private entities, the systems are subject to functional modifications and improvements that require changes and new versions.

The incidents related to this risk that have occurred have been managed by prioritising recovery of service, with sufficient internal and external reporting.

Resolving such incidents has entailed the implementation of improvements in the control systems and reporting to the Markets and Systems Operating Procedures Committee and to the CNMV.

None of the other main risks materialised (see section E.6).

The Company's earnings and its ability to create value were unaffected, and response systems performed satisfactorily.

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

*IT risk: This is the risk of faults in the IT and electronic systems used by the Group, either internally or in relation to the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information, and also any alterations and/or intrusions that may arise in system security. The operational component of this risk makes it critical to the BME Group.*

This risk is managed and controlled by the BME Technology Corporate Area. The Area employs IT engineers specialising in each of the systems supporting BME's activities.

The systems supporting activities engaged in by BME companies are duplicated in order to eliminate single failure points. Critical infrastructure and equipment are duplicated in the alternative back-up centre at a different location to the main DPC. For most of the critical systems, all data stored by the central system are backed up simultaneously in real time at the alternative back-up centres. In trading applications, replication is based on an asynchronous parallel transaction processing solution in the contingent liability systems located in the alternative back-up centre. Back-up copies of all processes are kept. As with the primary DPC, the alternative centre is equipped with all the technical means required to resume the Company's activity in the event of a disruption of the primary centre.

The communications network providing access points for participants provides dual connections to the primary DPC and the back-up centre, with diversification of suppliers. Procedures and agreements are in place with the main communications suppliers to ensure lines from the primary DPC to the back-up centre can be switched transparently for the entities.

The Production and Systems Departments are responsible for monitoring any error messages, alerts or flags in any application, communication system, network, database or system. An internal server monitoring system is in place which reviews a series of parameters by default. The system can be configured so that updates and alert messages are triggered in certain circumstances involving usage of disk space, memory and processing power.

The Production and Systems Departments have documented incident response procedures in place. The various system performances are monitored daily. Data obtained from this monitoring are automatically processed to prepare statistics and reports that are available to authorised users on the intranet. All procedures are documented and available on the Group intranet.

Depository risk. Possibility of incorrect balances being fed into the system with respect to the balances issued, dual entries, incorrect breakdowns in third-party accounts etc. which may affect normal operations and the company's reputation at home and abroad, and that of the overall system.

To prevent any depository risk associated with the sum of the balance recorded in the accounts of participants not matching the security's outstanding balance, due to an error, the two applications handling the registration and settlement of securities, CADE (fixed income) and ARCO (equities) have been designed to strictly adhere to the principle of double-entry bookkeeping. In other words, securities credited to the account of a participant must be simultaneously debited to another account. All the securities registered in the system have been assigned a technical issue account, the negative balance of which reflects the total amount of the issue registered in the system.

Both applications have an intraday control and a control on completion of settlement each day to ensure that the sum of the securities registered in the participants' accounts is equal to the negative balance shown in the technical issue account. If any of the controls encounters a discrepancy, the system shuts down and flags a serious non-consistency.

Iberclear participants are responsible for checking the balances in participants' global third-party balances, and that these match the securities registered in their customers' accounts. However, regular supervisory controls are carried out, and entities are asked to provide a breakdown of their customers' accounts to ensure that the customers' balances match the total balance shown in the overall third-party account at Iberclear.

Counterparty risk associated with BME Clearing: In its role as the Central Counterparty, the risk undertaken by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk and controlling the collateral called in from and paid by clearing members with respect to that risk.

As a central counterparty, BME Clearing manages its business risks independently in accordance with BME's IRMS.

Therefore, under the EMIR rules applicable, it has a risk management framework comprising risk management policies, procedures, and systems that enable it to identify, measure and control any risks to which it is or may be exposed. In addition, a consultative Risk Committee advises the Company's Board on all measures that might affect the central counterparty's risk management.

The central counterparty's risk management framework encompasses, inter alia: margin requirements and how margins are to be enforced; topping up the default fund in the event of defaults; review of the models employed, stress tests, back testing, control of liquidity risk and the procedure to be followed in the event of default.

All risks are first identified by the Internal Risk Committee, which periodically reviews risk management issues related with day-to-day operations, specifically the level of compliance with risk management criteria, models and parameters.

The risk management system used by BME Clearing, in accordance with the laws and regulations referred to above, focuses on monitoring and measuring exposures to participants by measuring credit, market and concentration risks in real time, using applications for managing the issues involved and sending alerts to participants.

*Industry risk: Compliance risks in connection with regulatory changes, the Company's reputation, sector competences, relations with stakeholders and the political, economic, legal and tax environment.*

Group companies manage securities registration, clearing and settlement systems, central counterparties and multilateral trading systems. These activities are regulated by legislation passed by the European Parliament and Council, and by the Securities Market Act and its implementing provisions.

BME operates a Regulatory Compliance Department to check that Group companies' processes are compliant with applicable laws and regulations and to help monitor regulatory changes that might affect the Group's activities.

This function is supported by compliance officers at business units and corporate areas, who have developed internal standards and procedures to bring activities into line with prevailing law.

As already mentioned above in section E1 of this report, as BME undertook the Code of Best Tax Practices, the Audit Committee took due note of the tax policies applied by the Company in 2016, which were set out by the General Manager before the financial statements were drawn up. Subsequently, at a meeting on 19 July 2016 the Audit Committee was informed by the General Manager of the tax policies applied by the Company for the filing of the 2015 income tax return.

Furthermore, in accordance with specifically applicable regulations, BME Clearing has a Regulatory Compliance Verification Unit tasked with supporting BME Clearing and its Board of Directors in meeting its objectives by implementing regulatory compliance control procedures which help provide services that are responsible and compliant with EMIR rules and Delegated Regulation (EU) No 153/2013.

The Board, through the Audit Committee, is responsible for ensuring that the BME Group's internal control and risk management systems, including tax risk, are efficient, as set out in article 19 of Board Regulations, which, among other matters, stipulates that the Audit Committee shall be authorised to *"supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it shall supervise the control and risk management systems to ensure that the main risks are properly identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose, any significant weaknesses detected in the auditing process."*

The Board of Directors determined the Company's tax strategy, in accordance with the provisions of article 529 ter of the Companies Act, and subsequently, at a meeting on 30 July 2015, it updated the tax policies applicable to BME, which set out the principles of tax strategy and had been approved since it embraced the Code of Best Tax Practices.

The Audit Committee is supported in its role of supervising the IRMS by the BME Group's Internal Audit Department. Thus, the regulations for the BME Group Internal Audit state that, among its functions, the Internal Audit department shall: *"... oversee the proper functioning of the internal control and risk management systems, and keep the Board, Audit Committee and senior management of BME informed, through the Risk Committee, on the adequacy and effectiveness of the procedures, norms, policies and instructions established by Group companies to ensure the proper functioning of these systems"*.

## F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS 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 and effective ICFR; (ii) its implementation; and (iii) its monitoring.

As stipulated in article 25 of the Articles of Association and article 7 of the Board of Directors' Regulations, the Board of Directors is the Company's most senior governing and administrative body, and shall undertake, among other responsibilities, supervision of the transparency and veracity of Company information in its relations with shareholders and with the markets in general, identification of the principal risks affecting the Company, including tax risks, and supervision of internal control systems. The BME Group has defined an Integrated Risk Management System (IRMS), into which it incorporated the Internal Control over Financial Reporting (ICFR) system, after this had been approved by the Risk Committee.

As stipulated in article 7 of the Board of Directors' Regulations, the Board of Directors shall entrust the management of the Company's ordinary business to its delegate bodies, its executive members and the senior management team. In line with this delegation of management to senior management, the BME Group's finance department is responsible for the design, introduction and functioning of the ICFR.

The Board of Directors, through the Audit Committee, is the body responsible for ensuring the effectiveness of the Company's internal control and the BME Group's risk management systems, including tax risks, which includes supervising the IRMS, including the ICFR, as per article 19.2.e) of the Board of Directors' Regulations. This article, among other issues, stipulates the Audit Committee shall be authorised to *"supervise the effectiveness of the Company's internal control and risk control systems, including tax risks. To this end it shall supervise, at least on an annual basis, the risk control and management systems, in order to ensure that the main risks are identified,*

*managed and properly made known, and shall discuss with the auditors or, where applicable, any experts that may be designated for this task, any significant weaknesses in the internal control system detected in the course of the audit."*

The Internal Audit Department of the BME Group plays a key role in carrying out the functions delegated to it by the Audit Committee with regard to monitoring IRMS and, particularly, ICFR. Thus, the regulations for the BME Group Internal Audit Service state that, among its functions, the Internal Audit department shall: *"... oversee the proper functioning of the internal control and risk management systems, and keep the Board, Audit Committee and senior management of BME informed, through the Risk Committee, on the adequacy and effectiveness of the procedures, norms, policies and instructions established by Group companies to ensure the proper functioning of these systems with respect to the achievement of goals related to:*

- *Effectiveness and efficiency of resources and operation.*
- *Reliability of financial, tax and operational information.*
- *Compliance with applicable laws and other regulations, including tax."*

#### F.1.2 The existence of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) designing and reviewing 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.**

The BME Group is a group of companies under coordinated management divided into seven Business Units (Equities, Derivatives, Clearing, Fixed Income, Settlement and Registration, Information, and IT & Consulting) and seven Corporate Areas (Human Resources, Technology, Finance, Corporate Communication, International Relations, General Secretariat and Legal Consultancy).

By virtue of the provisions of article 7.4 of Board Regulations, the Board of Directors is responsible for approving the financial information that must periodically be disclosed because it is a listed company, and the process of drawing up and presenting this information is supervised by the Audit Committee, as stipulated in article 19.2 of the aforementioned Regulations.

As noted above, the Board of Directors shall entrust the management of the Company's ordinary business to its delegate bodies, its executive members and the senior management team, focusing its activity on the general responsibility of stimulating, directing and supervising matters of particular significance for the Company, undertaking, among other duties, to stimulate and supervise senior management, establishing the basis of the corporate organisation in order to ensure maximum efficiency.

To this end the BME Group has various procedure manuals which clearly establish the allocation of tasks and levels of responsibility and authority in the preparation of financial information. These manuals have been distributed to all employees involved in preparing relevant financial information, including all companies of the Group. With this framework, the BME Group endeavours to guarantee, among other aspects, that the established organisational structure offers a consistent ICFR model.

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

The Company has a BME Group Code of Conduct and *Internal Conduct Regulations for Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*, approved by the Board.

The BME Group Code of Conduct was approved by the Board of Directors on 29 November 2012 as part of the system for the prevention of criminal risks, and comprises the ethical principles and conduct with which all BME Group directors, legal representatives, managers and employees must comply. The Code of Conduct lays down the general guidelines for conduct of all those affected by the Code and describes the guidelines for conduct in specific situations, including the fulfilment of accounting and tax obligations and compliance with internal controls in this regard.

In conjunction with the BME Group Code of Conduct, the Internal Conduct Regulations lay down the principles and framework of action for the Company and its Group with respect to the securities markets. Employees have permanent access to the Code of Conduct and the Internal Conduct Regulations in internal regulations and on the Group's intranet in the Online Human Resources section under "Code of Conduct", where they are requested to acknowledge that they have read them.

The main points covered in these Regulations, as well as how training is given, are as follows:

- Individuals included.
- Actions included and securities affected.
- Standards of Conduct Committee.
- General principles of conduct.
- Conflicts of interests.
- Use of information.
- Transactions.
- Special rules regarding insider information.
- Material information.
- Rules on the management of treasury stock.
- Non-compliance.
- Entry into force and transitional provisions.

The Standards of Conduct Committee is the body in charge of applying, interpreting and monitoring these Regulations, as well as approving the instructions or guidelines for their implementation. It is also in charge of investigating breaches and proposing corrective or disciplinary action where applicable.

This Committee reports to the Board's Markets and Systems Operating Procedures Committee. Its remit includes familiarity with application of the Internal Conduct Regulations and periodically receiving information from the Standards of Conduct Committee.

The BME Group also has a *Declaration of Ethical Values for the preparation of financial information*, approved by the Risk Committee at a meeting on 13 February 2012, and applicable to all BME Group employees.

The declaration of ethical values establishes the rules of conduct to which all employees must adhere and the ethical principles related to the preparation of financial information, on the following principles:

- (...)
- *Independence: employees shall adopt a permanent attitude of objectivity and independence in the performance of their various activities within the Group, not only observing all applicable guidelines but also preventing situations in which, due to a possible conflict of interests or any other circumstance, impartiality and objectivity could be affected.*
  - *Completeness: employees shall demonstrate honesty and rigour when carrying out tasks concerning the preparation of financial information and shall not be influenced by external factors which may affect their professional judgment, and shall ensure that the criterion is maintained at all times and that the information is treated impartially and comprehensively.*
  - *Responsibility: employees shall use their technical and professional skills when handling and preparing financial information. They shall be responsible for obtaining the necessary capacitation in order to carry out their duties to the best of their ability.*
- Likewise, they shall be subject to applicable legislation regarding financial reporting and shall respect the procedures established internally. They shall record transactions accurately and maintain the same criteria for all files and records required.*
- *Professionalism and dedication: employees shall comply with the professional standards, laws and the rules and regulations applicable to each case and avoid any situation which might jeopardise the prestige of the Group or its professionals.*
- Likewise, they shall endeavour to do not only what is lawful, but also what is right and proper.*
- *Confidentiality: employees are bound by professional secrecy and strict confidentiality when handling financial information to which they are privy in the course of their work.*

(...)"

- **'Whistle-blowing' channel, to report to the Audit Committee 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.**

Article 19.2.c) of Board Regulations outlines, inter alia, the responsibilities delegated to the Audit Committee concerning the establishment and supervision of: "(...) the instruments to enable Company personnel to anonymously report any irregularities in the internal control and risk management systems. (...)"

In accordance with the abovementioned article, at a meeting on 25 January 2007, with prior approval by the Audit Committee, the Board approved the procedure for notifying deficiencies in the internal control and risk management systems, which is available to all employees on the Group's intranet.

This procedure for notifying deficiencies is a way for all BME Group staff to report possible irregularities detected in the internal control and risk management systems to the Audit Committee, through the Internal Audit Department, anonymously and in writing, via any mail system, in strict confidence at all times.

For practical purposes, for this procedure the Internal Audit Department shall be responsible for (i) keeping a record of all notifications received concerning relevant issues; (ii) analysing all notifications and, if applicable, carrying out the necessary enquiries, verifications and analysis to check the irregularity or deficiency reported; and (iii) informing the Audit Committee of its actions.

In connection with the BME Group's Criminal Risk Prevention System, a Whistleblowing Channel was also set up whereby BME employees and management may report any events that may indicate non-compliances by other employees or management with the policies or procedures operated by the Group, with the Code of Conduct or any other actions which could indicate that an offence has been committed.

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

The BME Group has a training policy defined by the Human Resources Department aimed at providing a continuous training plan for all staff involved in preparing and reviewing financial information, as well as assessing ICFR.

During 2016, as part of the annual training plan for all BME Group employees, various courses were offered. These courses were internal and external, onsite (offered at the company's various work centres) and online (based on an e-learning/ blended learning methodology for courses which could be offered in this format). The following areas were covered:

- User applications: Training in the software facilitator for task automation.
- Development of skills: Training aimed at developing competences and skills in the workplace.
- Markets and financial assets: Training in the BME Group's markets, assets and business areas.
- IT: Training in the development and perfection of new technologies.
- Specific annual refresher course in accounting regulations for the Finance Department.

Training targets all BME Group employees. In 2016 Group employees received a total of 10,298 hours of training. 728 hours of training were provided in the Financial and Internal Audit Departments.

## **F.2 Risk assessment in financial reporting.**

### **Report at least on:**

#### **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 Risk Committee has developed an integrated risk management system (IRMS) based on the methodological framework specified in the COSO II Report. According to the nature of each specific risk, the following lines of action are carried out in parallel:

- Business risks are managed on a decentralised basis; each business unit or corporate area is autonomous, and all units and areas report to the Risk Committee.
- Corporate risks (concerning strategy, finance, regulations, tax, technology, human resources) are managed on a centralised basis, coordinated among the different areas and addressed at corporate level with uniform reporting to the Risk Committee.

In accordance with the IRMS Methodology, on a six-monthly basis the Risk Committee receives information on the management of ICFR, which is included in the information relating to the IRMS and is submitted through the Audit Committee to the Board of Directors.

- **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.**



Within the risk identification process, including tax risks, and formalisation of the ICFR, in order to guarantee the reliability of the relevant financial information based on a criterion of defined materiality, and taking into account all the financial information reported and disclosed, the following global objectives of the BME Group have been taken into account:

- a) Existence and occurrence: Transactions, facts and other events presented in the financial information exist in reality and have been recorded at the right time.
- b) Completeness: The information includes all transactions, facts and other events in which the Group is the affected party.
- c) Valuation: Transactions, facts and other events are recorded and valued in accordance with applicable standards.
- d) Presentation, disclosure, and comparability: Transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards.
- e) Rights and obligations: Financial information shows, at the corresponding date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards.

With regard to the preparation and maintenance of the corporate risk map, which includes those relating to ICFRS:

- Information concerning each of the global risks identified (necessary for the purposes of management and control), a periodic update is carried out by each risk officer (concerning ICFR, the Finance Department):
- New events are identified; and
- Action plans are rearranged as necessary.

The Internal Audit Department evaluates the controls in place and quantifies residual risk.

- **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.**

As part of the process of identifying and assessing risks in financial reporting, the Group's Finance Department is responsible for identifying and/or modifying the scope of consolidation and assesses the following:

- a) the significant influence, if applicable, the Company, individually or in conjunction with the rest of the BME Group companies, has over the company concerned;
- b) the percentage of the effective stake held by the BME Group in the company concerned;
- c) the activity and corporate purpose; and
- d) the existence of a "decision-making unit" in accordance with applicable legislation.

Therefore, in accordance with the provisions of article 7.3.g) of its Regulations, with regard to the management guidelines and establishing the basis for the corporate organisation of senior management, the Board is responsible for: *"Approving the creation or acquisition of stakes in exclusively special-purpose vehicles or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a comparable nature the complexity of which could impair the transparency of the group"*.

No complex corporate structures or special-purpose vehicles were identified in 2016.

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

The risk identification process takes into consideration both business and support processes, and applications in the preparation of financial information. For the purpose the BME Group has established a **Structure of corporate risks** which includes the following types of risk:

- Operational risk.
- Market risk.
- Reputational risk.
- Risk of fraud.
- Legal risk.
- Tax risk.
- Criminal risk.
- IT risk.
- Credit or counterparty risk.
- Inherent risk in the securities settlement system.

The BME Group prioritises each of the identified risks, weighting them according to the probability of occurrence (low, moderate, significant and very high) and the impact on the Group should a detected risk turn into a real event (low, moderate, significant and critical).

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

The Board is responsible for *"determining the risk management and control policy, including tax risks, and overseeing the internal information and control systems, including the process of preparing and submitting regulated financial information"*. To carry out this duty, the Board of Directors has the support of the Audit Committee, to which it entrusts, among others, the task of *"supervising the efficiency of the Company's internal control and risk control, including tax risks. To this end, at least once a year it shall supervise the control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose, any significant weaknesses detected in the auditing process"*.

Ultimately it is the Internal Audit Department which, in accordance with the provisions of the *Regulations for the BME Group Internal Audit*, the most recent version of which was approved by the Audit Committee on 24 November 2014, which has, among others, the following functions: *"(...) to assist BME's Audit Committee, and the companies listed in Appendix II –BME Clearing, S.A.U. and MEFF Euroservices, S.V., S.A.U. (up to 25 November 2016)-, with their respective Audit Committees, in supervision of the effectiveness of risk management processes and the control mechanisms applicable, by exercising an independent function in accordance with professional quality standards and regulations, thereby helping to comply with regulations applicable to Group companies and the most stringent Corporate Governance standards, and reducing the possible impact of risks on achievement of the Company's goals to the lowest possible level. (...)"*.

### 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 judgments, estimates, valuations and projections.**

The preparation of the financial information which is disclosed to the stock market and its subsequent review is entrusted to a suitably defined human and technical team which ensures that this information is precise, true and comprehensive according to current legislation. The procedures for preparing and reviewing financial information have been defined and documented by the Finance Department. Other departments also assist in ensuring that the necessary level of detail is obtained.

Therefore, the procedures for accounting closure and the preparation of the financial statements occasionally rely on key judgments, estimates and assumptions made by senior management to quantify assets, liabilities, revenue, expenses and commitments, which are described in detail in the corresponding financial statements. These estimates are made according to the best available information at the date on which the financial statements are prepared, using generally accepted methods and techniques and data, and observable and contrasted assumptions. In the current year, the following main issues were addressed:

- the assessment of potential impairment losses on certain assets;
- assumptions used in the actuarial calculation of liabilities and commitments for post-employment benefits;
- the useful life of property, plant and equipment and of intangible assets;
- assessment of possible goodwill impairment losses;
- the fair value of certain financial instruments;
- the calculation of provisions;
- the assumptions used to determine variable remuneration schemes based on BME shares; and
- the recognition of deferred tax assets.

In order to guarantee the reliability of this financial information, the Finance Department carries out monthly review and closing procedures, such as analysing the adherence to budgets, preparing business performance indicators and analysing the ratios defined by the BME Group itself.

In 2016, through the Audit Committee, according to the provisions of article 7.4.b) of Board Regulations, the functions of the Board included *“approving the financial information that, due to it being a listed company, must periodically be made public”*, the preparation and presentation of which are supervised by the Audit Committee, as per article 19.2 of said Regulations.

The Finance Department is responsible for determining the relevant financial information, based on quantitative criteria of materiality, and qualitative criteria, taking into consideration all the financial information reported and published in the financial markets. Later, the processes linked to this information are analysed, distinguishing between business processes, support processes and the applications used in preparing the financial information. To this end, the BME Group has descriptive documentation of the activity flow charts relating to the processes, sub-processes and activities linked to this financial information, as well as the main risks and controls associated with these. These are reviewed and updated periodically.

The Internal Audit Department carries out functions to *“(…) Revise the reliability and completeness of the financial and operating information, and the means used to identify, evaluate, classify and disclose this information. (...)”*, as stipulated in the Regulations for the BME Group Internal Audit.

### **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 IT systems which support the processes on which the financial information is based are subject to internal control policies and procedures to guarantee the completeness of the preparation and publication of the financial information.

Specifically, policies have been established in relation to:

Secure access to information: the process systems which contain the BME Group's financial information can only be accessed by univocal user IDs which are password-protected in each of the environments. Likewise, permission to access the different environments, applications or operating systems is granted according to types of user and their authorisations. The process of managing users in these systems is based on established procedures using formally established channels.

Operating and business continuity: the BME Group has a comprehensive IT Contingency Plan in place (capable of dealing with the most complex situations) to guarantee the continuity of its IT services. There is a back-up centre where copies are automatically generated to guarantee the availability of all information in the event of an emergency. The Company carries out tests to guarantee the correct functioning of its contingency plan.

Segregation of duties: the development and operation of the financial IT systems is carried out by a large group of professionals with clearly differentiated and segregated functions. The staff of the business unit in question are responsible for defining the requirements and final validation tests before any system is rolled out. The rest of the duties fall to different persons within the IT area:

- The project leaders carry out functional analyses and manage the development projects, developmental and operational management and integration tests.
- The development teams are in charge of technological design, construction and tests, adhering at all times to the development methodologies defined by the Group. Access to information to resolve incidences must be formally requested and authorised internally.

The IT systems contain user profiles based on the roles of each of the people that require access to them. Staff competent in every application or environment manage these requests and permissions and verify that incompatible permission is not assigned.

Management of changes: the BME Group has established mechanisms and policies to ensure that possible failures in the service caused by updates or changes to the IT systems are avoided. There are change and monitoring committees which ensure that the established management procedures for changes are complied with. These include security measures aimed at mitigating risks. All changes to the systems are carried out by controlled staff, and the changes identified and upgrades indexed to production environments.

Incident management: the policies and procedures in this matter are in place to resolve incidents in the shortest time possible. There are incident communication channels and registration tools in place. Efficient incident management is achieved by correctly prioritising and following up incidents according to importance, reducing communication times and, finally, determining problems and identifying suggestions for improvement.

Incident monitoring and improvement plans are reported periodically to the pertinent committees and are aimed at monitoring the service provided.

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

BME has a **Procedure for managing outsourced activities** which stipulates that the need to outsource activities must be based on the existence of sufficient reasons or legal provisions which justify this need in order for the BME Group to attain its goals or meet legal arrangements. To proceed with the subcontracting/outsourcing, a minimum of two and a maximum of three suppliers shall be considered, whenever possible.

In all cases, the outsourcing of activities and subcontracting to third parties shall be carried out through service contracts between the supplier and the relevant BME Group company, clearly indicating the service to be provided and the means to be used to provide these services. According to the nature or an assessment of the risks identified, the department responsible for subcontracting/outsourcing shall notify suppliers that the service provision contract shall include clauses stating that the staff at the contracted company must comply with BME Group regulations.

Before services can be subcontracted/outsourced, the department responsible for the subcontracting/outsourcing must send the offer and the conclusions of the preliminary risk study to the Legal Department.

The list of BME Group suppliers is revised and, if applicable, updated each year. Likewise, controls implemented by suppliers are monitored.

In order to appraise, calculate or value the services commissioned from independent experts when these may materially affect the financial statements, the Group has in place a system to assess the competence, ability, credentials and independence of all independent experts, prior to their selection. When monitoring this appraisal, BME verifies the reasonableness of the assumptions used by the expert, as well as the completeness of the data and the methods used.

**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.**

Responsibility for defining, interpreting and settling doubts or disputes regarding the accounting criteria and policies of the BME Group, among other functions, falls to the Finance Department.

To this end, the BME Group has a Procedures manual describing the accounting treatment of the different types of transactions which may materially affect financial information. This Procedures manual is updated periodically to include any legislative amendments as well as new transaction types which may require new criteria and accounting policies to be established. Once updated, this procedures manual is made available to all BME Group employees.

Application of accounting policies is established on the basis of the legislative framework applicable to the Company and BME Group companies, set out in the Code of Commerce and other mercantile legislation, in the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and its sector adaptations, in CNMV Circular 9/2008 of 10 December (amended by Circular 6/2011 of 12 December and Circular 5/2016 of 27 July), and in the International Financial Reporting Standards adopted by the European Union, in relation to the BME Group's consolidated financial statements.

**F.4.2. Mechanisms in standard format to capture and prepare 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 BME Group has mechanisms for the capture and preparation of financial information based on tools of renowned prestige. All BME Group companies use the same tools, guaranteeing completeness, uniformity and correct functioning, as well as the correct preparation of the required financial information and the applicable disclosures.

These tools are segregated into different interconnected layers and are equipped with applications into which data on the operations which take place each day via the different channels (internet, in-house services, etc.) are entered. This information is then processed and prepared before being treated by specific back-office systems and segregated according to market and transaction category. This provides reliable and exact information on accounting and the generation of results. The results and calculation of data once the operations have been carried out on the market are automatically transferred to management, reporting and financial consolidation tools which have quality controls to ensure they are reconciled.

**F.5 Oversight of the system's functioning**

**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 the competences of which 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 of communicating 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.**

The internal audit function is carried out by the Internal Audit Department, which is a staff body within BME. It has no executive responsibilities in managing the group's ordinary businesses and reports directly to the Audit Committee, a BME board committee.

Article 19.2.c) of Board Regulations assigns responsibility to the Audit Committee to *"supervise the Company's internal audit services, which shall depend on the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the arrangements whereby Company personnel may anonymously report any irregularities in the internal control and risk management systems"*.

The Internal Audit Department compiles, at least, the following reports for the Audit Committee:

- Review of processes and activities: arising from execution of the department's activities plan. Also, when requested to do so by the Audit Committee and managers of BME Group companies, with prior consent from the Risk Committee.
- Review of Internal Control over Financial Reporting: assessment of the effective functioning of the Internal Control over Financial Reporting System.
- Annual report on the activities of the Internal Audit service: including information on execution of the review activities carried out and incidents relating to the risks identified in the department's processes.

In addition, in accordance with BME's IRMS Methodology, Business Unit and Corporate Area managers submit half-yearly information to the Risk Committee, mainly detailing any occurrences of the identified representative risks materialising, their assessment of these and, if appropriate, the action plans to mitigate them. Among these reports, the Risk Committee receives a report from the Financial Department which, as it is responsible for the management of ICFR, includes information regarding occurrences of risk, assessments thereof and action plans relating to ICFR.

In turn, the Director of the Internal Audit Department, who attends Risk Committee meetings at which he may speak but not vote, proposes recommendations and suggests the most relevant points of reflection on the IRMS, based on the information provided.

In 2016, the Internal Audit Department undertook annual assessment of ICFR and followed up the extent of response to the recommendations given after the previous year's review. With this assessment, the Internal Audit Department validates the effectiveness of the controls in place, through the performance of various audit tests. These tests basically consist of testing compliance in processes and/or risks classified as having a critical impact, and self-assessment questionnaires or specific tests of the existence thereof and their application for the controls in place for risks that have not been deemed to have a critical impact, or controls of a general nature.

Lastly, in 2016 the Internal Audit Department presented the BME Internal Audit Department's 2017 Activities Plan to the Audit Committee. The plan focuses on ongoing improvement in the IRMS through suggestions and proposals by the Risk Committee and, mainly, on reviewing those business processes for which ICFR assessment is mandatory under specifically applicable regulations, to assess its functioning and validate its effectiveness.

**F.5.2. State whether a discussion procedure exists 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.**

Article 19 of Board Regulations stipulates, inter alia, the responsibilities delegated to the Audit Committee in relation to: *"supervising the efficiency of the Company's internal control and risk control system, including tax risks. To this end, at least once a year it shall supervise the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose any significant weaknesses detected in the auditing process. To this end it may submit recommendations or proposals to the Board."*

The Audit Committee shall also *"continue to liaise with the external auditors in order to receive information on any issues that might jeopardise their independence for examination by the Committee and any others connected with the auditing procedure, and, where applicable, authorise services other than those prohibited in the terms stipulated in regulations, and any other communications envisaged in audit legislation and in the technical auditing regulations. The Committee shall also receive information from the external auditors on a regular basis regarding the audit plan and the results of its execution, ensuring that the auditors' recommendations are taken into consideration by senior management. The Committee shall also monitor compliance with the regulations in force concerning the provision of services other than auditing, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. In this regard, each year the external auditors shall issue written confirmation of their independence vis-à-vis the Company, as well as detailed individual information on any other type of service provided and the related fees received by the external auditors or persons or entities related thereto."*

In this regard, the Audit Committee met on 10 occasions in 2016. The external auditors were called to meetings of the Audit Committee at which the financial information of both BME and its Group companies was reviewed.

## F.6 Other relevant information

## F.7 External audit report

### 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.**

Pursuant to the recommendation in the *Guidelines for Action on the report by the auditor concerning the Internal Control over Financial Reporting on listed companies*, as published on the CNMV's website, the Company submitted the contents of information on the system for Internal Control over Financial Reporting for review by the auditors. This report shall be included as an Appendix to this Annual Corporate Governance Report.



## G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of company compliance with the Code of Best Practice recommendations of listed companies.

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

Complies  Explain

- 2.- **When a parent and subsidiary company are both 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 listed subsidiary and other group companies.**
- b) **The mechanisms in place to resolve possible conflicts of interests.**

Complies  Partially complies  Explain  No applicable

- 3.- **During the Ordinary General Shareholders' Meeting, to supplement the written publication of the Annual Corporate Governance Report, the Chairman of the Board of Directors must verbally inform the shareholders, in sufficient detail, of the most significant aspects of the company's corporate governance, and in particular:**

- a) **The changes that have taken place since the previous Ordinary General Shareholders' Meeting.**
- b) **The specific reasons why the company does not follow any of the Good Governance Code recommendations and the alternative rules it applies, if any.**

Complies  Partially complies  Explain

- 4.- **The company should define and promote a communication and contact policy with shareholders, institutional investors and voting advisers that fully respects the rules against market abuse and provides a similar treatment to the shareholders in the same position.**

**This policy should be disclosed on the company's website, along with details of how it has been put into practice, and identifying the interlocutors or those charged with implementing it.**

Complies  Partially complies  Explain

- 5.- The Board of Directors should not submit a delegation of authority proposal to the General Shareholders' Meeting to issue convertible shares or securities excluding preferential subscription rights, for an amount exceeding 20% of capital at the date of delegation.

And when the Board of Directors approves any issue of convertible shares or securities excluding preferential subscription rights, the company should immediately publish on its web page the reports on such exclusion referred to in commercial law.

Complies  Partially complies  Explain

- 6.- The listed companies that prepare the reports mentioned below, on a compulsory or voluntary basis, must publish them on their web page sufficiently in advance of the General Shareholders' Meeting, even if such publication is not obligatory:

- Report on auditor independence.
- Reports on the functioning of the Audit Committee and the Appointments and Remuneration Committee.
- Audit Committee report on related-party transactions.
- Corporate social responsibility policy report.

Complies  Partially complies  Explain

- 7.- The company should broadcast its general shareholders' meetings live on the corporate website.

Complies  Explain

- 8.- The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear explanation to shareholders of the scope and content of the limitations or qualifications.

Complies  Partially complies  Explain

- 9.- The company must permanently publish the requirements and procedures it considers acceptable to accredit ownership of shares, the right to attend the General Shareholders' Meeting and the exercise or delegation of voting rights.

These conditions and procedures should encourage shareholders to attend and exercise their rights, and be applied in a non-discriminatory fashion.

Complies  Partially complies  Explain

10.- When any legitimate shareholder has exercised, before the General Shareholders' Meeting has been held, the right to complete the agenda or to submit new proposed resolutions, the company must:

- a) Immediately publish such supplementary points and new proposed resolutions.
- b) Publish the specimen attendance card or proxy or remote voting form with the modifications required so that the new points on the agenda and alternative proposals under the same terms as those proposed by the Board of Directors can be voted on.
- c) Submit all these points or alternative proposals to vote, applying the same voting rules as those prepared by the Board of Directors, including in particular, the presumptions or deductions regarding the voting outcome.
- d) After the General Shareholders' Meeting, notify the voting breakdown on such supplementary points or alternative proposals.

Complies  Partially complies  Explain  Not applicable

11.- If the company intends to pay attendance fees to the General Shareholders' Meeting, it should establish a general policy in advance regarding such fees, and this policy must be stable.

Complies  Partially complies  Explain  Not applicable

12.- The Board of Directors performs its functions with a single purpose and independent criteria, grants the same treatment to all shareholders in the same position and is guided by corporate interests, understood to be the attainment of a business that is profitable and sustainable at long term, which promotes its continuity and maximises the company's economic value.

In the quest for corporate interests, aside from compliance with the laws and regulations, and behaviour based on good faith, ethics and respect for commonly accepted uses and good practices, it endeavours to reconcile its own company interests with, where appropriate, the legitimate interests of its employees, suppliers, clients and other stakeholders that may be affected, as well as the impact of company activities in the community as a whole or on the environment.

Complies  Partially complies  Explain

13.- The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies  Explain

**14.- The Board of Directors should approve a director selection policy that:**

- a) Is specific and verifiable.
- b) Ensures that the appointment or re-election proposals are based on a preliminary analysis of the Board of Directors' needs.
- c) Favours diversity of knowledge, experience and gender.

The findings of the preliminary analysis of the Board of Directors' needs are included in an explanatory report published by the Appointments Committee following the call to the General Shareholders' Meeting, which deliberates on the ratification, appointment or re-election of each director.

This policy of selecting directors promotes the objective that by 2020 the number of female directors shall represent at least 30% of total Board members.

The Appointments Committee shall verify compliance with the director selection policy, and this shall be set out in the Annual Corporate Governance Report.

Complies  Partially complies  Explain

**15.- Proprietary and independent directors should occupy an ample majority on the Board, while the number of executive directors should be the minimum required given the complexity of the corporate group and the ownership interests held by such directors in the company.**

Complies  Partially complies  Explain

**16.- The percentage of proprietary members with respect to total non-executive directors should not exceed the proportion between the capital represented on the Board by such directors and the remainder of the company's capital.**

This criterion may be relaxed:

- a) In large cap companies where few equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies  Explain

Following the appointment in 2016 of Mrs. María Helena dos Santos Fernandes de Santana as an external independent director, the Board regained the degree of independence it had prior to the resignation of Mrs. Rosa María García García, whose post was filled by this appointment.

BME considers that, following this increase in the degree of independence, the interests of non-controlling shareholders have, if anything, much better representation on the Board, and that significant shareholders, who have less representation, do not have a disproportionate influence over the Board of Directors.

At 31 December 2016 the characteristics of the Board indicating proper representation of the interests of non-controlling shareholders were as follows:

- The considerable number of independent Directors, accounting for 50% of the Board, thereby attaining the degree of independence which Recommendation 17 of the Good Governance Code of Listed Companies considers appropriate for large cap companies, and 60% of external Directors.
- A Director qualifying as “other external”, bringing the percentage of “non-proprietary” external Directors to 58.33% of total Board members and 70% of external Directors.
- The lack of significant and/or major shareholders with disproportionate representation on the Board of Directors. Two (2) significant shareholders are represented on the Board of Directors, of which only one (1), which holds a large percentage of BME's share capital (12.06%), insisted on the appointment of two (2) members. As these two (2) shareholders represented on the Board of Directors have no links to each other, it cannot be considered that these Directors have a position or control or a majority on this body.

**17.- The number of independent directors should represent at least half of all Board members.**

**However, when the company is not a large cap, or is a large cap with shareholders individually or concertedly holding more than 30% of share capital, the number of independent shareholders should represent at least a third of all directors.**

**Complies**       **Explain**

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

- Professional experience and background.**
- Other boards of directors to which they belong, be they listed companies or otherwise, and other remunerated activities carried out by them, whatever their type.**
- An indication of the director's category; in the case of proprietary directors, state the shareholder they represent or with which they are related.**
- The date of their first and subsequent appointments as a company director.**
- Shares held in the company, and any options thereon.**

**Complies**       **Partially complies**       **Explain**

19.- Following verification by the appointments committee, the annual corporate governance report should disclose 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 board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies  Partially complies  Explain  Not applicable

20.- Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If these shareholders reduce their stakes, the number of proprietary directors should be reduced accordingly.

Complies  Partially complies  Explain  Not applicable

21.- The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board, based on a report by the Appointments Committee.

Specifically, just cause shall be deemed to exist when the director occupies new posts or assumes new obligations preventing him/her from devoting sufficient time to performing director functions, when he/she breaches the duties inherent in his/her post or any of the circumstances arise causing him/her to lose his/her status as independent director, in accordance with the provisions of the legislation applicable.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies  Explain

- 22.- Companies should establish rules obliging directors to inform the Board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent court proceedings.

The moment a director is indicted or tried for any of the crimes stated in corporate legislation, the Board should examine the matter as soon as possible, and in view of the particular circumstances, decide whether or not he or she should be called on to resign. The Board should also justify all such determinations in the Annual Corporate Governance Report.

Complies  Partially complies  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, independent directors and other directors unaffected by the potential conflict of interests should challenge any decision that could go against the interests of shareholders lacking Board representation.

When the Board makes 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.

This recommendation should also be addressed to the Secretary of the Board, even if he/she is not a director.

Complies  Partially complies  Explain  Not applicable

- 24.- Directors who leave their post before their tenure expires, through resignation or otherwise, should state their reasons in a letter sent to all Board members. Irrespective of whether such resignation is filed as a significant event, its motive must be explained in the Annual Corporate Governance Report.

Complies  Partially complies  Explain  Not applicable

- 25.- The Appointments Committee must ensure that non-executive directors have sufficient time to carry out their duties properly.

Board regulations should lay down the maximum number of company boards on which directors may serve.

Complies  Partially complies  Explain

- 26.- The Board should meet with the necessary frequency to properly perform its functions, at least eight times per year, in accordance with a calendar and agenda set at the beginning of the year, to which each director may propose the addition of other items not initially foreseen.

Complies  Partially complies  Explain

- 27.- Director absences should be kept to the bare minimum and be quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their vote with instructions.

Complies  Partially complies  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 meeting, they should be recorded in the minutes book at the request of the person raising such issues.

Complies  Partially complies  Explain  Not applicable

- 29.- The company should provide suitable channels for the directors to obtain the advice they need to comply with their functions, extending in special circumstances to external assistance at the company's expense.

Complies  Partially complies  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.

Complies  Explain  Not applicable

31.- The agenda should clearly indicate those points on which the Board of Directors must adopt a decision or resolution so that the directors can study or assemble in advance the specific information required for their adoption.

When exceptionally, for urgent reasons, the Chairman wishes to submit decisions or resolutions to the approval of the Board of Directors that did not appear on the agenda, it must obtain the prior express consent of the majority of the directors in attendance, which must be detailed in the minutes.

Complies  Partially complies  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.

Complies  Partially complies  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; 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.

Complies  Partially complies  Explain

34.- When a lead independent director exists, pursuant to the Articles of Association or Board of Directors' regulations, aside from the powers corresponding to it legally, he/she should also be assigned the following functions: to chair the Board of Directors in the absence of the Chairman and Vice-Chairmen, if any; to give voice to the concerns of non-executive directors; to maintain contacts with investors and shareholders to ascertain their viewpoints in order to form an opinion on their concerns, in particular, regarding corporate governance of the company; and to coordinate the Chairman's succession plan.

Complies  Partially complies  Explain  Not applicable

The Lead Independent Director has been assigned the powers referred to in the recommendation, except those relating to maintaining relationships with investors and shareholders. These powers of the Lead Independent Director have been enhanced by the Company through the establishment of a Working Group of non-executive Directors, which has approved its own rules of organisation and operation.

The Company considers that the eminently independent nature of the Lead Independent Director, required for the role as leader of the Company's external Directors, and consequent lack of involvement in the effective management of the Company, justifies the role of maintaining contact with investors and shareholders not being assigned to this Director.

In this regard, the Company considers that its structure for communicating with investors and shareholders, with an Investor Relations Department staffed by people with a deep, detailed and well-founded knowledge of the economic and financial position of the Company, the Company's projects, its day-to-day activity etc., is adequate and allows the Company to be aware of the opinions and concerns of shareholders and investors regarding any aspect of the running of the Company, including any aspects concerning corporate governance.

Thus, the Investor Relations Department, which reports to the General Manager, is entrusted with, among other duties, reporting to the management the concerns, questions and suggestions of the shareholders and investors with whom it maintains permanent contact. Should these concerns affect matters of corporate governance, the Investor Relations Department can rely on the General Secretary and the Secretary of the Board of Directors, and is assigned the task of ensuring that the decisions of the Board of Directors take into account the recommendations in matters of corporate governance and, where appropriate, actively participates in meetings with investors and shareholders to explain the Company's corporate governance structure.

All of the above is irrespective of whether, when considered appropriate, the Lead Independent Director maintains contact with investors and shareholders in matters which are deemed beneficial for the Company.

**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.**

X **Complies**

**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 each director, with particular attention to the chairman 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 shall be aided in its assessment by an external consultant, the independence of which shall be verified by the Appointments Committee.**

**The business relationships that the consultant or any of its group companies holds with the company or any of its group companies must be disclosed in the Annual Corporate Governance Report.**

**The process and the areas assessed should be described in the Annual Corporate Governance Report.**

 **Complies**
 **Partially complies**
 **Explain**

The Board conducts an annual assessment of the efficient functioning and quality of the work carried out by the Board and its Committees, and also of the performances of the Board Chairman and the Company's chief executive, as laid down in article 10 of its regulations.

Also, in 2016 BME implemented this recommendation ahead of time by tasking an independent expert with an assessment of the structure, composition and functioning of the Board and its Committees. This process was completed in 2016 and gave rise to the changes described in section C.1.20 of this report.

The only part of the recommendation which the Company does not follow is that relating to the Board of Directors assessing, once a year and individually, the performance and contribution of each Director, on the grounds that, during the period for which they form part of the Board, individual assessments of the Directors are carried out with sufficient frequency, as detailed below:

Thus, it should be taken into account that the extensive professional experience offered by the members of the Board of Directors, analysed in detail by the Appointments and Remuneration Committee prior to the proposal for their appointment to the Board of Directors in the case of independent or "other external" Directors, or to the issuance of the corresponding report for the other types of Director, is a sufficient initial guarantee of the quality of the services that the Director shall provide.

Following this first assessment, and as established in article 22, section 2, of the Board of Directors' Regulations, the quality of the services provided and the dedication of each of the Directors is assessed by the Appointments and Remuneration Committee and by the Board of Directors, in the corresponding re-election or ratification proposals, and also in any cases where a proposal is submitted for their appointment to a post on the Board or on one of its Committees.

In this regard, the proposal of the Appointments and Remuneration Committee in the case of independent Directors and Directors classified as "other external" or, in all other cases, the report individually assesses the services provided by the Directors during their previous term and their dedication both on the Board and, where appropriate, on the Committees of which they form part.

Following the proposal or report by the Appointments and Remuneration Committee, the Board of Directors, in the justifying report that must be approved in accordance with that established in article 529 *decies*, section 5 of the Companies Act, and article 22, section 1 of Board Regulations, shall also assess the performance of the duties of the Director whose re-election is proposed to the General Shareholders' Meeting.

**37.- When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

Complies  Partially complies  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 committee's minutes.**

Complies  Partially complies  Explain  Not applicable

**39.- All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management issues. A majority of committee places should be held by independent directors.**

Complies  Partially complies  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.**

Complies  Partially complies  Explain

Article 19, section 2.c) of Board Regulations makes the Audit Committee responsible for “supervising the Company's internal audit services, which shall report to the Audit Committee”, and lists the main supervisory tasks in relation to internal audit.

The purpose, authority and responsibility of the Internal Audit function in the Company is defined in the “Regulations for the BME Group Internal Audit”, the current version of which was approved by the Audit Committee at a meeting on 24 November 2014. This Regulation states that the Internal Audit Department is a staff body within BME, without executive responsibilities in managing the group's ordinary businesses and reporting directly to the Audit Committee.

BME understands that what is established in the aforementioned regulation with regard to the authority of the Internal Audit Department is a sufficient guarantee of the independence with which it can act, and that the fact that this Department reports functionally to the Chairman of the Audit Committee does not grant it a higher degree of autonomy to carry out its duties.

**41.- The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.**

Complies  Partially complies  Explain  Not applicable

42.- The Audit Committee should have the following functions in addition to those laid down in law:

1. With respect to internal control and reporting systems:

- a) Monitor 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) Ensure the independence of the unit that assumes the internal audit functions, propose the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, approve the guidance service and its work plans, ensuring that its activity is focused mainly on the company's significant risks; receive periodical information in regard to its activities; and verify that senior management takes into consideration the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if possible and appropriate, anonymously, any irregularities, in particular of a financial or accounting nature, with potentially serious implications for the firm.

2. With respect to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor.
- b) Ensure that the external auditor's remuneration for its work 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 on the possible existence of

any disagreements arising with the outgoing auditor and the reasons therefor, if any.

- d) Ensure that the external auditor holds an annual meeting with the plenary session of the Board of Directors to inform it of the work performed and of the evolution of the accounting situation and company risks.
- e) Ensure that the company and the external auditor comply with the regulations in force concerning the provision of services other than auditing, the limits in regard of the auditor's business concentration and, in general, any other rules aimed at ensuring the auditor's independence.

Complies  Partially complies  Explain

43.- The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Partially complies  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.

Complies  Partially complies  Explain  Not applicable

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

- a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational) to which the company is exposed, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) Measures in place to mitigate the impact of identified risks 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.

**Complies**     **Partially complies**     **Explain**

**46.- Under the direct supervision of the Audit Committee or, where appropriate, of a specialised committee of the Board of Directors, an internal control and risk management function exists exercised by a unit or internal department of the company to which the following functions have been expressly attributed:**

- a) Ensure the sound functioning of the risk management and control systems and, in particular, that they adequately identify, manage and quantify all important risks affecting the company.
- b) Actively participate in the preparation of the risk strategy and in the important decisions on its management.
- c) Ensure that the risk management and control systems adequately mitigate the risks in the framework of the policy defined by the Board of Directors.

**Complies**     **Partially complies**     **Explain**

BME considers that the operation of the control and risk management systems and the preparation of the risk strategy are matters that must correspond to the Company's senior management and to the people who form part of its workforce and are experts in the management of the risks to which its activity is subject, without the direct monitoring of this duty being assigned to the Audit Committee or any other specialised Committee of the Board.

BME considers that the Audit Committee must monitor the effectiveness of the defined internal control and risk control systems, implemented and developed by the Company's executive team, and in the scope of this supervision shall be aware of any weaknesses that may be detected by the internal and external auditors in these systems and, in these cases, shall discuss and propose the adoption of the measures deemed appropriate to solve them.

Moreover, with regard to the structure of BME as a holding company and the high specialisation of the activities carried out in each of the companies forming part of the Group, BME has considered it more appropriate that the internal control and risk management function be undertaken in a decentralised manner, as described below.

In this regard, BME has developed a risk control system in accordance with international standards and adopted the COSO II Report as the methodological reference framework, with which the Company's risks are managed in an efficient and prudent manner. To define this risk control system, which is detailed in section E of this Report, the strong specialisation of activities performed in the Group has been considered, which has made it advisable that, given the different nature of the risks, the decentralised management of the business risks, which are managed by each Business Unit, coexists with the centralised management of corporate risks (strategic, financial, regulatory, technological, and human resources), risks that are all coordinated by the Risk Committee, reporting to the Coordination Committee, the Company's highest executive body.

The Risk Committee keeps the Board of Directors informed, through its Chairman, of all actions carried out when implementing the control and risk management policy, in order for these bodies to be able to undertake the duties attributed to them by law for supervising the effectiveness of the Company's internal control and the internal control systems implemented in the Group.

BME considers that this structure ensures that the Company's risks are suitably identified, managed and quantified, and allows the Audit Committee and the Board to successfully carry out its duties of monitoring the internal control and risk management systems.

**47.- Appointees to the appointments and remuneration committee - or of the appointments committee and the 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.**

 **Complies**
 **Partially complies**
 **Explain**

BME complies with the first part of the recommendation, since all members of this Committee were appointed with the knowledge, aptitudes and experience suited to the duties they carry out.

In 2016, following the appointment of Mr. Martínez-Conde y Gutiérrez-Barquín, qualifying as an external proprietary Director, the Appointments and Remuneration Committee was composed of four (4) members, of which two (2) qualify as independent external Directors, one (1) as "other external Director" and one (1) as external proprietary Director. This composition of the Appointments and Remuneration Committee meets the requirements of current regulations, and independent Directors do not constitute a majority.

The appointment of Mr. Martínez-Conde y Gutiérrez-Barquín as a member of the Appointments and Remuneration Committee was one of the measures adopted by the Board in response to the suggestions for improvement set out in the report assessing the Board and its Committees, drawn up by an independent expert as described in section C.1.20 of this report.

When it announced the appointment of Mr. Martínez-Conde as a member of the Appointments and Remuneration Committee, the Committee felt his broad knowledge and professional experience as Managing Director of a listed company and member of several Boards were beneficial for properly carrying out the functions with which this Appointments and Remuneration Committee is tasked and that, despite the reduction of the Committee's percentage independence brought about by his appointment, which would fall from 66.66% to 50%, this would not jeopardise the criteria of independence which must take priority in analysis and discussion of issues within its remit.

Furthermore, although there has never been any need to exercise this, it should be pointed out that article 20, section 3 of Board Regulations grants the Chairman of the Appointments and Remuneration Committee, qualifying as an independent external Director, the casting vote in the event of a tie for the adoption of agreements.

**48.- Large cap companies should operate separately constituted appointments committees and remuneration committees.**

Complies  Explain  Not applicable

**49.- The Appointments Committee should consult with the Chairman of the Board of Directors and the company's chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.**

Complies  Partially complies  Explain

**50.- The Remuneration Committee should exercise its functions independently, and in addition to those attributed by law, it has the following duties:**

- a) **Propose to the Board of Directors the standard conditions for senior officer employment contracts.**
- b) **Monitor compliance with the remuneration policy set by the company.**
- c) **Periodically review the remuneration policy applied to directors and senior executives, including remuneration systems involving shares and their application, and guarantee that their individual remuneration is in proportion to that paid to the company's other directors and senior executives.**
- d) **Ensure that potential conflicts of interests do not affect the independence of the external advice furnished to the Committee.**
- e) **Verify information on remuneration received by company directors and senior executives contained in the different corporate documents, including the annual report on directors' remuneration.**

Complies  Partially complies  Explain

**51.- The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive Directors and senior officers.**

Complies  Partially complies  Explain



**52.- The rules governing the breakdown and operations of supervision and control committees should be included in the Board of Directors' regulations and comply with those applicable to the legally obligatory committees in line with the foregoing recommendations, including:**

- a) These committees should be composed exclusively of non-executive directors with a majority of independent directors.**
- b) Committees should be chaired by an independent director.**
- c) The Board of Directors should appoint the members of such committees in line with the knowledge, aptitudes and experience of its directors and the undertakings of each committee; discuss their proposals and reports; and report on their activities and on the work performed at the first Board plenary following each meeting.**
- d) They may engage external advice, when they feel this is necessary for the discharge of their functions.**
- e) The minutes of proceedings should be taken, and a copy sent to all Board members.**

Complies
  Partially complies
  Explain
  Not applicable

Article 33 of the Articles of Association establishes the Board's Markets and Systems Operating Procedures Committee, to which article 37 of the Articles of Association assigns the responsibility of monitoring the matters relating to the efficiency and correct operation of the markets and systems managed by the BME Group; the application to BME, the companies of its Group and its main shareholders of the normal market conditions and the principle of equal treatment in its transactions in those markets and systems managed by BME; and the implementation of the Internal Code of Conduct.

The composition and operation rules for this Committee, established in the Board of Directors' Regulations and implemented through its own regulations approved by the Board of Directors at a meeting on 25 January 2007, follow sections c), d) and e) of the recommendation.

The composition requirements established in sections a) and b) of the recommendation are not followed insofar as an executive Director forms part of this Committee and also holds the position of its Chairman.

BME considers that given the specialised duties assigned to this Committee, what must be taken into account as a priority when appointing the members of the Board of Directors to serve on it is knowledge of the operation of the markets and systems managed by BME and the Group companies and professional experience in fields directly related to the operation of the financial and securities markets, given that this knowledge and experience shall enable the Committee to better carry out the functions attributed to it in the interests of the Company.

**53.- Supervision of compliance with the corporate governance rules, the internal codes of conduct and of the corporate social responsibility policy should be attributed to one or distributed among various Board committees that may comprise the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee and, where appropriate, a specialised committee that the Board of Directors, in the exercise of its self-organisation powers, decides to create for this purpose, to which the following minimum functions are attributed:**

- a) Supervision of compliance with the internal codes of conduct and with the company's corporate governance rules.**
- b) Supervision of the communication and relationship strategy with investors and shareholders, including small and medium shareholders.**
- c) Periodic assessment of the suitability of the company's corporate governance system to comply with its objective of promoting corporate interest and take into account, where appropriate, the legitimate interests of the remaining stakeholders.**
- d) Review of the company's corporate responsibility policy, ensuring that it is focused on value creation.**
- e) Monitoring of the strategy and practices of corporate social responsibility and assessment of its degree of compliance.**
- f) Supervision and assessment of the relationship processes with the different stakeholders.**

- g) Assessment of all matters related to the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordination of the non-financial reporting process and on diversity, in accordance with applicable regulations and international benchmark standards.**

 **Complies**
 **Partially complies**
 **Explain**

The Appointments and Remuneration Committee has been assigned responsibility for monitoring compliance with the corporate governance rules, under the terms established in this recommendation.

Supervision of the monitoring of the internal codes of conduct, in particular of the Internal Code of Conduct, has been assigned under the current legislation to the Markets and Systems Operating Procedures Committee, since it is considered that compliance by the Group's Directors and employees with the standards of conduct in the securities markets must be supervised by a committee with a high level of professionalism and knowledge of the markets and systems within which the Group's companies operate, a degree of knowledge that is the primary factor to be considered in the appointment of the members of the Markets and Systems Operating Procedures Committee.

Moreover, the absence of a corporate social responsibility policy referred to in the explanation of Recommendation 54 implies that, in practice, its compliance may not be supervised by any Committee. Notwithstanding the foregoing, the Board of Directors' Regulations assign to the Executive Committee supervision of the monitoring of the corporate social responsibility strategy and practices, including the assessment of the processes relating to the different stakeholders; and the assessment of any matters relating to the non-financial risks of the Company, including operational, technological, legal, social, environmental, political and reputational risks, as well as coordination of the process for disclosing non-financial information.

**54.- The corporate social responsibility policy should include the principles and commitments assumed voluntarily by the company in its relationship with the different stakeholders and identify at least:**

- a) **The objectives of the corporate social responsibility policy and the development of support instruments.**
- b) **The corporate strategy related to sustainability, environmental and social issues.**
- c) **Specific practices in issues related to: shareholders, employees, clients, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conduct.**
- d) **The monitoring methods or systems for the results of the application of specific practices indicated in the preceding letter, the associated risks and their management.**
- e) **The supervision mechanisms for non-financial risk, ethics and business conduct.**
- f) **Communication, participation and dialogue channels with stakeholders.**
- g) **Responsible communication practices to prevent any manipulation of information and protect integrity and honour.**

**Complies**
 **Partially complies**
 **Explain**

BME considers that corporate social responsibility is integrated into its overall strategy and the daily management of the Group, and does not consider it necessary to define a corporate social responsibility policy in the terms of this recommendation.

In this regard, BME and the Group's companies carry out their activity efficiently, manage the financial markets and systems strictly complying with both domestic and national legislation, and in particular, the economic, social and environmental legislation, as well as with the codes which it voluntarily embraces.

BME has also defined its basic principles of action in the Corporate Social Responsibility Report, which is approved and published annually, and has taken into account the needs and priorities of the different market agents, as well as society in general as the ultimate beneficiary when financial markets and, by extension, the economy, operate properly.

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

**Complies**
 **Partially complies**
 **Explain**

Since 2007 the Company has prepared an annual Corporate Social Responsibility Report, which sets out the activities carried out by the Company and its subsidiaries throughout the financial year and their impact in matters of sustainability.

BME considers that the preparation of this report is sufficient proof of the importance to BME of its environment, and that in this it discloses all relevant information regarding the financial and non-financial aspects of the Company's activities with the greatest possible transparency, in the way that is considered most suitable, and the fact that this report is not strictly in keeping with an internationally recognised methodology cannot be construed as a lack of sensitivity by the Company towards its environment.

Notwithstanding the foregoing, the Corporate Social Responsibility Reports approved by the Company contain a series of basic contents from the fourth edition of the internationally accepted methodological guide for the preparation of sustainability reports (GRI4) published by the independent international organisation Global Reporting Initiative.

**56.- Directors' 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 judgment of non-executive directors.**

Complies  Explain

**57.- Executive directors should only be paid variable remuneration linked to company and personal performance, and payment in shares, share options or rights on shares or instruments linked to share value and long-term savings systems such as pension plans, retirement systems or other social welfare systems.**

The delivery of shares can be considered as remuneration to non-executive directors when they are obliged to retain them until the end of their tenure. The foregoing shall not apply to shares the director must dispose of, where applicable, to meet the costs related with their acquisition.

Complies  Partially complies  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 of this kind.**

And, in particular, that the variable components of remuneration:

- a) Are linked to performance criteria that may be pre-determined and measureable and that such criteria consider the risk assumed to obtain a result.
- b) Promote the sustainability of the company and include non-financial criteria adapted to create long-term value, such as compliance with the company's rules and internal 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, ensuring that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies  Partially complies  Explain  Not applicable

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

Complies  Partially complies  Explain  Not applicable

60.- In the case of remuneration linked to company earnings, deductions should be made in respect of any qualifications stated in the external auditor's report.

Complies  Partially complies  Explain  Not applicable

61.- A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments the value of which is linked to the share price.

Complies  Partially complies  Explain  Not applicable

62.- Once the shares or related share options or rights have been allocated to the remuneration systems, directors cannot transfer the ownership of a number of shares equivalent to twice their fixed annual remuneration, nor can they exercise the options or rights until at least three years have elapsed since they were allocated.

The foregoing shall not apply to shares the director must dispose of, where applicable, to meet the costs of their acquisition.

Complies  Partially complies  Explain  Not applicable

As stipulated in the Directors' Remuneration Policy for the years 2016, 2017 and 2018, the remuneration system of executive Directors includes medium-term and long-term variable remuneration the purpose of which is to boost their commitment to Company shareholders. This is paid on Share-based Remuneration Plans with overlapping cycles, where each cycle has a duration of three years.

The current Share-based Remuneration Plan, described in section A.3 of this report, includes, as stipulated in the aforementioned Remuneration Policy, the delivery of theoretical units to the beneficiaries over three financial years and establishes that any shares they may receive if the targets set are achieved shall be delivered by the Company over the three financial years following.

BME considers that these characteristics of medium-term and long-term remuneration established in the Remuneration Policy and laid down in the Share-based Variable Remuneration Plan include a clear element of deferral which allows the actual achievement of targets to be verified, and it is unnecessary to establish any additional retention periods.

**63.- Contractual agreements must include a clause enabling the company to claim the refund of the remuneration's variable components when payment has not matched performance conditions or when they have been paid in accordance with data the inaccuracy of which is subsequently accredited.**

Complies
  Partially complies
  Explain
  Not applicable

As mentioned in the explanation to the preceding recommendation, and described in Directors' Remuneration Policy for the years 2016, 2017 and 2018, the variable remuneration of Directors qualifying as executive Directors has a considerable medium-term and long-term component paid in shares.

The Share-based Variable Remuneration Plan, which is executed three years after assignation of the theoretical units, demonstrates effective compliance in the long-term with the objectives to which the variable remuneration is linked, and it is unnecessary to establish any clauses to claim refunds.

**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.**

Complies
  Partially complies
  Explain
  Not applicable

The termination terms for the Chairman were established through the resolution of the 2006 Ordinary General Shareholders' Meeting, prior to the approval of these recommendations from the Good Governance Code of Listed Companies.

## H. OTHER INFORMATION OF INTEREST

**1. If you consider that there is any material corporate governance aspect at your company or group company that has not been addressed in the other sections of this report and which is necessary to provide a more comprehensive and founded view of the corporate governance structure and practices at your company or its group, explain briefly.**

**2. In this section, you may include any other significant information, clarifications or qualifications related to the above sections of this report that have not already been addressed.**

**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, sectoral or other codes of ethical principles or standard practices. If applicable, identify the code and date of adoption. In particular, state whether the company has complied with the Good Tax Practices Code of 20 July 2010.**

Pursuant to the Code of Best Tax Practices approved by the Large Businesses Forum, which BME joined on 30 September 2010, the annual corporate governance reports of companies embracing this Code must include reference to the fact that these companies comply with such practices.

In 2016, in order to comply with the commitments undertaken by the Company through its adhesion to the Code of Best Tax Practices and the taxation principles to be applied by the Company approved by the Board of Directors at its meeting on 30 July 2015, at a meeting on 24 February 2016 the Audit Committee was informed and took due note of the fiscal policies applied by the Company, before preparing the financial statements.

At a meeting on 19 July 2016 the Audit Committee was informed of the fiscal policies applied by the Company before filing the income tax return.

**This annual corporate governance report was approved by the Company's Board of Directors at a meeting on 27 February 2017.**

**List any directors who voted against or abstained from voting on the approval of this Report.**

Yes

No