

# Annual Corporate Governance Report

## 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
06/14/2006	270,078,252.34	83,615,558	83,615,558

Indicate whether different types of shares exist with different rights associated to them.

Yes  No

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Banco de España	4,460,913	0	5.335
Banco Bilbao Vizcaya Argentaria, S.A.	4,191,982	0	5.013
Caja de Ahorros y Pensiones de Barcelona	0	4,189,512	5.010
Banco Financiero y de Ahorros, S.A.	0	3,366,316	4.026

At December 31, 2011 Chase Nominees Limited and State Street Bank and Trust Co. appeared in the Shareholder Register with stakes in BME's share capital of 3.876% and 3.028%, respectively. However, the Company believes that these shares are being custodied for third parties and that, as far as BME is aware, none of these hold over 3% of the Company's share capital or voting rights.

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	Caixabank, S.A.	4,189,139	5.010
Banco Financiero y de Ahorros, S.A.	Corporación Financiera Caja de Madrid, S.A.	2,955,318	3.534

Indicate the most significant movements in the shareholder structure during the year.

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
BNP Paribas, Société Anonyme	02/21/2011	Stake rose above 3% of share capital.
BNP Paribas, Société Anonyme	02/22/2011	Stake fell below 3% of share capital.
BNP Paribas, Société Anonyme	03/28/2011	Stake rose above 3% of share capital.
BNP Paribas, Société Anonyme	12/20/2011	Stake fell below 3% of share capital.
BNP Paribas, Société Anonyme	12/23/2011	Stake rose above 3% of share capital.
BNP Paribas, Société Anonyme	12/29/2011	Stake fell below 3% of share capital.

In 2011, BNP Paribas' stake remained below 3%. The changes in its stake mentioned above in A.3 correspond to changes in its total stake, i.e. the balance of its ownership portfolio and third-party accounts.

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**A.3.** Complete the following tables with the Directors holding voting rights through company shares.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Antonio J. Zoido Martínez	704	-	0.001
Javier Alonso Ruiz-Ojeda	1	-	0.000
José Antonio Álvarez Álvarez	100	-	0.000
Rosa María García García	50	-	0.000
Joan Hortalá i Arau	704	-	0.001
Ricardo Laiseca Asla	10	-	0.000
Manuel Olivencia Ruiz	2,000	-	0.002
Carlos Stilianopoulos Ridruejo	200	-	0.000
<b>% of total voting rights held by the Board of Directors</b>			<b>0.005 (*)</b>

(\*) This figure does not include the equity held by six shareholders represented on the Board of Directors, eight of whose members are classified as non-independent Directors. At 31 December 2011, the stake held by these shareholders was 25.021%.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2011 stood at 25.026%.

Complete the following tables on share options held by Directors.

The executive Directors are beneficiaries of Pluri-Annual Variable Remuneration Programme in Shares to be implemented by the Company and its subsidiaries for members of the management team which, in accordance with article 219.1 of the Corporate Enterprises Act, was approved by the General Shareholders' Meeting on 28 April 2011 and notified to the CNMV as a significant event that same day.

This Programme, which covers the years 2011, 2012 and 2013, consists of the promise to deliver in 2014, 2015 and 2016 ordinary shares of BME to the members of the Company's management team, including executive Directors, provided that the stipulated conditions are met.

The number of shares to be granted in each year will depend on the performance of BME's Total Shareholder Return (TSR) and Efficiency Ratio (ER) compared with those of five benchmarked entities, and will be calculated by dividing in two the number of shares assigned in each financial year 2011, 2012 and 2013, each associated with one of the two indicators, and each of them will be multiplied by a factor of 0 to 1.5 according to the BME's ranking among the benchmarked companies.

The maximum number of BME shares included in the Programme is 428,801, representing 0.5% of BME's capital, of which a maximum of 56,134 shares may be granted to Antonio Zoido Martínez and 7,246 to Joan Hortalá i Arau, as executive Directors.

In execution of said programme, the Appointments and Remunerations Committee at its meeting on 28 September 2011, granted Mr. Zoido Martínez and Mr. Hortalá i Arau the theoretical units corresponding to the first phase of the programme, from 1 January 2011 to 31 December 2013, which, as notified to the CNMV of 3 May 2011, may give rise to the delivery of a maximum of 18,712 and 2,415 shares in BME to the two executive Directors, respectively.

**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.

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**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.

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**A.6.** Indicate whether any shareholders' agreements have been notified to the company pursuant to article 12 of the Securities' Market Act (Ley del Mercado de Valores). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes

No

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

Yes

No

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

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**A.7.** Indicate whether any person or company exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities' Market Act. If so, identify.

Yes

No

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

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
337,333	0	0.40

(\*) Through:

<b>Total</b>	<b>0</b>
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List any significant changes during the year, in accordance with Royal Decree 1362/2007.

<b>Gain/(loss) on treasury shares during the year</b>	<b>0</b>
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**A.9.** Detail the terms and conditions of any authorisation(s) conferred on the Board of Directors by the General Shareholder Meeting's to purchase and/or transfer the treasury shares.

On the date that this Corporate Governance Report was approved, BME's Board of Directors is authorised to purchase and/or transfer treasury stock as per the following conditions which were authorised at the Company's Ordinary General Shareholders' Meeting on 29 April 2010, quoted below:

*"The ordinary General Shareholders' Meeting has authorised the Board of Directors of the Company to proceed with the derivative acquisition of treasury shares subject to the following terms:*

*a) The acquisition may be carried out either directly by the Company itself or indirectly through its subsidiaries.*

*b) The acquisition may be in the form of a trade, swap or dación en pago ("giving in payment"), in one or more instalments, whenever:*

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- the acquisition, including shares that the Company and persons who, in their own name, act on behalf of the Company, that had previously acquired and held will not produce the effect of which the net patrimony, as defined in article 75.1.2<sup>a</sup> of the Ley de Sociedades Anónimas, turns out to be lower than the amount of the share capital plus the legal and legally restricted reserves; and,

- the nominal value of the shares acquired do not amount to more than 10% of the share capital when added to those already owned by the Company and its subsidiaries.

c) 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.

d) The acquisition price must not be lower than the nominal value or 20% higher than the price at which the stock is trading on the Spanish electronic trading platform (Sistema de Interconexión Bursátil) at the time of the acquisition.

This authorisation, which is granted for the maximum legal timeframe of five years, shall be without prejudice to events of open acquisition under the Act.

Additionally, for the purposes of sub-paragraph 2, paragraph 1, article 75 of the Companies Act, authorisation to acquire the Company's own shares is hereby expressly granted to any subsidiary on the same terms under this resolution.

It is hereby expressly stated that the shares acquired pursuant to this authorisation may be sold, redeemed or used as remuneration as described in sub-paragraph 3, paragraph 1, article 75 of the Companies Act.

This authorisation shall replace and render null and void, in the amount not used, the authorisation given at the General Shareholders' Meeting held on 29 April 2009."

**A.10.** Indicate, as applicable, any restrictions under law or the Company's articles of association on exercising voting rights, as well as any legal restrictions on the acquisition or transfer in the share capital.

Indicate whether there are any legal restrictions on voting rights.

Yes

No

<b>Maximum percentage of legal restrictions on voting rights a shareholder can exercise</b>	<b>0</b>
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Even though there are no legal restrictions on voting rights, article 69.8 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, under the terms described in the section related to legal restriction on the acquisition or transfer of stakes in the share capital.

Indicate whether there are any restrictions included in company's articles of association the exercise of voting rights

Yes

No

<b>Maximum percentage of voting rights a shareholder can exercise under the company's articles of association</b>	<b>0</b>
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Indicate if there are any legal restrictions on the acquisition or transfer in the Company's capital.

Yes

No

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There are no restrictions on the acquisition or transfer of BME's stock.

Notwithstanding the above, the Spanish Securities Market Act grants the Spanish regulator, the Comisión Nacional del Mercado de Valores (CNMV) the power to oppose to the acquisition of significant stakes in the capital of BME pursuant to Royal Decree 361/2007 of 16 March, which amended Securities Market Act 24/1988 of 28 July, in matters related to the share capital of companies which manage secondary markets or securities registration, clearing and settlement systems.

In accordance with the mentioned regulations, the CNMV should be informed, prior to the event, of any acquisition of BME shares with which they 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 percent, or a lesser percentage that nonetheless supports the exercise of a significant influence over the Company. The ability to appoint or remove at least one Director is in all circumstances characterised as 'significant influence'.

The CNMV will have a time limit of 60 working days from the date of its acknowledgement of receipt of the notice to object to the intended acquisition, subject to the interruptions in the effluxion of the time limit allowed under article 69(6) 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. If the CNMV does not issue a statement within ten working days or thirty working days, respectively, after the date the information is relayed or from the date any additional information required by the entity is delivered, the acquisition will be understood that no objection exist.

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

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

Yes

No

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

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## B. Structure of Corporate Administration

### B.1. Board of Directors

**B.1.1.** List the maximum and minimum number of Directors included in the articles of association.

<b>Maximum number of Directors</b>	<b>20</b>
<b>Minimum number of Directors</b>	<b>12</b>

**B.1.2.** Complete the following table with Board members' details.

Name or corporate name of Director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio J. Zoido Martínez	-	Chairman	02/15/2002	04/29/2009	Shareholders' Meeting
José A. Barreiro Hernández	-	First Vice Chairman	04/28/2004	04/30/2008	Shareholders' Meeting
Tomás Muniesa Arantegui	-	Third Vice Chairman	04/27/2005	04/29/2009	Shareholders' Meeting
Margarita Prat Rodrigo	-	Fourth Vice-Chairman	06/05/2006	04/29/2010	Shareholders' Meeting
Javier Alonso Ruiz-Ojeda	-	Director	09/21/2006	04/28/2011	Shareholders' Meeting
José Antonio Álvarez Álvarez	-	Director	09/21/2006	04/28/2011	Shareholders' Meeting
Ignacio Benjumea Cabeza de Vaca	-	Director	09/15/2003	04/28/2011	Shareholders' Meeting
Álvaro Cuervo García	-	Director	06/05/2006	04/29/2010	Shareholders' Meeting
Rosa María García García	-	Director	09/24/2009	04/29/2010	Shareholders' Meeting
Joan Hortalá i Arau	-	Director	02/15/2002	04/29/2009	Shareholders' Meeting
Ricardo Laiseca Asla	-	Director	07/25/2007	04/30/2008	Shareholders' Meeting
Karel Lannoo	-	Director	06/05/2006	04/29/2010	Shareholders' Meeting
Ramiro Mato García-Ansorena	-	Director	02/15/2002	04/29/2009	Shareholders' Meeting
Manuel Olivencia Ruiz	-	Director	06/05/2006	04/29/2010	Shareholders' Meeting
Carlos Stilianopoulos Ridruejo	-	Director	09/24/2009	04/29/2010	Shareholders' Meeting

<b>Total number of Directors</b>	<b>15</b>
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Indicate any board members leaving during this period.

**B.1.3.** Complete the following tables on Board members and their respective categories.

## Executive Directors

Name or corporate name of Director	Committee proposing appointment	Post held in the Company
Antonio J. Zoido Martínez	(1)	Chairman
Joan Hortalá i Arau	(1)	Director
<b>Total number of executive Directors</b>		<b>2</b>
<b>% of the Board</b>		<b>13.333</b>

## External Non-Independent Directors

Name or corporate name of Director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Javier Alonso Ruiz-Ojeda	(1)	Banco de España
José Antonio Álvarez Álvarez	(1)	Banco Santander, S.A.
José A. Barreiro Hernández	(1)	Banco Bilbao Vizcaya Argentaria, S.A.
Ignacio Benjumea Cabeza de Vaca	(1)	Banco Santander, S.A.
Ricardo Laiseca Asla	(1)	Banco Bilbao Vizcaya Argentaria, S.A.
Ramiro Mato García-Ansorena	(1)	BNP Paribas, Société Anonyme
Tomás Muniesa Arantegui	(1)	Caja de Ahorros y de Pensiones de Barcelona
Carlos Stilianopoulos Ridruejo	(1)	Banco Financiero y de Ahorros, S.A.

<b>Total number of external non-independent Directors</b>	<b>8</b>
<b>% of the Board</b>	<b>53.333</b>

(1) As, under article 18.2.b) of the Board of Directors' Regulations, these Directors are classified as non-independent external and executive, their appointment has been reported by the Appointments and Remuneration Committee.

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## Independent Directors

Name or corporate name of Director	Profile
Margarita Prat Rodrigo	<p>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. She obtained a PhD in Economics and Business in 1989. She has also published several works and articles since 1989.</p> <p>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.</p> <p>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.</p> <p>She currently chairs the Audit Committee at the Institute of Internal Auditors in Spain, and is a member of the Institute of Financial Analysts, Director of Internal Audit and Professor at Madrid's Universidad Pontificia Comillas as well as a member of various doctoral thesis tribunals and academic committees.</p>
Álvaro Cuervo García	<p>Professor of Business Economics at Madrid's Universidad Complutense, Director of Colegio Universitario de Estudios Financieros, 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 and Salamanca.</p> <p>He is a member of the Board of Directors of ACS (Actividades de Construcción y Servicios, S.A.) and of the SONAE SGPS, S.A. Group and SONAE Industria S.A. in Portugal as well as a member of the Spanish government's Consultative Committee on Privatisations. He is also a member of the Boards of trustees of the Banco Herrero Foundation, the Endesa Foundation and the advisory Board of the Rafael del Pino Foundation.</p>
Karel Lannoo	<p>Karel Lannoo is the chief executive of the Centre for European Policy Studies, CEPS, based in Brussels. CEPS is one of Europe's most important independent think tanks, leading the way in its research on economic and financial policies.</p> <p>Mr. Lannoo is an expert on the regulation of financial markets, banking supervision and economic policy. He has written various books, reports and articles on these subjects ('The MiFID Revolution', Cambridge UP 2009, MiFID con Diego Valiante CEPS, 2011). He has participated in various studies and appeared before various national and international institutions.</p> <p>He holds a degree in Philosophy and an MBA in History from the University of Leuven (Belgium) and a postgraduate degree in European Studies from the University of Nancy (France).</p> <p>Mr. Lannoo also heads up the ECMI and ECRI, institutes specialising in Europe's capital and credit markets. He is also a Director of Distrimedia and Lannoo Publishing Group.</p>



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Name or corporate name of Director	Profile
Manuel Olivencia Ruiz	<p>A Law graduate, winning the Extraordinary Graduation Prize, from Seville University (1951), with a doctorate in law from Bologna University (1953) and author of numerous scientific works. He has been decorated with four Great Crosses (the Isabel la Católica, Alfonso X el Sabio, San Raimundo de Peñafort and Military Merit crosses).</p> <p>He was also Dean of the Law Faculty (1968-1971) and Economics and Business Faculty (1971-1975) at Seville University, Undersecretary for Education (1975-1976), Director of the Bank of Spain (1982-1991) and Chairman of the Special Committee for Drafting the Code of Good Governance (1997).</p> <p>He has been a professor of Commercial Law at Seville University since 1960, 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 Fine Arts 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.</p>
Rosa María García García	<p>A graduate in Mathematics, she is currently a Director at Banco Español de Crédito, S.A. (BANESTO), Director and Vice-Chairman of the Board of Siemens España since 1 October 2011, and member of the advisory board of the Universidad Europea de Madrid since December 2011.</p> <p>She was Vice President, Consumer &amp; Online of Microsoft Western Europe until 31 December 2010. She joined Microsoft Spain in 1991 as the Technical Support Director and in 1995 was appointed Director of Corporate Strategic Projects for Microsoft Corporation before becoming Corporate Managing Director of Partner Sales and Marketing at Microsoft in 2002 and Country Manager of Microsoft Spain (2002 – 2008).</p> <p>Before joining Microsoft, she held various positions in multinationals such as NEC in Germany and WordPerfect in Spain.</p> <p>Since 2007, she has directed and taught a Masters in Business Administration programme at the Universidad Alfonso X El Sabio.</p> <p>In May 2009 she was appointed an Independent Director of the Board of Directors of Banesto and a member of the Appointments and Remuneration Committee.</p> <p>A member of the Forum de Alta Dirección ('Senior Executive Forum'), she has won accolades including: Spanish Federation of Female Managers' (FEDEPE) Award to the Female Manager of the Year, the Manager of the Year prize awarded by the Spanish Managers' Association, and the Female Manager award given by the Spanish Businesswomen's Association (ASEME). Her work has also been recognised in specialist IT magazines ComputerWorld and Computing. Ms. García has also won the National Alares Award for achieving a work/life balance in the management category.</p>
<b>Total number of independent Directors</b>	<b>5</b>
<b>% of the Board</b>	<b>33.333</b>

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## Other External Directors

(-)

List the reasons why these cannot be considered external non-independent or independent Directors and detail their relationships with the company, its executives or shareholders.

(-)

List any changes in the classification of each Director which have occurred during the year.

(-)

**B.1.4.** Explain, when applicable, the reasons why non-independent Directors have been appointed upon the request of shareholders who hold less than 5% of the share capital.

### Name or corporate name of shareholder

Banco Financiero y de Ahorros, S.A.

### Reason

This company, even though it does not hold 5% of the share capital, at the date on which the proprietary Directors representing the Company on BME's Board were appointed, indirectly held a significant share of voting rights in BME, pursuant to Royal Decree 361/2007. Furthermore, this shareholder holds a higher percentage of voting rights than other shareholders which are not represented on the Board and who hold greater stakes.

### Name or corporate name of shareholder

BNP Paribas, Société Anonyme

### Reason

This company, even though it does not hold 5% of the share capital, at the date on which the proprietary Directors representing the Company on BME's Board were appointed, indirectly held a significant percentage of voting rights in BME, pursuant to Royal Decree 361/2007. Furthermore, this shareholder holds a higher percentage of voting rights than other shareholders which are not represented on the Board and who hold greater stakes, except for custodian entities.

### Name or corporate name of shareholder

Banco Santander, S.A.

### Reason

This company, even though it does not hold 5% of the share capital at the date on which the external non-independent Directors representing the Company in BME's Board were appointed, indirectly, holds a significant percentage of voting rights in BME, pursuant to R.D. 361/2007. This shareholder also holds a greater percentage of voting rights than the other shareholders which are not represented on the Board of Directors and who hold greater stakes, except for custodian entities. Furthermore, the reappointment in 2010 of the Directors who represent this Company on the Board of Directors was deemed appropriate and beneficial for the effective operation of the Board and appropriate for pursuing BME's interests.

Indicate any rejections of formal requests for Board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary Directors. If so, explain why these requests have been rejected.

Yes

No

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**B.1.5.** Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director.

Yes

No

**B.1.6.** Indicate what powers, if any, have been delegated to the managing directors.

The Company has no Managing Director.

Article 12 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 shall also promote the Board's functions of driving, 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 they see fit and other powers necessary to ensure the day-to-day running of the business.

**B.1.7.** 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	Name of group Company	Post
Antonio J. Zoido Martínez	Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U.	Chairman
Antonio J. Zoido Martínez	Sociedad de Bolsas, S.A.	Director
Ignacio Benjumea Cabeza de Vaca	Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U.	Director
Joan Hortalá i Arau	Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U.	Chairman
Joan Hortalá i Arau	Sociedad de Bolsas, S.A.	Chairman
Tomás Muniesa Arantegui	MEFF Sociedad Rectora de Productos Derivados, S.A.U.	Chairman
Tomás Muniesa Arantegui	MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A.U.	Chairman
Tomás Muniesa Arantegui	MEFF Euroservices, S.A.U., S.V.	Chairman

**B.1.8.** 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, other than your own group, insofar as have been disclosed to the Company.

Name or corporate name of Director	Name of listed Company	Post
Álvaro Cuervo García	Actividades de Construcción y Servicios, S.A. (ACS)	Director
Rosa María García García	Banco Español de Crédito, S.A. (Banesto)	Director

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**B.1.9.** Indicate and, where appropriate, explain whether the Company has established rules about the number of Boards which its Directors can hold.

Yes  No

Explanation of rules

Article 21, section b) of the Board of Directors' Regulations states that Independent Directors may not hold directorships at more than four companies whose shares are listed on Spanish or foreign stock markets.

The same article states that Executive Directors may not hold directorships at any other listed company.

**B.1.10.** In relation with Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that the Board of Directors reserves for plenary approval.

	Yes	No
<b>Investment and financing policy.</b>	X	
<b>Design of the structure of the corporate group.</b>	X	
<b>Corporate governance policy.</b>	X	
<b>Corporate social responsibility policy.</b>	X	
<b>The strategic or business plans, management targets and annual budgets.</b>	X	
<b>Remuneration and evaluation of senior officers.</b>	X	
<b>Risk control and management, and the periodic monitoring of internal information and control systems.</b>	X	
<b>Dividend policy, as well as the policies and limits applying to treasury stock.</b>	X	

**B.1.11.** Complete the following tables on the aggregate remuneration paid to Directors during the year.

Information on individual Directors' emoluments is included in BME's consolidated Financial Statements for fiscal year 2011 and the report on Directors' remuneration for 2011.

a.) In the reporting company:

Concept	In thousands €
Fixed remuneration	732
Variable remuneration	500
Per diems	352
Statutory compensation	300 <sup>(1)</sup>
Share options and/or other financial instruments	0 <sup>(2)</sup>
Other	0 <sup>(3)</sup>
<b>Total</b>	<b>1,884</b>

Other benefits	In thousands €
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: Obligations	0
Life insurance premiums	0
Guarantees issued by the company in favour of Directors	0

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b.) For Company Directors belonging to other Board of Directors and/or holding senior management posts within group companies:

Concept	In thousands €
Fixed remuneration	229
Variable remuneration	0
Per diems	160
Statutory compensation	0
Share options and/or other financial instruments	0
Other	0
<b>Total</b>	<b>389</b>

Other benefits	In thousands €
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: Obligations	0
Life insurance premiums	0
Guarantees issued by the company in favour of Directors	0

c.) Total remuneration by type of directorship:

Type of Director	By Company	By Group
Executive	1,350	337
External Non-Independent	238	52
External Independent	296	0
Other External	0	0
<b>Total</b>	<b>1,884</b>	<b>389</b>

d.) Remuneration as percentage of profit attributable to the parent Company:

<b>Total remuneration received by Directors (in thousands €)</b>	<b>2,273</b>
<b>Total remuneration received by Directors/profit attributable to parent company (%)</b>	<b>1.5%</b>

- (1) This amount is the fixed sum paid to Directors as per article 40 of the Articles of Association.
- (2) The Pluri-annual Variable Remuneration Programme in Shares for the management team, including Executive Directors, is described in section A.3. of this report.
- (3) The Ordinary General Shareholders' Meeting held on 28 April 2011 approved, as part of the medium-term remuneration programme, a medium-term extraordinary variable remuneration system (Extraordinary Variable Remuneration) for the benefit of the Company's management team, including executive Directors.

The Extraordinary Variable Remuneration consists of the possibility of obtaining a monetary bonus, provided certain objectives are met within a given period of time.

The amount of the Extraordinary Variable Remuneration will be determined according to the average annual variable remuneration of each of the beneficiaries corresponding to financial years 2008, 2009 and 2010. If, because of their salary structure, beneficiaries do not receive variable remuneration, their incentive will be determined on the basis of the simple average of the variable remuneration of all plan beneficiaries in 2008, 2009 and 2010.

Obtainment of the Extraordinary Variable Remuneration will depend on the degree to which the following targets are met (i) BME's Earnings per Share (EPS) based on its performance between 1 January 2011 and 31 December 2012, compared with the performance of the same indicator for 5 benchmark companies over the same period; and (ii) the Company's Coverage Ratio (CR) over the same period.

To calculate the final amount of the Extraordinary Variable Remuneration payable, the reference amount will be divided into two parts, corresponding to the EPS and CR indicators, and multiplied by a factor of 0 to 1.5 in the case of the EPS, according to BME's final position on the scale, and a factor of 0 to 1 in the case of the Coverage Ratio, according to the level of compliance with the CR target.

The maximum Extraordinary Variable Remuneration payable to Antonio Zoido Martínez and Joan Hortalá i Arau, Chairman and Executive Director respectively, in the event that the maximum levels established by each scale are met is €414,460.42 and €53,500, respectively.

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**B.1.12.** List any members of senior management who are not executive Directors and indicate total remuneration paid to them during the year.

The total remuneration received by senior management includes remuneration received from both BME and other group companies.

Name or corporate name	Post
Ramón Adarraga Morales	Director of International Co-ordination and Head of Information, IT & Consulting
Jaime Aguilar Fernández-Hontoria	Director of Legal Council
Luis María Cazorla Prieto	General Secretary and Secretary to the Board
Antonio Giralt Serra	Chairman of MAB and Head of Listing
Javier Hernani Burzako	Finance Director
José Massa Gutiérrez del Álamo	Chairman of IBERCLEAR and Head of Clearing and Settlement
Francisco Nicolás Tahoces	Technology Director
Vicente Olmos Ibáñez	Director of the Internal Audit Department
Francisco Oña Navarro	Chairman of AIAF, Executive vice-chairman of MEFF and Head of Fixed Income and Derivatives
Jorge Yzaguirre Scharfhausen	Director of Equity Unit

<b>Total remuneration received by senior management (in thousands €)</b>	<b>4,335<sup>(1)</sup></b>
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(1) The amount of €4,335 thousand includes post-employment benefits in favour of these executives for €515 thousand consisting of: annual periodic contribution to the insurance policy 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.

**B.1.13.** Identify, in aggregate terms, any guarantee or protective clauses benefiting members of the senior management (including executive Directors) of the Company or of its group in the event of dismissal or changes in control. Indicate whether these agreements have to be reported to and/or authorised by the governing bodies of the Company or its group.

Number of beneficiaries	4	
Body authorising clauses	Board of Directors	General Shareholders' Meeting
	No	Yes
Is the General Shareholders' Meeting informed of such clauses?	Yes	No
		No

## 1.- Executive directors.

There are no agreements which include benefits for executive Directors in the event of dismissal or change of control except for the Chairman.

With regard to the Chairman, classified as 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 will 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. This payment will have a non-competition condition and the Chairman shall not be permitted to work for a period of three years in any other Company with a similar or identical corporate purpose or activity as BME. If this obligation is not met, the Chairman shall return the amount received.*

*The Chairman shall not be paid the amount mentioned above if he voluntarily leaves the post, fails to fulfil his duties or any of the cases needed for Bolsas y Mercados Españoles to be able to take corporate action against him for liability concur.*

*(...)"*

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The terms of this General Shareholders' Meeting agreement have been included in the services contract between BME and Antonio J. Zoido Martínez, subsequent to a report by the Appointments and Remuneration Committee and approval by the Company's Board of Directors.

## 2.- Senior management.

Three senior Directors have the right to receive compensation in the event of dismissal, equivalent to 45, 36 and 22 months of salary in each respective case.

**B.1.14.** Describe the procedures for establishing remuneration for Board members and the relevant provisions in the Articles of Association.

### Procedures for establishing Board members' remuneration and relevant provisions in the Articles of Association

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Article 40 of the Company's Articles of Association establishes that the post of Director shall be remunerated, and that this remuneration shall comprise a fixed amount and per diems for attending meetings and be set on an annual basis at the General Shareholders' Meeting.

Article 18.2 d) of the Board of Directors' Regulations states that the Appointments and Remuneration Committee is responsible for reporting on proposals for Directors' remuneration submitted by the Board at the Shareholders' Meeting or those approved by the Board itself.

Article 29 of the Board of Directors' Regulations stipulates that any resolution taken by the Board of Directors and proposal submitted at the General Shareholders' Meeting for approval relating to Directors' remuneration shall be implemented on the basis of a previous report made by the Appointments and Remuneration Committee. This previous report shall have regard to corporate governance standards and market conditions, bearing in mind the Company's nature and activity and the Directors' commitment. In any event, in order to be submitted at the General Shareholders' Meeting, the Board of Directors must express an opinion on the amount of the fixed remuneration and the per diems for attendance at Board and Committee meetings, the items of any type of variable remuneration, the terms and conditions that must be laid down in the contracts entered into by the Company and Directors performing senior management functions and, where applicable, benefit schemes.

The Board's proposals to the General Shareholders' Meeting for setting the appropriate fixed annual sum payable to each Board member must take into account the type of Director and the offices, functions and commitment of each of the Directors on the Board and the Board Committees.

If the Board's proposal is for a fixed annual amount to be set for the whole Board, the sum set should be distributed among the Board members on the basis of same criteria as those set forth above.

Article 29 states that it shall also be the responsibility of the Board of Directors to submit to the General Shareholders' Meeting for approval any remuneration additional to that relating to their status as Directors payable to Directors with executive functions in the Company, based on service provision, senior management or similar contracts entered into by the Company and such Directors.

In compliance with the abovementioned articles of the Articles of Association and Board of Directors' Regulations, the remuneration paid to Directors in 2010 was approved at BME's Ordinary General Shareholders' Meeting held on 28 April 2011, following the proposal by the Board of Directors subsequent to a favourable report by the Appointments and Remuneration Committee.

This same General Shareholders' Meeting, at the proposal of the Board of Directors and having received a report from the Appointments and Remuneration Committee, adopted the Chairman's fixed and variable pay in respect of his duties as Chairman of the Board of Directors and chief executive of the Company.

Lastly BME's Ordinary General Shareholders' Meeting held on 28 April 2011, and following the proposal by the Board of Directors subsequent to a favourable report from the Appointments and Remuneration Committee, approved a medium-term remuneration scheme for the Company and its subsidiaries, to be implemented for members of the management team, including Executive Directors, comprising the Pluri-annual Variable Remuneration Programme in Shares and the Extraordinary medium-term Variable Remuneration System, described in sections A.3 y B.1.11.d) of this report.

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Indicate whether the Board has reserved for plenary approval the following decisions.

	Yes	No
<b>On the proposal of the Company's chief executive, the appointment and removal of senior officers, and their compensation clauses.</b>	x <sup>(1)</sup>	
<b>Directors' remuneration, and, in the case of executive Directors, the additional remuneration for their executive functions and other contract conditions.</b>	x <sup>(2)</sup>	

(1) Article 7(3)(a) of the BME Board of Directors' Regulations stipulates that one of the duties attaching to the Board, acting as a plenary body and through its committees, is "Monitoring the management team's success in meeting the targets set, ensuring an organisational structure is established that guarantees the maximum efficiency of the senior management and of the management team in general. Among other tasks, the Board of Directors in full is responsible for defining the organisation structure of the group of companies and the policies on corporate governance, corporate social responsibility, remuneration and evaluation for senior executives (...)".

(2) As set out in the Articles of Association and the Board of Directors' Regulations and as explained in the B.1.14 above, Directors' remuneration, including any other remuneration paid to Directors in the pursuit of their executive functions, shall be proposed for approval at the General Shareholders' Meeting by the Board of Directors subsequent to a report by the Appointments and Remuneration Committee.

**B.1.15.** Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included.

Yes  No

	Yes	No
<b>The amount of the fixed components, itemised where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual payment they give rise to.</b>	x	
<b>Variable components.</b>	x	
<b>The main characteristics of pension systems, including an estimate of their amount of annual equivalent cost.</b>	x	
<b>The conditions that the contracts of executive Directors exercising executive functions shall respect.</b>	x	

**B.1.16.** Indicate whether the Board submits a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the Board for forthcoming years, the most significant changes in remuneration policy made this year and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and, if external consultancy services have been engaged, their identity.

Yes  No

## Issues covered in the remuneration policy report

Law 2/2011 of 4 March, on sustainable economy, added a new article 61 ter to Law 24/1988 of 28 July, on the Securities Market, establishing that the Board must prepare and submit a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda.

In compliance with the aforementioned regulation, the Board of Directors, at its meeting on 22 March 2011, approved a report on Directors' remuneration in 2010 previously prepared and approved by the Appointments and Remuneration Committee at its meeting on 15 March 2011. This report was made available to the shareholders and submitted to the advisory vote of the General Shareholders' Meeting held on 28 April 2011, as a separate point on the agenda.

In line with this new legal requirement, a modification was proposed to article 29.3 of the Board of Directors' Regulations which stipulates that at the General Shareholders' Meeting the Board of Directors shall make available to its shareholders a report on its policy for Directors' remuneration, adding the requirement to prepare and submit said report to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda.



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## Issues covered in the remuneration policy report.

The report on the Director remuneration policy for 2010 submitted to the advisory vote of the General Shareholders' Meeting held on 28 April 2011, as a separate point on the agenda, contains an account of the procedure of approval of Directors' pay, remuneration policy for the last two fiscal periods, the proposed resolution concerning Directors' remuneration for fiscal year 2011 regarding per diems and fixed remuneration, which was submitted for approval at the Ordinary General Shareholders' Meeting subsequent to a report by the Appointments and Remuneration Committee, together with an analysis of Directors' remuneration between 2003 and 2010, inclusive.

With regard to executive directors, the report also addresses to the maturity medium-term Remuneration Scheme for 2008 to 2010 adopted by the ordinary General Shareholders' Meeting of 30 April 2008 and directed at the management team, including executive directors, the aims have been fulfilled and hence no payment was made to the beneficiaries, including Mr. Zoido Martínez and Mr. Hortalá i Arau.

It also refers to the report approved at the Appointments and Remuneration Committee meeting held on 15 March 2011, in relation to the establishment of a medium-term remuneration scheme for members of the management team, including Executive Directors which would, in turn, be submitted to the General Shareholders' Meeting by the Board of Directors.

Regarding remuneration for the Chairman of the Board of Directors for the executive duties rendered, the Report refers to the proposals submitted by the Board, subsequent to a report by the Appointments and Remuneration Committee, for approval at the General Shareholders' Meeting, regarding the setting of the Chairman's fixed and variable pay for 2011.

The report itemises the fixed and variable pay received by the Chairman of the Board of Directors in 2008 and 2010 and, within the terms of his contract for services, the resolution passed by the Extraordinary General Shareholders' Meeting of 5 June 2006 with regard to the indemnity payable to the Chairman in the event of removal from office, referred to in section B.1.13, and to the arrangement of a pension supplement for the the events of death, disability or retirement of the Chairman of the Board and chief executive of the Company, adopted by the ordinary General Shareholders' Meeting of 30 April 2008.

Finally, it detailed the individual remuneration earned by the members of the Board of Directors in 2009 and 2010 for serving on the Board of Directors of Bolsas y Mercados Españoles and other Group companies during the last three years.

The remuneration policy for members of the Board of Directors in 2011 is detailed by individual and by payment type in BME's consolidated financial statements and in the 2011 annual report on remuneration policy which will be put to a consultative vote as a separate item on the agenda at the next ordinary General Shareholders' Meeting.

The most significant change in the remuneration policy for Company Directors in 2011 relates to remuneration paid to executive directors. At the General Shareholders' Meeting held on 28 April 2011 a medium-term remuneration scheme was approved for the Company and its subsidiaries, to be implemented for members of the management team, including Executive Directors, comprising the Pluri-annual Variable Remuneration Programme in Shares and the Extraordinary medium-term Variable Remuneration System, described in sections A.3 y B.1.11.d) of this report.

## Role of the Remunerations Committee.

The Appointments and Remuneration Committee, in compliance with Recommendation 40 of the Unified Good Governance Code, adopted the Directors' remuneration report for 2010 at its meeting held on 15 March 2011. This report was subsequently approved by the Company's Board of Directors on 22 March 2011 for submission to the vote of the General Shareholders' Meeting.

The Appointments and Remunerations Committee received external advice from J&A Garrigues, S.L.P on the preparation of the agreement relating to the proposed medium-term remuneration scheme to be applied by the Company and its subsidiaries, to be implemented for members of the management including Executive Directors, which was subsequently approved at the ordinary General Shareholders' Meeting held on 28 April 2011.

	Yes	No
<b>Have external consultancy firms been used?</b>	x	

## **Identity of external consultants**

J&A Garrigues, S.L.P.

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**B.1.17.** Indicate, where appropriate, the identity of any Board members who are likewise members of the Boards of Directors, or hold senior management posts in companies that own significant holdings in the listed Company and/or group companies.

Name or corporate name of Director	Name or corporate name of significant shareholder	Post
Javier Alonso Ruiz-Ojeda.	Banco de España	General Manager of Operations, Markets and Payment Systems
José A. Barreiro Hernández	Banco Bilbao Vizcaya Argentaria, S.A.	Member of the Management Committee for the Corporate & Investment Banking business area
Ricardo Laiseca Asla	Banco Bilbao Vizcaya Argentaria, S.A.	Director of Global Markets Units and Corporate & Investment Banking (wholesale area).

List, if appropriate, any relevant relationships, other than those indicated, under the section above, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship
Tomás Muniesa Arantegui	Caja de Ahorros y Pensiones de Barcelona	General Manager CaixaBank (Insurance and Asset Management business areas)
Tomás Muniesa Arantegui	Caja de Ahorros y Pensiones de Barcelona	Executive Vice-President and CEO of "VidaCaixa Grupo, S.A."
Tomás Muniesa Arantegui	Caja de Ahorros y Pensiones de Barcelona	Vice-President of "SegurCaixa Adeslas, S.A. de Seguros y Reaseguros"
Carlos Stilianopoulos Ridruejo	Banco Financiero y de Ahorros, S.A.	Director of Finance and Director of Wholesale Businesses of "Bankia, S.A."
Carlos Stilianopoulos Ridruejo	Banco Financiero y de Ahorros, S.A.	Director of "Bankia Bolsa, S.V., S.A."

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

Yes

No

## Description of changes

At its meeting held on 24 February 2011, the Board of Directors approved the modification of the Board of Directors' Regulations to bring them in line with Law 12/2010, of 30 June and Royal Decree 1/2010, of 2 July; to incorporate the obligations voluntarily undertaken by the Company through its adherence to the Code of Best Tax Practice; to increase the degree to which the Recommendations of the Unified Good Governance Code are followed; and to introduce certain obligations contained in resolutions of the Executive Committee.

Specifically, the amendments to the Board of Directors Regulations approved in 2011 affect articles 3, 7, 16, 17, 18, 19, 20, 21 and 27 thereof, and are as follows:

The first amendment, affecting article 3, refers to a purely formal item regarding acknowledging receipt of the Regulations.

Article 7 stating the responsibilities of the Board of Directors "regarding the transparency and veracity of Company information," was amended in order to adapt it to the extended remit of the Audit Committee following the entry into effect of Law 12/2010, of 30 June.

With regard to the functions of the Executive Committee, the obligation to send copies of the minutes of its meetings to the Board of Directors, as has been the practice since the Executive Committee's resolution of 20 February 2008, was added to Article 16.

The duties of the Audit Committee defined in article 17 were modified to bring them in line with Law 12/2010 amending Additional Provision 18 of the Securities Market Act, making it responsible for supervising the Company's internal control and risk control systems, the procedure for preparing and presenting the regulated financial information, and the mechanisms for monitoring the independence of the Company's auditor. The Audit Committee was also assigned duties related to awareness of fiscal policy

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and monitoring the application thereof as a consequence of the adherence to the Code of Best Tax Practice. The obligation to send copies of the minutes of its meetings to the Board of Directors, as has been the practice since the Executive Committee's resolution of 20 February 2008, was also added.

Article 18, section 2 was amended to provide for a generic provision whereby the Board of Directors can delegate powers to the Appointments and Remunerations Committee and to enhance the degree of compliance with the Unified Good Governance Code, assigning two additional duties to this Committee: reporting on the appointment and removal of senior executives of the Company and proposing the basic conditions of the contracts entered into with them.

The regulation of the Markets and Systems Operating Procedures Committee set out in article 19 was amended to include a generic provision whereby the Board of Directors can delegate powers to said Committee and the obligation to send the Board of Directors copies of the minutes of its meetings, as has been the practice since the Executive's Committee's resolution of 24 March 2009.

Article 20 of the Board of Directors' Regulations was amended to bring it in line with article 21.b) of the same Regulations with regard to the maximum term an independent Director may remain in office.

The rules on incompatibility and the disclosure obligations to which members of the Board of Directors are subject as set out in articles 21 and 27 of the Board of Directors' Regulations were amended to bring them in line with articles 230 and 229 of the Corporate Enterprises Act.

The Company reported on the aforementioned amendments to the General Shareholders' Meeting held on 28 April 2011 and they were recorded in the Companies' Register on 29 June 2011.

**B.1.19** Indicate the procedures for appointing, re-electing, appraising and removing Directors. List the competent bodies and the processes and criteria to be followed for each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 18, 20 and 21 of its Board of Directors' Regulations.

### 1.- Appointment.

#### 1. A.- Responsibility.

The number of Company Directors shall be established at the General Shareholders' Meeting, and shall be within the maximum (20) and minimum (12) set by the Articles of Association.

In accordance with the agreement approved at the Extraordinary General Shareholders' Meeting held on 5 June 2006, the Board of Directors comprises 15 members.

However, should any vacancies arise, the Board of Directors may, given its legal powers of co-option, select from among the Company's shareholders persons to fill these vacancies until the next General Shareholders' Meeting.

#### 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 proposed candidates must not be affected by any incompatibility or prohibition pursuant to the Company's Articles of Association and Board of Directors' Regulations.

To be a shareholder is not a requirement to be appointed Director except in the event of appointment by co-option when it does become a requirement.

According to article 21 b) of the Board of Directors' Regulations, independent Directors may not hold directorships at more than four companies whose shares are listed on Spanish or foreign stock markets, nor may they serve as Directors for more than 12 consecutive years without a break, nor may they be re-elected for more than three consecutive terms pursuant to article 20(2) of the Board of Directors' Regulations.

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The same article stipulates that Executive Directors may not hold directorships at any other listed Company.

## 1. C.- Term of office.

Directors shall hold office for four-year terms and may be re-elected one or more times for terms of equal duration, except for independent Directors who may not be re-elected for more than three consecutive terms.

## 1. D.- Procedures.

Appointment proposals that the Board of Directors submits to the General Shareholders' Meeting, and any resolutions on appointments by co-option adopted by the Board, must be preceded by a report from the Appointments and Remuneration Committee which must assign new Directors to one of the categories envisaged in article 6 of the Board Regulations and also assess their impact on the structure and composition of the Board.

In any case, the Appointments and Remuneration Committee shall be responsible for submitting to the Board all proposals for the appointment or re-election of independent Directors for subsequent discussion at the General Shareholders' Meeting, and for their provisional appointment by co-option.

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

The Board of Directors shall seek to distribute its members among the different types of Director in the manner most fitting to the Company's ownership structure and its corporate purpose and the purpose of group companies. However, the Board shall be obliged to submit its proposals at the General Shareholders' Meeting plus 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 shall be subject to the same rules as for their appointment, taking into particular account the quality of services rendered by Directors and their commitment during the previous term of office. Directors standing for re-election shall not take part in any discussions or decisions concerning their re-election.

## 3.- Evaluation.

In accordance with article 10(3) of the Board of Directors' Regulations, 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.

## 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 Director before the end of the term for which they were appointed unless they have valid grounds for doing so on the basis of a proposal from the Appointments and Remuneration Committee. Valid grounds shall be deemed to exist when Directors have failed to perform the functions inherent to their office or they are affected by any of the circumstances that are incompatible with their status as independent Directors.

Any Directors vacating office before the end of their term, and for whatever reason, must explain these reasons in a letter sent to all Board Members.

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## B.1.20. Indicate the cases in which Directors would be obliged to resign.

Under article 38.3 of the Company's Articles of Association and sections 3 and 4 of article 20 of the Board of Directors' Regulations members of BME's 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 non-independent Directors, when the shareholder whom they represent sells their 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 latter must proceed immediately to replace that representative.

In addition to the above, and as stated in the previous section, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, shall propose the removal of independent Directors when they have failed to perform the functions inherent to their office or they are affected by any of the circumstances that are incompatible with their status as independent Directors.

**B.1.21. Indicate whether the duties of chief executive officer fall upon the Chairman of the Board. If so, describe the measures taken to limit the risk of powers being concentrated in a single person.**

Yes

No

## Measures for limiting risk

Article 25 of the Company's Articles of Association and article 12 of the Board of Directors' Regulations state that the Chairman of the Board of Directors shall represent the Company and be the guiding force behind it and group companies, also promoting the Board's functions of driving, directing and supervising the Company's ordinary business activity and watching over the Board's responsibilities with regard to relations with shareholders and the markets. The Chairman shall also direct the Company's management team, in accordance with the decisions and criteria established at the General Shareholders' Meeting and by the Board of Directors within the scope of their respective powers.

Pursuant to articles 25 and 7 of the Articles of Association and the Board of Directors' Regulations, respectively, the Board of Directors is empowered with the general function of driving, directing and supervising matters that are of particular importance for the Company.

The Board of Directors shall therefore be in charge of the general function of driving, directing and supervising matters that are of particular importance to the Company, undertaking in this respect as general tasks, among others, those of defining the general strategy and management guidelines of the Company, giving impetus to and overseeing the senior management, establishing the basis of the corporate organisation in order to ensure its maximum efficiency, monitoring the transparency and veracity of the information released by the Company in its relations with investors and with the markets in general, identifying it's the Company's main risks and supervising the internal control systems, as well as organising its own operation. The Board of Directors shall also establish adequate coordination between group companies for their own benefit and mutual interest and those of the Company.

As stipulated in the above-mentioned articles, the Board of Directors, which is the Company's highest decision-making body, except for issues falling within the remit of the Shareholders' Meeting, shall entrust the management of the Company's ordinary business to its delegate bodies, its executive members and the senior management team.

In addition to limiting the risk of accumulating powers in a single person as a result of the powers attributed to the Board of Directors and entrusting the ordinary management of the Company to its senior management team, the following specific measures have been adopted:

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- The appointment of a vice-chairman of the Board of Directors who shall be an independent Director, as established by article 13.2 of the Board of Directors' Regulations.

- The small number of Directors considered Executive Directors, which is currently 13.333% of the total Board.

- A significant presence and proportional representation of non-executive Directors on Board Committees has been ensured. Accordingly, the Audit Committee and the Appointments and Remuneration Committee is made up exclusively of non-executive Directors and presided over by an independent Director (articles 35 and 36 of the Articles of Association and articles 17 and 18 of the Board of Directors' Regulations).

- Additional to the competencies assigned to the Chairman relating to the convening of meetings and establishing the Agenda for these meetings, article 10 of the Board of Directors' Regulations stipulates that the Board of Directors shall ordinarily meet every month and in any event shall hold at least nine meetings per year; and the schedule for ordinary meetings shall be established by the Board of Directors itself at the commencement of each financial year.

Following the most recent amendment to the Spanish Company Act, Directors representing at least one third of all board members may call a meeting if the Chairman has not summoned the meeting without just cause, one month from the date he was requested to do so. In addition to this legal obligation, under the Company's Articles of Association members of the Board of Directors may request the Chairman to call a Board meeting and a Board meeting must necessarily be called when at least four members of the Board of Directors request one and the Agenda must include the items requested by them. If the Chairman fails to call a meeting in the fifteen calendar days following receipt of the request, the meeting must then be called by a vice chairman.

Regarding the Agenda of the Meeting, Directors may request the Chairman to include items on the Agenda and the Chairman is obliged to do so when they are requested by at least four Directors at least 10 days in advance of the scheduled date of the meeting, as established by article 10.2 of the Board of Directors' Regulations. And, without prejudice to the possibility that Directors may raise relevant issues during the Board meetings.

- The Appointments and Remuneration Committee, comprised exclusively by non executive Directors and with by a majority of independent Directors, including its Chairman, must annually assess the performance of the Chairman of the Board and the Company's chief executive. This assessment shall be submitted for approval by the Board of Directors as stipulated by article 10.3 of the Board of Directors' Regulations.

Indicate, and where appropriate, explain if an independent Director is empowered to request the calling of Board meetings or the inclusion of new items on the agenda; and coordinate and give voice to the concerns of external Directors; and lead the Board's evaluation of the Chairman.

Yes

No

**B.1.22.** Are qualified majorities, other than those established by law , required for certain decisions?

Yes

No

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions.

Description of resolution:

General.

Quorum	%
One half of Directors present or represented, plus one Director.	51.00
Type of majority	%
Absolute majority	0

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## Description of resolution:

Resolutions relating to the delegation of powers to the Executive Committee or to the Chief Executive Officer and resolutions appointing the Directors that are to hold such offices.

Quorum	%
One half of Directors present or represented, plus one Director.	51.00
Type of majority	%
A vote in favour by two-thirds of Directors.	66.66

**B.1.23.** Indicate whether there are any specific requirements, apart from those for Directors, to be appointed Chairman.

Yes  No

**B.1.24.** Indicate whether the Chairman has the casting vote.

Yes  No

### Subjects for which a casting vote is required

Under article 30 of the Company's Articles of Association and article 12 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 articles 34 of the Articles of Association and articles 12 and 16 of the Board of Directors' Regulations, the Chairman of the Executive Committee shall hold the casting vote in the meetings held by it.

**B.1.25.** Indicate whether the Articles of Association or the Board of Directors' Regulations set any age limit for Directors.

Yes  No

### Age limit for Chairman

Age limit for CEO

Age limit for directors

**B.1.26.** Indicate whether the Articles of Association or the Board of Directors' Regulations set a limited term of office for independent Directors.

Yes  No

### Maximum number of years in office

12

**B.1.27.** If there are few or no female Directors, explain the reasons and describe the initiatives adopted to remedy this situation.

### Explanation of reasons and initiatives

Article 18.2.a) of the Board of Directors' Regulations states that the Appointments and Remuneration Committee "shall be responsible for submitting to the Board all proposals for the appointment or re-election of independent Directors for submission to the General Shareholders' Meeting, and for their provisional appointment by co-option, and must prepare a prior report on the other Directors. The above-mentioned article also states that when presenting these proposals, the Appointments and Remuneration Committee must also ensure "that the process for the selection of Directors does not discriminate on the basis of gender."

## Annual Corporate Governance Report

Indicate in particular whether the Appointments and Remunerations Committee has established procedures to ensure the selection processes are not subject to implicit bias against women candidates and deliberately seek candidates meeting the required portfolio.

Yes  No

Indicate the main procedures

As stated in the previous paragraph, article 18.2.a) of the Board of Directors' Regulations charges the Appointments and Remuneration Committee with ensuring that the process for the selection of Directors does not discriminate on the basis of gender.

In its endeavour to comply with said article of the Board of Directors' Regulations, at its meeting on 29 November 2007 mentioned at section B.1.27 of the present report, the Appointments and Remuneration Committee, upon beginning its analysis of the criteria to be used in the selection process of independent Directors, stipulated that "*female candidates must not be discriminated against in this process*"

**B.1.28.** Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

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 Directors being unable to attend a meeting in person they may appoint another Director to represent them.

Representatives 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. Directors may be appointed and act as proxies for more than one other Director.

**B.1.29.** Indicate the number of Board meetings held during the year. Like wise, indicate the number of times, if any, the Board has met in the absence of its Chairman.

<b>Number of Board meetings</b>	<b>12</b>
<b>Number of Board meetings held in the absence of its chairman</b>	<b>0</b>

Indicate the number of Board committees meetings held during the year.

<b>Number of meetings of the Executive or Delegated Committee</b>	<b>11</b>
<b>Number of meetings of the Audit Committee</b>	<b>9</b>
<b>Number of meetings of the Appointments and Remunerations Committee</b>	<b>7</b>
<b>Number of meetings of the Appointments Committee</b>	<b>-</b>
<b>Number of meetings of the Remunerations Committee</b>	<b>-</b>

In addition to the abovementioned committees, the Markets and Systems Operating Procedures Committee met on 11 occasions.

**B.1.30.** Indicate the number of board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions.

<b>Number of non-attendances by Directors during the year</b>	<b>43</b>
<b>% of non-attendances of the total votes cast during the year</b>	<b>23.89%</b>



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**B.1.31.** Indicate whether the individual and consolidated financial accounts are certified prior to their formulation by the Board of Directors.

Yes

No

Identify, if applicable, the person(s) who certified the Company's individual and consolidated accounts for their formulation by the Board.

(-)

**B.1.32.** Explain the mechanisms, if any, established by the Board of Directors to ensure the individual and consolidated accounts are not presented at the General Shareholders' Meeting with a qualifications in the auditor's report.

The mechanisms established by the Board of Directors to prevent the individual and consolidated financial accounts formulated by the Board of Directors are not presented at the General Shareholders' meeting with qualifications in the auditor's report are established in article 35 of the Company's Articles of Association and articles 8, 17 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 annual financial statements - both individual and consolidated - and management report give a true and fair view of its net worth, financial situation 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.

In this regard, paragraph 2, section 3 of article 30 of the Board of Directors' Regulations stipulates that the Board of Directors shall adopt the necessary measures to ensure that the half-yearly, quarterly, and any other financial reporting that is made available to the markets is prepared in accordance with the same principles and practices as those used in the preparation of the Company's annual accounts, and is equally reliable.

In this role, the Board of Directors is assisted by the Audit Committee, which at its meetings of 27 April and 27 October 2011, as a preliminary to review by the Board of Directors and authorisation for issue to the markets and regulatory bodies, reported in favour of the Company's quarterly statements.

As regards the Company's six monthly reporting duties, the financial statements for the first six months of 2011 were authorised for issue by the Board of Directors at its meeting of 28 July 2011 after scrutiny and review by the Audit Committee at its meeting of the same date.

Likewise, as per article 35 of the Company's Articles of Association and articles 17 and 31 of the Board of Directors' Regulations, the Audit Committee shall be responsible for liaising with the external auditors in order to receive information on any issues connected with the auditing procedure, and to maintain with the auditors the 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.

In the exercise of its duties, the Audit Committee shall invite the external auditor to attend its meetings whenever it is deemed appropriate and, in any event, when the auditor's report on the Company's and Group's annual financial statements and management report are among the items on the agenda for discussion. The external auditor is also invited to attend meetings prior to the publication of quarterly reporting and the six-monthly financial statements of the Company.

The Company's Financial Director shall also attend meetings of the Audit Committee so that the committee may rigorously monitor the preparation of the periodic public information.

Also, pursuant article 8.1 of the Board of Directors' Regulations, in the event that 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 these reservations and qualifications.

# Annual Corporate Governance Report

**B.1.33.** Is the Secretary of the Board also a Director?

Yes

No

**B.1.34.** Explain the procedures for appointing and removing the Secretary of the Board, indicating whether his/her appointment and removal have been reported by the Appointments Committee and approved by the Board.

## Appointment and removal procedure

Articles 14.1 and y 18.2.c) of the Board of Directors' Regulations state that the Board of Directors shall appoint a Secretary and, optionally, one or more Deputy Secretaries, subsequent to a report from the Appointments and Remuneration Committee.

	Yes	No
<b>Is the appointment reported by the Committee?</b>	X	
<b>Is the removal reported by the Committee?</b>	X	
<b>Does the Board in full approve the appointment?</b>	X	
<b>Does the Board in full approve the removal?</b>	X	

Is the Secretary of the Board especially responsible for overseeing corporate governance recommendations?

Yes

No

**B.1.35.** Indicate the mechanisms, if any, established by the implemented by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

### 1) Mechanisms established by the Company to preserve the independence of the auditor.

In accordance with articles 7.4 and 31 of the Board of Directors' Regulations, the Board of Directors, acting in full and through its committees, is responsible for ensuring the external auditor is both independent and professionally acceptable.

Article 35 of the Articles of Association and article 17 of the Board of Directors' Regulations establish that the Audit Committee shall liaise with the external auditors in order to receive information on any issues that might jeopardise the latter's independence, for examination by the Committee, and 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 sense annually the Committee will receive from the auditors written confirmation of their independence of the Company, as well as information on any other type of service provided by the auditors or persons or entities related to them and will issue a report each year, prior to the auditor's report, stating an opinion on the independence of the auditors and on the provision of any kind of additional service.

One of the mechanisms established by the Company to preserve the independence of its auditor included in the scope of afore-mentioned article 31 of the Board of Directors' Regulations stipulates that the Board of Directors shall, in the manner laid down by law, publish the fees that the Company has paid to the audit firm both for audit and other services, including the companies in the Group to which the auditors belong.

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

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

The handling of information by the Investor Relations Department shall be carried out with the utmost respect for the principles of transparency and non-discrimination, complying at all times with securities market regulations.

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

In 2011, the Company did not hire the services of investment banks or rating agencies.

## Annual Corporate Governance Report

**B.1.36.** Indicate whether the Company has changed its external audit firm during the year.

If so, identify the incoming audit firm and the outgoing auditor.

Yes  No

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

Yes  No

**B.1.37.** Indicate whether the audit firm performs non-audit work for the Company and/or its group. If so, state the fees received for such work and the percentage they represent of the fees billed to the Company and/or its group.

Yes  No

	Company	Group	Total
<b>Amount of other non-audit work (in thousands €)</b>	38	21	59
<b>Amount of other non-audit work as a % of the total amount billed by the audit firm</b>	10.27%	5.44%	7.80%

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

Yes  No

**B.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 how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
<b>Number of consecutive years</b>	10	10
<b>Number of years audited by current audit firm/Number of years the Company's financial statements have been audited (%)</b>	100%	100%

**B.1.40.** list any equity holdings of the members of the Company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the Company and/or its group, and which have been reported to the Company. Likewise, list the posts or duties they hold in such companies.

(-)

**B.1.41.** Indicate and, where appropriate, give details of any procedures through which Directors may receive external advice.

Yes  No

Details of procedure

Article 29.3 of the Company's Articles of Association establishes that the Chairman of the Board of Directors "may invite Company executives and technical staff, as well as directors and executives from 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 will have the right to speak but not vote".

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**B.1.42.** Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes  No

### Details of procedure

Article 27.3 of the Company's Articles of Association establishes that notice of Board meetings and the necessary documentation for these meetings shall be sent by the Secretary of the Board of Directors by letter, fax, telegram or e-mail, in accordance with the instructions received from each of the Board members, at least forty-eight hours before the date set for the meeting.

Furthermore, under article 22 of the Board of Directors' Regulations Directors shall have the broadest 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.

**B.1.43.** Indicate and, where appropriate, give details of whether the Company has established rules obliging Directors to inform and where applicable, to resign under circumstances that might harm the organisation's name or reputation.

Yes  No

### Details of rules

Within the Directors' duties of information, article 27 of the Board of Directors' 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-

over, this article states that they must also disclose any legal, administrative or other types of claims affecting them that, because of their importance, could seriously affect the Company's reputation.

In addition, articles 38.3 of the Articles of Association and 20.4 of the Board of Directors' Regulations stipulates that directors must resign when their continuation in office could jeopardise the Company's interests.

**B.1.44.** Indicate whether any Director has notified the Company that he/she has been indicted or tried for any of the offences stated in article 124 of the Spanish Companies Act (LSA for its initials in Spanish).

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.

Yes  No

# Annual Corporate Governance Report

## B.2. Board of Directors' Committees.

### B.2.1. List the committees of the Board of Directors and their members.

EXECUTIVE COMMITTEE		
Name	Post	Type
Antonio J. Zoido Martínez	Chairman	Executive
Javier Alonso Ruiz-Ojeda	Member	External non-independent
José Andrés Barreiro Hernández	Member	External non-independent
Ignacio Benjumea Cabeza de Vaca	Member	External non-independent
Álvaro Cuervo García	Member	Independent
Tomás Muniesa Arantegui	Member	External non-independent
Margarita Prat Rodrigo	Member	Independent

AUDIT COMMITTEE		
Name	Post	Type
Álvaro Cuervo García	Chairman	Independent
Margarita Prat Rodrigo	Member	Independent
Ramiro Mato García-Ansorena	Member	External non-independent

APPOINTMENTS AND REMUNERATIONS COMMITTEE		
Name	Post	Type
Manuel Olivencia Ruiz	Chairman	Independent
José Antonio Álvarez Álvarez	Member	External non-independent
Rosa María García García	Member	Independent

MARKETS AND SYSTEMS OPERATING COMMITTEE		
Name	Post	Type
Joan Hortalá i Arau	Chairman	Executive
Ricardo Laiseca Asla	Member	External non-independent
Karel Lannoo	Member	Independent
Carlos Stilianopoulos Ridruejo	Member	External non-independent

Luis María Cazorla Prieto is Secretary (non Member) of all the above-mentioned Committees.

### B.2.2. Indicate whether the Audit Committee is responsible for the following.

	Yes	No
To supervise the preparation process and monitoring the integrity of financial information on the Company and, if applicable, the group, and revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	X	
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	X	
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	X	
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
To submit to the Board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	X	
To receive regular information from the external auditor on the progress and findings of the audit programme and check that senior management are acting on its recommendations.	X	
To ensure the independence of the external auditor.	X	
In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.	X	

### B.2.3. Describe the organisational and operational rules and the responsibilities attributed to each of the Board committees.

#### 1.- Executive Committee

The Executive Committee is regulated by both article 34 of the Articles of Association and article 16 of the Board of Directors' Regulations, modified by the Board of Directors' resolution of 24 February 2011.

# Annual Corporate Governance Report

## 1.1 Organisation and operation

- The Executive Committee shall consist of at least three and not more than seven Directors designated by the Board of Directors. The Company shall endeavour to ensure that the size and composition of the Executive Committee complies with criteria of efficiency and reflects the basic structure of the Board's composition.

The Executive Committee currently comprises seven members pursuant to the agreement adopted by the Board of Directors at its meeting on 27 July 2006.

- 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 one or the eldest 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. When there is a tie in voting, the Chairman shall have the casting vote.

- The Chairman shall call a meeting of the Executive Committee at least once a month, or whenever a meeting is requested by at least two of its members.

- At each meeting of the Board of Directors the Executive Committee shall report on the topics 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 the members of the Board of Directors.

## 1.2 Responsibilities

The Executive Committee has the following responsibilities, without prejudice to any other delegated to it by the Board of Directors:

a) The continuous monitoring and supervision of the administration and day-to-day management of the Company, also ensuring that there is adequate coordination between group companies for their mutual benefit and that of the Company.

b) Analysing and proposing to the Board of Directors the guidelines that are to define the Company's strategy, and supervising their implementation.

c) 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 corresponding economic rationale.

- Collaboration agreements with other companies, which, due to their size or nature are significant for the Company.

- Financial operations of important economic scope for the Company.

- Assessing the extent to which the Company is meeting its targets.

d) Adopting resolutions relating to the acquisition or disposal of the Company's own shares, as authorised at the General Shareholders' Meeting, with the option of appointing a Committee member to execute decisions to buy and sell treasury stock.

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

## 2.- Audit Committee

The Audit Committee is regulated by both article 35 of the Articles of Association, modified by a resolution of the General Shareholders' Meeting on 28 April 2011, and by article 17 of the Board of Directors' Regulations, modified by the Board of Directors' resolution of 24 February 2011.

### 2.1 Organisation and operation

- The Audit Committee consists of a minimum of three and a maximum of five Directors, who shall be appointed and removed by the Board of Directors. All of the Committee members must be non-executive Directors, and most of them must be independent Directors.

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The Audit Committee currently comprises three 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 the independent Directors and must be replaced every four years and is eligible for re-election one year after completing his term.

In the event of the absence or temporary inability of the Chairman, his place shall be taken by the independent Director Committee member who has been designated for the 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 one chosen by lot.

- The Secretary to the Committee shall be appointed by the Board of Directors from among the Committee 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 members 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 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.

- As per article 17.3 of the Board of Directors' Regulations, the Audit Committee must report to the Board of Directors on its activities in the course of each year, so the Secretary will send a copy of the minutes of the Committee's meetings to the members of the Board of Directors.

### 2.2 Responsibilities

The Audit Committee shall have the following responsibilities:

a) Report, via its Chairman, to the General Shareholders' Meeting in regard to the matters raised therein by shareholders concerning issues that fall within the Committee's remit.

b) To propose to the Board of Directors, for its submission to the General Shareholders' Meeting, the appointment of external auditors or auditing companies, and, if applicable, the terms of their engagement, the scope of their professional remit, and the termination or renewal of their appointment. Should the external auditors relinquish their appointment, the Committee shall examine the reasons why.

c) Supervise the Company's internal audit services which shall be answerable to the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficacy of the internal audit function, proposing the selection, appointment, re-election and termination of the head of 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 proceedings whereby Company personnel may anonymously report any irregularity in the internal control and risk management systems.

d) Supervise the preparation and presentation process of regulated financial information.

e) Supervise the efficiency of the Company's internal control and risk control systems. To this end, the internal control and risk management systems shall be supervised by the Committee at least once a year, to ensure that the main risks are adequately identified, managed and reported, and will discuss with the external auditors or, where appropriate, audit firms or experts appointed for that purpose, any significant weaknesses of the internal control management detected in the auditing process.

f) To liaise with with external auditors in order to receive information on any issues that might jeopardise the latter's independence for examination by the Committee, and any other matters connected with the auditing procedure, and to maintain with the auditors the 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

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of non-auditing services, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. To that effect, annually the Committee might receive written confirmation of their independence of the Company, as well as information on any other type of service provided by the auditors or persons or entities related to them.

g) Issue annually a report, prior to the issue of the auditor's report, stating an opinion on the independence of the auditors and on the provision of any other type of service.

h) Be informed of the fiscal policies applied by the Company. To that effect, it must receive information from the head of the tax department on the fiscal policies applied, at least, prior to the preparation of the financial statements and the filing of the corporate tax return and, whenever relevant, on the fiscal consequences of corporate operations submitted to the Board of Directors for approval.

i) Any other general or specific tasks regarding reporting and proposals commissioned by the Board of Directors, or required in order to comply with the regulations in force at any given time.

In addition to these responsibilities, the Audit Committee also has the following duties as stipulated by the Board of Directors' Regulations:

- Issue a favourable report in the event of Directors wishing to use Company assets other than in return for adequate valuable consideration, as established by article 24 of the Board of Directors' Regulations.
- Issue a prior report to the Board of Directors authorising Directors to invest or perform commercial or other transactions that they have knowledge of in the performance of their duties using the information resources of the Company or group companies, as stipulated in article 26 of the Board of Directors' Regulations.

Directors must notify the Audit Committee before accepting any directorship or management position in another Company or entity, as established in article 27 of the Board of Directors' Regulations.

Lastly, in relation to information relayed to the market, under article 30.2 of the Board of Directors' Regulations, the Audit Committee shall monitor all briefings held by the Board of Directors concerning the Company's performance, and ensure that the aforementioned briefings in no way violate the principle of equal treatment of shareholders by granting some a position of privilege or an advantage over others.

### 3.- Appointments and Remuneration Committee

The Appointments and Remuneration Committee is regulated by both article 36 of the Articles of Association, modified by a resolution of the General Shareholders' Meeting on 28 April 2011, and by article 18 of the Board of Directors' Regulations, modified by the Board of Directors' resolutions of 17 December 2009 and 24 February 2011.

#### 3.1 Organisation and operation

- The Appointments and Remuneration Committee shall comprise at least three and a maximum of five Directors, appointed by the Board of Directors from among its non-executive members. The members of the Appointments and Remuneration Committee shall remain in office for as long as they remain Company Directors, unless the Board of Directors resolves to remove them.

The Appointments and Remuneration Committee currently comprises three members pursuant to the agreement adopted by the Board of Directors at its meeting on 29 November 2007.

- The Chairman shall be appointed by the Board of Directors from among its independent members.

- 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 Secretary or any of the 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 Committee members.

- There shall be a 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. When there is a tie in voting, 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.



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## 3.2. Responsibilities

The Appointments and Remuneration Committee is a non-executive body, empowered to report, advise and submit proposals to the Board on matters within its remit. The duties of the Appointments and Remuneration Committee consist of reporting on the following concerns:

- a) Compliance with the legal requirements and requirements of the Articles of Association and Board of Directors' Regulations, in respect of any proposed designation of a Director via co-option and in relation to any proposals by the General Shareholders' Meeting regarding appointments, ratification or termination of a Director. Such proposals must be preceded by the relevant report by the Committee which must assign the new Director to one of the categories envisaged by the Regulations and also assess his impact on the structure and composition of the Board, ensuring that the process for the selection of Directors does not discriminate on the basis of gender. In any event, the Appointments and Remuneration Committee shall be responsible for submitting to the Board all proposals for the appointment or re-election of independent Directors for submission at the General Shareholders' Meeting, and for their provisional appointment by co-option.
- b) Compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment, re-election and termination of members of the Board of Directors whose names are put forward to sit on any of the Board Committees, as well as, where applicable, to hold any office thereon.
- c) Compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment and removal of the Secretary and, as appropriate, Deputy Secretaries of the Board.
- d) Proposals on the Directors' remuneration to be submitted by the Board at the General Shareholders' Meeting or to be approved by the Board in accordance with the relevant shareholders' resolution. These should consider, among other aspects, the type of Director and the offices, functions and commitment of each of the Directors on the Board and the Board Committees.
- e) Any other general or specific tasks commissioned by the Board of Directors.

The Appointments and Remuneration Committee shall also examine or organise, in appropriate form, the succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.

The Appointments and Remuneration Committee shall also be cognisant with the structure and policy for senior management pay and incentives and monitor the decisions taken and criteria applied on the matter at the Group companies, as well as report on the appointment and removal of senior executives of the Company and, if appropriate, propose the basic conditions of the contracts entered into with them. Additionally, at the request of the Board of Directors, it shall supervise compliance with the rules of corporate governance.

Under article 20.3 of the Board of Directors' Regulations, the Appointments and Remuneration Committee may propose to the Board of Directors the removal of an independent Director prior to the completion of the term for which he was appointed provided that there are valid grounds for doing so.

Lastly, according to article 21 of the Board of Directors' Regulations, Directors may not hold office or perform the functions of director, representative, manager, advisor or service provider at companies with the same, similar or complementary types of activity as that of the Company, or companies wielding a dominant or controlling position thereupon, nor carry out such activities for their own account without the express and justified authorisation of the General Shareholders' Meeting, subject to a prior report by the Appointments and Remuneration Committee.

## 4.- Markets and Systems Operating Procedures Committee

The Markets and Systems Operating Procedures Committee is regulated by article 37 of the Articles of Association, amended by a resolution of the General Shareholders' Meeting on 28 April 2011, and article 19 of the Board of Directors' Regulations, amended by a resolution of the Board of Directors on 24 February 2011, as well as the Regulations for the Markets and Systems Operating Procedures Committee approved by the Board of Directors at its meeting on 25 January 2007 and which was amended by a resolution of the Board on 28 October 2010.

### 4.1 Organisation and operation

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

The Markets and Systems Operating Procedures Committee currently comprises four members pursuant to the agreement adopted by the Board of Directors at its meeting on 29 November 2007.

- The Board of Directors shall appoint the Chairman of the Markets and Systems Operating Procedures Committee from among its members.

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- The Board of Directors shall also appoint a committee Secretary, an office which need not be held by a member of the Committee and which may be filled by the Board Secretary or any of the 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 Markets and Systems Operating Committee shall meet whenever it is convened by the Chairman and there shall be a quorum when a majority of Committee members are present or represented by proxy.

- Resolutions shall 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 Chairman shall have the casting vote.

- The Markets and Systems Operating Procedures Committee shall report to the Board of Directors in regard to the performance of its tasks, and shall draft the reports and proposals in this regard as requested by the Board of Directors. The Secretary shall submit copies of the minutes of the Markets and Systems Operating Procedures Committee to the Board of Directors.

## 4.2 Responsibilities

The Markets and Systems Operating Procedures Committee has the following duties and powers, as developed in the Regulations of the Markets and Systems Operating Procedures Committee:

a) To analyse and monitor that the procedures and regulations laid down by Group companies are appropriate for the proper functioning of the markets and systems they manage.

b) To be cognisant with 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.

c) To be cognisant with the application of the Internal Regulations of Conduct of the Company, periodically receiving information in this regard from the Standards of Conduct Committee or equivalent body as envisaged in the aforementioned Regulations, and also reporting prior to any amendment of the Regulations submitted to the Company's Board of Directors for approval.

d) Any other general or specific tasks commissioned by the Board of Directors.

**B.2.4.** Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees.

Committee name	Brief description
Executive Committee	See section B.2.3.
Audit Committee	See section B.2.3.
Appointments and Remuneration Committee	See section B.2.3.
Markets and Systems Operating Procedures Committee	See section B.2.3.

**B.2.5.** Indicate, as appropriate, whether there are any regulations governing the Board committees, where they can be consulted, and any whether any amendments made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

## Committee name

ALL

## Brief description

Regulations governing the composition and operations of Board committees are detailed in the Articles of Association and Board of Directors' Regulations, that are available on the Company's corporate website [www.bolsasymercados.as](http://www.bolsasymercados.as).

In relation with the annual report on the activities of each committee, article 10.3 of BME's Board of Directors' Regulations establishes that the Board of Directors in full must annually assess the efficiency of the operation and quality of work of its committees based on the reports they prepare concerning the performance of their tasks.

The 2011 Board of Directors' Report which includes, as appendices, reports on the Executive Committee, Audit Committee, Appointments and Remuneration Committee and Markets and Systems Operating Procedures Committee, is available to all shareholders prior to the General Shareholders' Meeting on the Company's corporate website.

## Annual Corporate Governance Report

### Committee name

MARKETS AND SYSTEMS OPERATING COMMITTEE

### Brief description

In addition to the regulations contained in the Articles of Association and the Board of Directors' Regulations, this Committee has drawn up its own Regulations for the Markets and Systems Operating Procedures Committee which was approved by the Board of Directors at its meeting on 25 January 2007. These Regulations were amended by the Board of Directors on 28 October 2010 and are available on the Company's corporate website [www.bolsasymercados.es](http://www.bolsasymercados.es).

**B.2.6.** Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of Directors.

Yes

No



BME held its General Shareholder's Meeting on 28 April 2011

# Annual Corporate Governance Report

## C. Related-party transactions

**C.1.** Indicate whether the Board plenary sessions have reserved the right to approve, based on a favourable report from the Audit Committee or any other committee responsible for this task, transactions which the Company carries out with Directors, significant shareholders or representatives on the Board, or related parties.

Yes

No

In accordance with the provisions of article 28 of the Board of Directors' Regulations, 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 conducted 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.

**C.2.** List any relevant transactions entailing a transfer of assets or liabilities between the Company or its group companies and the significant shareholders in the Company.

(-)

**C.3.** List any relevant transactions entailing a transfer of assets or liabilities between the Company or its group companies, and the Company's managers or Directors.

(-)

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

(-)

**C.5.** Identify, where appropriate, any conflicts of interest affecting Company Directors pursuant to article 127 of the LSA.

Yes

No

# Annual Corporate Governance Report

Name or corporate name of Director	Description of the conflict of interest
Antonio J. Zoido Martínez	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Report on the performance of its function as Board's Chairman and Company's chief executive, dealt with at the Board Meeting on 22 March 2011.</li> <li>• Chairman's fixed and variable remuneration dealt with at the Board Meeting on 22 March 2011 and the General Shareholders' Meeting on 28 April 2011.</li> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Approval of a medium-term remuneration scheme to be implemented by the Company and its subsidiaries for members of the management team, including executive directors, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
José A. Barreiro Hernández	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Tomás Muniesa Arantegui	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Margarita Prat Rodrigo	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Javier Alonso Ruiz Ojeda	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• His re-election as a Director, dealt with at the Board Meeting on 22 March 2011 and the General Shareholders' Meeting on 28 April 2011.</li> <li>• His re-election as a member of the Executive Committee, dealt with at the Board Meeting on 28 April 2011.</li> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>

## Annual Corporate Governance Report

Name or corporate name of Director	Description of the conflict of interest
José Antonio Álvarez Álvarez	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• His re-election as a Director, dealt with at the Board Meeting on 22 March 2011 and the General Shareholders' Meeting on 28 April 2011.</li> <li>• His re-election as a member of the Appointments and Remunerations Committee, dealt with at the Board Meeting on 28 April 2011.</li> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Ignacio Benjumea Cabeza de Vaca	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• His re-election as a Director, dealt with at the Board Meeting on 22 March 2011 and the General Shareholders' Meeting on 28 April 2011.</li> <li>• His re-election as a member of the Executive Committee, dealt with at the Board Meeting on 28 April 2011.</li> <li>• Re-election of José Antonio Álvarez Álvarez as a member of the Appointments and Remunerations Committee, dealt with at the Board Meeting on 28 April 2011.</li> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Álvaro Cuervo García	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Rosa María García García	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>

## Annual Corporate Governance Report

Name or corporate name of Director	Description of the conflict of interest
Joan Hortalá i Arau	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Approval of a medium-term remuneration scheme to be implemented by the Company and its subsidiaries for members of the management team, including executive directors, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Fixed remuneration for the Chairman of the Barcelona Stock Exchange, dealt with at the Board of Directors' Meeting on 22 March 2011.</li> </ul>
Ricardo Laiseca Asla	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Karel Lannoo	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Ramiro Mato García-Ansorena	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Manuel Olivencia Ruiz	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>
Carlos Stilianopoulos Ridruejo	<p>Did not participate in discussions or voting procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Directors' remuneration, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> <li>• Consultative vote on the report on Directors' remuneration policy, dealt with at the General Shareholders' Meeting on 28 April 2011.</li> </ul>

# Annual Corporate Governance Report

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

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

Article 21.c) of the Board of Directors' Regulations states that Directors must not participate in discussions and votes by the Board of Directors and any of its Committees that refers to matters in respect of which the Directors or their related parties have a direct conflicting interest, and they must notify the Board of any such situations. Non-independent external Directors must not participate in votes on matters in which the shareholders who proposed their appointment and the Company have a direct conflicting interest.

Article 26 of these Regulations also establishes that Directors may not use the Company's name or invoke their status as Director to perform transactions on their own account or on the account of related parties. Furthermore, as mentioned in section B.2.3 above, any use of Company assets by Directors which is not made in return for adequate valuable compensation shall require prior authorisation from the Audit Committee.

Lastly, in order to avoid possible conflicts of interest, article 21.a) of the Board of Directors' Regulations, Directors may not hold office or perform the functions of director, representative, manager, advisor or service provider at companies with the same, similar or complementary types of activity as that of the Company, or companies wielding a dominant or controlling position thereupon, nor carry out such activities for their own account without the express and justified authorisation of the General Shareholders' Meeting, subject to a prior report by the Appointments and Remunerations Committee.

Directors must also notify the Audit Committee before accepting any directorship or management position in another Company or entity, as established in article 27 of the Board of Directors' Regulations.

Also, in accordance with the provisions of article 28 of the Board of Directors' Regulations, transactions, operations or actions undertaken by Directors and significant shareholders and/or 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 conducted 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.

In other instances, as stated above in section C.1., transactions or actions must be authorised by the Board of Directors acting in full.

Notwithstanding, 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 employees described below.

## 2.- Conflicts of interest between the Company and its group and employees.

BME's Internal Regulations of Conduct apply to all employees and members of the Boards of Directors of the Company and its groups. Rule V of this conduct establishes that Individuals affected must act with due impartiality and in no case place their own interests before those of the Company and their decisions shall be based on what 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 interest 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 listed on those markets or systems or which have applied for listing.

If affected by a conflict of interest, they shall refrain from intervening in or influencing the discussion and taking of 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 will apply generally to all investors, market members or companies with securities admitted to trading.

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

The existence of any conflict of interest must be notified within five 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.



## Annual Corporate Governance Report

Section G of Rule V stipulates that the Standards of Conduct Unit shall be made available to all individuals affected by the Internal Regulations of Conduct to address any doubts concerning possible conflicts of interest and, in the event, the correct action to be taken.

### 3.- Conflicts of interest between the Company and its significant shareholders.

Article 19.2.b) of the Board of Directors' Regulations and article 7.1b) of the Markets and Systems Operating Procedures Committee Regulations stipulate that the Markets and Systems Operating Procedures Committee must be cognisant with 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.

In this regard, the above mentioned article 28 of the Board of Directors' Regulations stipulates that transactions, operations or actions undertaken by Directors and significant shareholders and/or 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 conducted 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.

**C.7.** Is more than one group Company listed in Spain?

Yes

No

Identify the listed subsidiaries in Spain

# Annual Corporate Governance Report

## D. Risk Control Systems

**D.1.** Give a general description of risk policy in the Company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The inherent risks of the activity carried out by BME Group companies are managed with criteria which allows 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 subsidiaries operate and abide by the Securities Market Act and its provisions.

BME is directly or indirectly the owner of companies operating in securities registration, clearing and settlement systems and official secondary markets in Spain, and multilateral trading systems, responsible for the unity of action, decision and strategic co-ordination of the afore-mentioned companies, structured into seven business units and seven corporate areas.

Risk control and management policy, laid down by the Board of Directors and managed by the Coordination Committee, falls to be implemented by the Risk Committee in its capacity as the body responsible for monitoring and analysing the risks arising from the various activities carried out by Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas. The Risk Committee is also responsible for producing the corporate Risk Map, subsequently to be maintained by the various officers responsible for managing identified risks and by the Internal Audit Department.

The Risk Committee has constructed an integrated risk management system (Spanish 'SIGR') following the methodological framework specified in the COSO II paper. Having regard 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 (strategic, financial, regulatory, technological, human resource-related) are managed on a centralised basis, coordinated across the different areas and treated at corporate level with homogeneous communication to the Risk Committee.

Production and maintenance of the corporate Risk Map requires each risk officer to 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. The Internal Audit Department evaluates the controls in place and quantifies residual risk.

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 of these reports are compiled by the Risk Committee, together with any information on risks which it is responsible for managing, to produce the half-yearly SIGR 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.

One of the overarching themes of SIGR is to review business processes from a risk perspective. This review is undertaken by the Internal Audit Department and/or by Business Units and Corporate Areas. The risks identified and evaluated by Business Units and Corporate Areas are characterised at the individual process level so as to pinpoint critical processes and facilitate faster response. Risk review follows a standard methodology across the entire BME Group, through the revision of the activities embraced by each process, and generates the following documents: flowcharts, a narrative report and a risk and control matrix.

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

Operating risks: The risk of direct or indirect losses caused by inadequacies or faults committed by procedures, personnel or internal systems or due to external events. Operating risks can be classified according to whether they affect the BME group as a whole or whether they apply exclusively to one of its business units or corporate areas.

Operating risks affecting all BME business groups and areas include:

- Risk of fraud: The risk of action being committed to bypass the law, causing damage to third parties or to the group itself.

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- **IT risk:** The risk of faults occurring in the IT and electronic systems used by the group, either internally or affecting the market. Such faults could be caused by errors in communications, or hardware or software malfunctions. Includes faults in the collection and dissemination of market information to market users. Risks also include alterations and/or violations of the Company's security systems. Given the nature of its operations, this is considered one of the main risks for the BME group.

- **Risk of administrative errors:** These include errors resulting from miscalculations, deficient execution procedures, manual errors or the failure to keep data bases up to date. They also include errors in invoicing or following up payments.

**Risks affecting the Securities Settlement System:** Article 44 bis of Act 24/1988, of 28 July of the Securities Market stipulates that IBERCLEAR is Spain's central securities depository, which keeps accounting records and carries out clearing and settlement of securities listed for trading on Spanish stock exchanges, the book-entry public debt market, AIAF, as well as Latibex, the market for Latin American stocks traded in euros and the MAB (Mercado Alternativo Bursátil).

These responsibilities imply to IBERCLEAR the fulfilment of the specific regulation applicable to the upkeep of book entries of securities admitted to trading on the system and ensuring the settlement of market transactions concluded in the market and based on the compliance with two of the main governing principles of the Settlement System: the multilaterality and the delivery vs. payment principles.

- **Depository risk:** Incorrect balances being fed into the system vs. balances issued, dual entries, incorrect breakdowns of third-party accounts etc. which may affect normal operations and the Company's reputation at home and abroad as well as the overall system.

- **Inherent risk in the securities settlement system.** There are two types:

- **Insufficient guarantees when settlement is affected:** These could arise from an incorrect calculation of deposits and guarantees of each participating entity or the lack of deposit by the participating entity to hedge the risk inherent in its transactions.

- **Risk from failure to deliver securities:** Due to insufficient hedging mechanisms in the system, centralised lending, share buyback programmes.

Opposite of the principles governing the buying and selling of securities in the stock markets, settlement via the CADE platform, Public Debt and Fixed Income transactions, are bilateral and, in the event of incompliance, settlement shall not occur.

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

**Liquidity or solvency risk:** The risk that a group Company is unable to meet its payments commitments.

**Credit or counterparty risk:** The risk of a Company debtor failing to meet its payment commitments or a deterioration of its credit rating. We identify two main risks affecting the BME group:

- **Counterparty risk associated with settlement in MEFF:** In its role as the central clearing house, the risk adopted by MEFF as counterparty of the position of an Owner or Member of MEFF is covered by guarantees requested by MEFF and constituted by the member for said risk.

- **Risk deriving from non-payment of invoices or fees.**

**Industry risk:** Risks relating to regulatory changes, the Company's reputation, sector competency, relations with stakeholders, the political, economic, legal and tax environment, and significant regulatory changes.

The BME Group's **risk control system** has been drawn up in accordance with international standards. It is based on the following:

1. The legal regime of BME Group companies that manage securities registration, clearing and settlement systems, Spanish official secondary markets and multilateral trading systems is regulated by the Securities Market Act and its provisions.

2. Pursuant to the abovementioned regulation, BME's Financial Statements and those of most of its group companies are verified by an external auditor. Likewise, as stipulated by the regulation for each market and its registration, clearing and settlement systems, in addition to their audit report, the external auditors shall review the internal control systems and assess the appropriateness of each one.

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. BME Group companies are members of the European Association of Central Counterparty Clearing Houses (EACH), the European Central Securities Depositories Association (ECSDA) and the Federation of European Stock Exchanges (FESE). These bodies share a common goal of seeking greater efficiency and

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integration in the capital markets based on the best practice recommendations for securities settlement systems put forward by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO).

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 and accounting information process has an internal control system in place which has been reviewed and documented in accordance with BME's SIGR methodology. This will enable it to comply with the new regulatory requirements aimed at improving the transparency of the information which listed companies must disseminate to the market. These include:

- i. A "Procedures and Criteria" Manual which contains valuation regulations, accounting criteria, criteria for intra-Group transactions as well as closure and management control instructions.
- ii. A Corporate Accounting Plan.
- iii. An annual calendar for financial and accounting information.
- iv. Corporate Order Management and Follow-up procedures.

b. Information to the markets:

- i. Policies on the collection, treatment and dissemination of information to the markets.
- ii. Procedure for drawing up and sending periodical information to Supervisory Bodies.

c. IT Security. The IT business 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 Spanish) in accordance with ISO/IEC 27001, which includes policies, procedures and organisational structures to ensure that BME's assets are efficiently and suitably protected.
- ii. A General Security Policy laid down by Group Management, which includes measures to involve all personnel in IT Security.

iii. A Security Committee, reporting to the Risk Committee, comprising senior managers from the various business areas and the person in charge of the IT Security Team which monitors and analyses the risks arising from use of the reporting systems, technology and communications in the day-to-day activities of BME Group companies.

iv. An IT Security Team reporting to BME's IT business area, responsible for implementing, operating and maintaining the SGSI, in accordance with the Security Committee's guidelines.

v. A Joint Business Continuity and Contingency team specifically designed to meet information and trading needs, the breakdown and settlement of securities and transparency to customers which does not affect its structure or make contingency operations difficult.

vi. An external technological audit company to detect at system level the vulnerability of all machines which are visible from the internet.

6. The Company is a member of CECON (Consorcio 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). The consortium was formed to enhance financial stability by extending the latest know-how and best practices relating to business continuity.

7. BME's 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 establishes 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 "Guidelines of treatment and transmission of preferred information" as well as allowing 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. At its meeting on 16 December 2010 the Audit Committee approved the crime prevention guidelines for BME and Group companies.

In line with the aforementioned guidelines, the Board of Directors approved at its meeting on 28 September 2011, following prior scrutiny by the Audit Committee, proposals for the establishment of a crime prevention system across the BME Group, that are correctly being developed and implemented by the General Secretary and the Board with advice from Deloitte Abogados y Asesores Tributarios, S.A. and assistance from the Internal Audit Department.

## Annual Corporate Governance Report

9. Given the particular nature of the activities carried out and the risks managed, Group companies have set up Risk Committees.

MEFF's Risk Committee assesses risk management and every month its Central Clearing House is assessed using stress testing methodology (IOSCO).

10. Liquidity management is standard throughout the BME Group and the criteria applied are established by the Company's Board of Directors, based on a prior report from the Audit Committee. The conditions under which the Company should effect the purchase of assets, the terms of these transactions and authorisation levels are specified therein. The main objective is to prioritise security and minimise investment risk, and this rules out the possibility of effecting 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 Company personnel may anonymously report any irregularity in the internal control and risk management systems.

**D.2.** Indicate whether the Company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal...) during the year.

Yes  No

If so, indicate the circumstances and whether the established control systems worked adequately.

Risks occurring in the year	Circumstances responsible for this occurrence	Operation of control systems
IT risk	See "How control systems work" above	<p>Of the risks covered by the system, IT risk is of particular note, as mentioned in D.1 above. Given that the risk management system is constantly being revised, action plans and safety policies are drawn up for some Business Units which, as well as complying with BME's policies, include recommendations regarding environments, tasks or devices which are specific to that Business Unit.</p> <p>In the event of incidents regarding this risk, the internal and external prevention, information and control mechanisms have worked efficiently and the effects of said incidents were mitigated and even eliminated. We therefore consider that the risk management systems operate satisfactorily.</p>

**D.3.** Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

Yes  No

# Annual Corporate Governance Report

If so, please explain its duties.

Name of the Committee or Body	Duties
Board of Directors and Executive Committee	<p>The Board of Directors is the Company's most senior governing and administrative body in charge of the general function of driving, directing and supervising matters that are of particular importance to the Company, pursuant to article 7 of the Board of Directors' Regulations which refers to the general duties of this governing body.</p> <p>Among these functions, the Board of Directors shall be responsible for identifying the Company's main risks and supervising the efficiency of its internal control systems, the risk management systems, as well as the internal audit systems.</p> <p>Furthermore the responsibilities delegated to it by the Board of Directors. The Executive Committee is also responsible for the continuous monitoring and supervision of the administration and day-to-day management of the Company, also ensuring that there is adequate coordination between group companies for their mutual benefit and that of the Company.</p>
Audit Committee	<p>The Audit Committee provides the Board of Directors with additional support in identifying the Company's main risks and supervising the efficiency of its internal control systems.</p> <p>Pursuant to article 35 of the Articles of Association and article 17 of the Board of Directors' Regulations, the Audit Committee shall have the following responsibilities:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• As stated in D.1. above, regarding the BME Group's risk control systems, the Company has in place a communication procedure regarding deficiencies in the risk control and management systems which are directly supervised by the Audit Committee.</li> <li>• As set out in the Articles of Association and the Board of Director's Regulations described in section B.2.3. above, the Audit Committee must also Supervise the efficiency of the Company's internal control and risk control systems, for which these shall be reviewed by the committee at least once a year to ensure that the main risks are adequately identified, managed and reported.</li> </ul> <p>The Audit Committee shall also discuss with the auditors or, as appropriate, experts appointed for that purpose, any significant weaknesses detected in the risk control system within the auditing process.</p>
Markets and Systems Operating Procedures Committee	<p>Pursuant to article 37 of the Articles of Association, article 19 of the Board of Directors' Regulations, and article 7 of the Markets and Systems Operating Committee's Regulations, this Committee shall have the following functions:</p> <ul style="list-style-type: none"> <li>• Analyse and monitor the procedures and regulations set forth by Group companies for the correct operation of the markets and systems managed thereby.</li> <li>• To be cognisant with the application of the Internal Regulations of Conduct of the Company and its Group, periodically receiving information in this regard from the Standards of Conduct Committee.</li> </ul>
Coordination Committee and Risk Committee	<p>The Coordination Committee, comprising senior executives drawn from the BME Business Units and Corporate Areas, is the body responsible for considering the proposals related with activities, projects and business opportunities, as well as for coordinating its management and execution with the various Companies and Group areas.</p> <p>The Risk Committee reports to the Coordination Committee and is in charge of monitoring and analysing the risks arising from the various activities carried out by BME Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas.</p> <p>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:</p> <ol style="list-style-type: none"> <li>a) implementing and monitoring the risk assessment model adopted by the Coordination Committee in pursuance of the risk management policy framed by the Board of Directors;</li> <li>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;</li> <li>c) reporting to the Coordination Committee on all matters relevant to the BME Group's risk management policy;</li> <li>d) laying before the Coordination Committee proposed actions to improve risk monitoring and control procedures.</li> </ol>
Security Committee	<p>The Security Committee, a body attached to the Risk Committee, establishes information and IT system security policies.</p>

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**D.4.** Identify and describe the processes for compliance with the regulations applicable to the Company and/or its group.

BME Group companies manage securities registration, clearing and settlement systems and secondary markets in Spain. These activities are regulated by the Securities Market Act and its provisions.

Each business unit and corporate area is responsible for compliance with regulations applicable to its activity and has developed the legally-required internal rules and procedures to ensure this compliance. The Internal Audit Committee is responsible for ensuring that each Business Unit and Corporate Area complies with the above. It is also responsible for assessing and improving the efficiency of the management and risk control processes as well as carrying out the internal procedures of each Business Unit.

The Company's General Secretary and Secretary of the Board are responsible for ensuring compliance with corporate governance regulation.

# Annual Corporate Governance Report

## E. General Shareholders' Meetings

**E.1.** Indicate the quorum required for constitution of the General Shareholders' Meeting established in the Company's bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

Yes  No

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article 103 of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

**E.2.** Indicate and, as applicable, describe the differences required for adopting shareholders agreements from the minimum regime set out in the Company's Act.

Yes  No

Describe how they differ from the rules established under the LSA.

**E.3.** List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the LSA.

Shareholders' rights under the Company's Articles of Association and the General Shareholders' Meeting Regulations are the same as those established by the Company's Act.

**E.4.** Indicate the measures, if any, adopted to encourage shareholder participation at General Shareholders' Meetings.

Article 1 of the General Shareholders' Meeting Regulations stipulates that its purpose is to guarantee and assist the exercising of the shareholders' rights.

In this regard, article 30.1 of the Board of Directors' Regulations stipulates that the Board of Directors shall adopt the necessary measures to enable the General Shareholders' Meeting and the Company's shareholders to perform their functions and exercise their rights under the law and the Articles of Association.

The following measures were adopted by the Company in 2011 to encourage the participation of shareholders in its General Shareholders' Meetings:

1. Right to information once a General Shareholders' Meeting has been called.

*a) Publication of notice of Meetings.*

To guarantee the widest publication for the notice of its Meetings, BME publishes said notice in the Official Gazette of the Companies Register (BORME), on its corporate website, [www.bolsasymercados.es](http://www.bolsasymercados.es), and in four national daily newspapers, which exceeds the legal requirements and those of its Articles of Association.

Likewise, in compliance with the law, it notifies the CNMV in the form of a significant event.

*b) Information's Right.*

Article 13 of the Articles of Association and article 11, sections 1 and 2 of the General Shareholders' Meeting Regulations stipulate that once an Ordinary or Extraordinary Shareholders' Meeting has been called, shareholders may examine at the Company's registered office the draft resolutions, reports and other documentation that must be made available in accordance with the Articles of Association and applicable legislation. This information is also made available on the corporate website in the section "Information for Shareholders and Investors". In such cases as may be legally applicable, shareholders may also request that the full text of the documents made available to them at the Company's registered office be delivered or sent to them at no charge.

The same articles stipulate that from the date of publication of the notice calling the Shareholders' Meeting up to and including the seventh day before the date set for the Meeting at first call, shareholders may request in writing such information or clarification as they deem necessary, or submit such written questions as they see fit, on the items included on the Agenda. Also, with the same prior notice and in the same manner, shareholders may request information or clarifications or submit written questions on any publicly accessible information furnished by the Company to the CNMV since the date of the preceding General Shareholders' Meeting. All such requests for information may be delivered at the registered



# Annual Corporate Governance Report

office. The Board of Directors has also adopted measures whereby, if so established in the call notice, requests for information may be made electronically.

## *c) Electronic Shareholders Forum.*

From the date of publication of the notice calling the shareholders' Meeting, the Company enables an Electronic Shareholders' Forum on its corporate website to facilitate communication between the Company's Shareholders prior to the General Shareholders' Meeting.

At the General Shareholders' Meeting held on 28 April 2011 the Board of Directors approved the Regulations for the Electronic Shareholders' Forum, which was made available to shareholders on the corporate website in the section, "Information for shareholders and investors", with details of the rules, measures and procedures for its use.

## 2. Attendance's Rights.

### *a) No restriction to attendance's Rights.*

As stipulated in article 15 of the Articles of Association and article 12.1 of the General Shareholders' Meeting Regulations, all Company shareholders may attend the General Shareholders' Meeting regardless of the number of shares they own.

### *b) Issuance of a personalised attendance card.*

As stipulated in article 12 of the General Shareholders' Meeting Regulations, the General Secretary and Secretary to the Board of Directors will issue and deliver to each shareholder an attendance card with reference to the list of shareholders who are entitled to attend.

Using this card, shareholders are entitled to attend the General Shareholders' Meeting, appoint a proxy, and exercise their voting and proxy rights using postal communication.

## 3.- Participation at the General Shareholders' Meeting.

### *a) Voting using remote means of communications.*

Pursuant to articles 21.3 and 19.8 of the Articles of Association and General Shareholders' Meeting Regulations, respectively, the Board of Directors has adopted the rules, means and procedures to complete the regulation stipulated in the General Shareholders' Meeting Regulations on voting using remote means of communication. Shareholders have been able to exercise this right since the 2007 Ordinary General Shareholders' Meeting.

The rules, measures and procedures on voting using remote means of communication at the General Shareholders' Meeting are listed on the Company's corporate website [www.bolsasymercados.es](http://www.bolsasymercados.es), under "Information for Shareholders and Investors", and in the call notice of the meeting.

### *b) Appointing proxies using remote means of communication.*

Pursuant to articles 21.3 and 19.8 of the Articles of Association and General Shareholders' Meeting Regulations, respectively, the Board of Directors has adopted the correct rules, means and procedures to complete the regulation stipulated in the General Shareholders' Meeting Regulations on appointing proxies using remote means of communication. Shareholders have been able to exercise this right since the 2007 Ordinary General Shareholders' Meeting.

The rules, measures and procedures on appointing proxies using remote means of communication at the General Shareholders' Meeting are listed on the Company's corporate website [www.bolsasymercados.es](http://www.bolsasymercados.es), under "Information for Shareholders and Investors", and in the notice of the meeting.

### *c) Separate votes on subjects which are substantially independent.*

Article 19.2 of the General Shareholders' Meeting Regulations stipulates that at the General Shareholders' Meeting there shall be separate votes on subjects which are substantially independent so that shareholders may exercise their voting preferences separately.

This rule shall apply particularly to the appointment or ratification of Directors, which must be voted on individually, and to amendments to the Articles of Association, so that separate votes are taken on articles or groups of articles that are substantially independent, with a separate vote being taken on a single article if so requested by a shareholder.

### *d) Vote-splitting by financial intermediaries.*

Article 12.3 of the General Shareholders' Meeting Regulations stipulates that when legally possible, provided there are sufficient guarantees of transparency and security, the Company may allow votes to be split so that the proxies attending and recognised as shareholders but acting on behalf of their clients, may cast votes as per their instructions.

### *e) Right to intervene at the General Shareholders' Meeting.*

Articles 16 and 17 of the General Shareholders' Meeting Regulations stipulate that shareholders may verbally request the reports or clarifications they deem necessary and make such comments as they consider necessary concerning the items on the agenda. The only prerequisite is that shareholders who wish to intervene during the Meeting make themselves known to the Presiding Panel or, where appropriate, the notary public, and register their intention, indicating their personal details and the number of shares they own or, where appropriate, are representing.

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## f) Audiovisual dissemination of the General Shareholders' Meeting.

All General Shareholders' Meetings are streamed through webcast in order to enable shareholders who are unable to attend to follow proceedings of the General Shareholders' Meeting. The webcast airs in Spanish and English simultaneously.

## 4.- Information made available to shareholders.

### a) Corporate website.

BME guarantees that via the "Information for Shareholders and Investors" section of its corporate website from the date of publication of the call notice of the General Shareholders' Meeting, they will be able to easily and directly access all the legal and financial information on BME required for the General Shareholders' Meeting.

In addition, shareholders are able to access all information regarding financial and corporate governance issues on the same site, in both Spanish and English.

### b) Shareholders office.

The General Secretary and the Board Secretary, in conjunction with the Financial Department, have, in the form of a Shareholder Office ([accionistas@grupobme.es](mailto:accionistas@grupobme.es)), set up a permanent and straightforward communication channel allowing shareholders to express any doubts regarding the economic-financial and corporate information available as well as that regarding the General Shareholders' Meeting. Shareholders may use this service to submit any suggestions, observations or comments they wish.

**E.5.** Indicate whether the General Shareholders' Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders' Meeting.

Yes

No

### Details of measures

Article 18 of the Articles of Association and article 14 of the Shareholders' Meeting Regulations stipulate that the General Meeting shall be chaired by the Chairman of the Board of Directors.

To guarantee the independence and correct operation of the General Shareholders' Meeting, the Extraordinary General Shareholders' Meeting held on 5 June 2006 approved the General Shareholders' Meeting

Regulations which came into force on 14 July 2006, and were amended at the General Shareholders' Meeting held on 28 April 2011.

The object of these Regulations is to establish the principles of organisation and operation of the Company's General Shareholders' Meeting in order for it to fulfil its functions as the Company's supreme governing body as well as to guarantee and assist the exercising of the shareholders' rights in relation to the General Shareholders' Meetings. Therefore, the General Shareholders' Meeting Regulations guarantee the independence and correct operation of the General Shareholders' Meeting.

**E.6.** Indicate the amendments, if any, made to the General Shareholders' Meeting regulations during the year.

On 28 April 2011 the General Shareholders' Meeting approved the amendment of some articles of the General Shareholders' Meeting Regulations, as detailed below, in order to bring them into line with new legislation and the provisions of the Articles of Association, to correct any errors, and to modernise and perfect the current regulations.

Section 2 of article 6 was amended, section 3 of article 6 was removed, and section 1 of article 8 was modified, so that the term for approving the annual financial statements set forth in the Articles of Association is in line with the legal provision applicable to the Company, and to eliminate the reference to the date of publication of the Annual Corporate Governance Report that is not in keeping with the Company's usual practice.

Article 7 of the General Shareholders' Meeting Regulations was amended to adapt it to the provisions of the Structural Modifications to Companies Act (Ley de Modificaciones Estructurales de las Sociedades Mercantiles), stipulating that the General Shareholders' Meeting will be responsible for resolutions on mergers or spin-offs, except in cases where no resolution by this body of the Company is required under the applicable legislation.

In relation to the publication of the notice of the General Shareholders' Meeting, article 9 was amended to include the obligation to announce the call of the General Shareholders' Meeting through the Company's website, but also maintaining its publication in a newspaper, in order to maintain the level of dissemination of the notice.

Article 10 of the General Shareholders' Meeting Regulations include a reference to the new obligation for listed companies to make available to their shareholders an Electronic Shareholders' Forum to facilitate communication between shareholders.

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Article 13 was also modified, in relation to the situations in which a reinforced majority is required for adopting resolutions at the Ordinary General Shareholders' Meeting, as specified in article 201.2, concerning article 194.1, of the Company's Law.

Finally, article 19 was amended to replace the reference to a withdrawn article of the Spanish Securities Market Act.

**E.7.** Indicate the attendance figures for the General Shareholders' Meetings held during the year to which this report refers:

Attendance data					
Date of general meeting	% attending in person <sup>(1)</sup>	% by proxy <sup>(2)</sup>	% remote voting		Total
			Electronic means	Other	
04/28/2011	12.309%	36.350%	0.009%	1.357%	50.025%

(1) Pursuant to article 148 of the Company's Law, the constituent quorum of the General Shareholders' Meeting included the 337,333 treasury shares held by the Company, which amount to 0.40% of share capital.

(2) Of shareholders represented by proxy, 2,288 holders of 28,419,288 shares representing 33.988% of the share capital, used remote voting methods to delegate their proxy vote.

**E.8.** Briefly indicate the resolutions adopted at the General Shareholders' Meetings held during the year and the percentage of votes with which each resolution was adopted.

Pursuant to article 148 of the Company's Law, in the constituent and adoption of corporate resolutions quorum, the voting rights attaching to the 337,333 shares held by the Company, equivalent to 0.40% of share capital, which the Company holds as treasury shares, were kept in suspension. Hence those present and represented and entitled to vote at the General Shareholders' Meeting were 4,676 shareholders, holding 41,491,061 shares.

At the Company's Ordinary General Shareholders' Meeting held on 28 April 2011 at second call, the following resolutions were adopted:

**1.-** Review and, if applicable, approve the financial statements (balance sheet, statement of income, statement of changes in equity, cash flow statement and notes to the financial statements) and the management report of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and its consolidated Group, and the management report of the Board of Directors for the year ended 31 December 2010.

Votes in favour: 41,405,546  
 Votes against: 3,739  
 Abstentions: 77,871  
 Blank votes: 3,905

The agreement was adopted with 98.990% of the votes in favour.

**2.-** Review and, if applicable, approve the proposed distribution of earnings for the year ended 31 December 2010.

Votes in favour: 41,417,460  
 Votes against: 3,739  
 Abstentions: 66,758  
 Blank votes: 3,104

The agreement was adopted with 99.018% of the votes in favour.

**3.-** Approve, as appropriate, of the payment of an extraordinary dividend charged to unrestricted reserves, subject to the approval of the proposed distribution of earnings for 2010.

Votes in favour: 41,458,016  
 Votes against: 4,952  
 Abstentions: 25,915  
 Blank votes: 2,178

The agreement was adopted with 99.115% of the votes in favour.

**4.-** Analyse and, if appropriate, approve modifications to certain Articles of Association in accordance with the provisions of article 285 of the Spanish Capital Company Act.

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**4.1.-** Modification of section 3 of article 10 in relation to the period for holding the Ordinary General Shareholder's Meeting and removal of the reference to the date for presentation of the Annual Corporate Governance Report.

Votes in favour: 41,369,908  
 Votes against: 17,100  
 Abstentions: 91,452  
 Blank votes: 12,601

The agreement was adopted with 98.904% of the votes in favour.

**4.2.-** Modification of section 1 of article 12 in relation to publication of notice of the Ordinary General Shareholder's Meeting.

Votes in favour: 41,374,169  
 Votes against: 12,154  
 Abstentions: 92,795  
 Blank votes: 11,943

The agreement was adopted with 99.916% of the votes in favour.

**4.3.-** Modification of section 1 of article 17 in relation to the location of the venue for the Ordinary General Shareholder's Meeting.

Votes in favour: 41,369,803  
 Votes against: 14,432  
 Abstentions: 94,575  
 Blank votes: 12,251

The agreement was adopted with 98.904% of the votes in favour.

**4.4.-** Modification of section 2 of article 22 in relation to the circumstances under which a reinforced majority is required in order to adopt resolutions at the Ordinary General Shareholder's Meeting.

Votes in favour: 41,371,143  
 Votes against: 20,306  
 Abstentions: 88,702  
 Blank votes: 10,910

The agreement was adopted with 98.907% of the votes in favour.

**4.5.-** Modification of section 2 of article 35 on the effects of extending the duties of the Audit Committee and adapting these to the provisions of the latest draft of Additional Provision 18 of the Spanish Securities Market Act.

Votes in favour: 41,414,988  
 Votes against: 6,955  
 Abstentions: 59,602  
 Blank votes: 9,516

The agreement was adopted with 99.012% of the votes in favour.

**4.6.-** Inclusion of a new point d) in section 2 of article 36 in relation to the competences of the Appointments and Remuneration Committee.

Votes in favour: 41,371,161  
 Votes against: 13,592  
 Abstentions: 96,589  
 Blank votes: 9,719

The agreement was adopted with 98.908% of the votes in favour.

**4.7-** Inclusion of a new point d) in section 2 of article 37 in relation to the duties of the Markets and Systems Operating Procedures Committee.

Votes in favour: 41,379,244  
 Votes against: 9,250  
 Abstentions: 91,015  
 Blank votes: 11,552

The agreement was adopted with 98.928% of the votes in favour.

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**4.8-** Modification of section 2 of article 43 and removal of section 5 from article 43 in relation to the documents which make up the annual financial statements and removal of the reference to the filing of such documents by the Board of Directors.

Votes in favour:	41,373,564
Votes against:	18,457
Abstentions:	88,754
Blank votes:	10,286

The agreement was adopted with 98.913% of the votes in favour.

**4.9-** Modification of section 1 of articles 46 and 47 and section 2 of article 48 in relation to the winding-up and liquidation of the Company for the purpose of adapting them to the provisions of the Spanish Capital Company Act.

Votes in favour:	41,384,437
Votes against:	7,743
Abstentions:	88,284
Blank votes:	10,597

The agreement was adopted with 98.939% of the votes in favour.

**5.-** Analysis and, if appropriate, approval of modifications to some articles of the Regulations of the Ordinary General Shareholder's Meeting in accordance with the provisions of article 512 of the Spanish Capital Company Act.

**5.1-** Modification of section 2 of article 6, removal of section 3 from article 6 and modification of section 1 of article 8 in relation to the period for holding the Ordinary General Shareholder's Meeting and removal of the reference to the date for presentation of the Annual Corporate Governance Report.

Votes in favour:	41,372,870
Votes against:	17,933
Abstentions:	89,837
Blank votes:	10,421

The agreement was adopted with 98.911% of the votes in favour.

**5.2-** Modification of section 1.f) of article 7 to regulate the situations in which agreement by the Ordinary General Shareholder's Meeting is not required for the merger or spin-off of the Company.

Votes in favour:	41,368,548
Votes against:	23,895
Abstentions:	88,911
Blank votes:	9,707

The agreement was adopted with 98.901% of the votes in favour.

**5.3-** Modification of section 1 of article 9 in relation to publication of notice of the Ordinary General Shareholder's Meeting.

Votes in favour:	41,377,031
Votes against:	10,847
Abstentions:	90,142
Blank votes:	13,041

The agreement was adopted with 98.921% of the votes in favour.

**5.4-** Inclusion of a new section 3 in article 10 to include a reference to the Electronic Shareholder Forum.

Votes in favour:	41,390,517
Votes against:	9,345
Abstentions:	79,827
Blank votes:	11,372

The agreement was adopted with 98.954% of the votes in favour.

**5.5-** Modification of section 1 of article 13 in relation to the situations in which a reinforced majority is required to adopt resolutions at the General Shareholder's Meeting.

Votes in favour:	41,379,217
Votes against:	17,922
Abstentions:	82,842
Blank votes:	11,080

The agreement was adopted with 98.927% of the votes in favour.

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**5.6-** Modification of section 7 of article 19 to replace the reference to an article withdrawn from the Spanish Securities Market Act.

Votes in favour:	41,381,048
Votes against:	7,246
Abstentions:	88,320
Blank votes:	14,447

The agreement was adopted with 98.931% of the votes in favour.

**6.-** Re-election of Board members, if appropriate.

**6.1.-** Re-election of Javier Alonso Ruiz-Ojeda to the Board of Directors for the four-year term of office as specified in article 38.1 of the Company's Articles of Association.

Votes in favour:	38,353,331
Votes against:	3,033,791
Abstentions:	93,315
Blank votes:	10,624

The agreement was adopted with 91.693% of the votes in favour.

**6.2.-** Re-election of José Antonio Álvarez Álvarez to the Board of Directors for a four-year term as specified in article 38.1 of the Company's Articles of Association.

Votes in favour:	38,171,791
Votes against:	3,206,945
Abstentions:	101,365
Blank votes:	10,960

The agreement was adopted with 91.259% of the votes in favour.

**6.3.-** Re-election of Ignacio Benjumea Cabeza de Vaca to the Board of Directors for a four-year term as specified in article 38.1 of the Company's Articles of Association.

Votes in favour:	38,345,287
Votes against:	3,034,885
Abstentions:	101,265
Blank votes:	9,624

The agreement was adopted with 91.673% of the votes in favour.

**7.-** Approval of the Chairman's remuneration pursuant to article 40 of the Company's Articles of Association.

Votes in favour:	41,338,250
Votes against:	55,798
Abstentions:	89,206
Blank votes:	7,807

The agreement was adopted with 98.829% of the votes in favour.

**8.-** Approval of Directors' remuneration pursuant to article 40 of the Company's Articles of Association.

Votes in favour:	41,335,721
Votes against:	45,408
Abstentions:	101,115
Blank votes:	8,817

The agreement was adopted with 98.824% of the votes in favour.

**9.-** Approval of a medium-term remuneration scheme to be implemented by the Company and its subsidiaries for members of the management team, including the executive Directors, pursuant to article 219.1 of the Spanish Capital Company Act.

Votes in favour:	37,618,304
Votes against:	3,766,517
Abstentions:	98,762
Blank votes:	7,478

The agreement was adopted with 89.935% of the votes in favour.

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## 10.- Consultative voting on the annual report regarding on Directors' remuneration.

Votes in favour: 41,315,086  
 Votes against: 68,149  
 Abstentions: 100,516  
 Blank votes: 7,310

The agreement was adopted with 98.774% of the votes in favour.

**11.-** Reappointment of Deloitte, S.L. as auditors of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and its consolidated group for a period of one year, pursuant to article 264 of the Spanish Capital Company Act.

Votes in favour: 41,418,644  
 Votes against: 18,964  
 Abstentions: 44,127  
 Blank votes: 9,326

The agreement was adopted with 99.022% of the votes in favour.

**12.-** Delegation, as appropriate, to the Board of Directors of authority to increase capital, within a period of five years, on one or more occasions, in accordance with the provisions of article 297.1.b) of the Spanish Capital Company Act, with authority to exclude pre-emptive subscription rights; and to modify article 5 of the Articles of Association.

Votes in favour: 40,836,407  
 Votes against: 605,569  
 Abstentions: 43,362  
 Blank votes: 5,723

The agreement was adopted with 97.630% of the votes in favour.

**13.-** Delegation, as appropriate, to the Board of Directors of authority to issue debentures, bonds, promissory notes and other similar fixed income instruments, both simple and convertible and/or exchangeable into shares, in addition to warrants, and with the authority to exclude pre-emptive subscription rights in the latter case, and with the authority to increase the share capital by the amount required and to guarantee issues by Group companies.

Votes in favour: 35,788,278  
 Votes against: 5,650,496  
 Abstentions: 46,306  
 Blank votes: 5,981

The agreement was adopted with 85.560% of the votes in favour.

**14.-** Delegation of powers to formalise, rectify, clarify, construe, define, supplement, implement and execute as a deed the adopted resolutions.

Votes in favour: 41,397,017  
 Votes against: 8,636  
 Abstentions: 77,467  
 Blank votes: 7,941

The agreement was adopted with 98.969% of the votes in favour.

**E.9.** Indicate, if appropriate, if there is a statutory restriction that states the minimum number of shares required to attend the General Shareholders' Meetings.

Yes

No

**Number of shares required to attend the General Shareholders' Meetings**

-

**E.10.** Indicate and explain the policies pursued by the Company with reference to proxy voting at the General Shareholders' Meeting.

### Proxies

Section 1 of article 16 of the current Articles of Association stipulates that shareholders may only be represented at the General Shareholders' Meeting by another shareholder who is entitled to attend, or any member of the Board of Directors, or the Secretary or Deputy Secretary to the Board, even if not a Board member.

Following the entry into force of Law 25/2011, of 1 August, which amends various articles in the Spanish Capital Company Act, including article 522 in which it's established that statutory clauses that limit a shareholder's right for representation by any person at General Shareholders' Meetings shall be void,

# Annual Corporate Governance Report

the Board of Directors intends to propose to the General Shareholders' Meetings the amendment of the mentioned article 16 to bring it into line with current legislation.

Consequently, in future General Shareholders' Meetings any shareholder with the right to attend can be represented at the Meeting by any person, whether shareholder or not.

In any event, regardless of whether proxies are voluntary or legal or appointed in response to public solicitation, shareholders may only be represented at a General Shareholders' Meeting by one proxy holder.

#### Granting proxies.

Proxies must be granted in writing specifically for each Meeting, using the formula specified by the Company for each Meeting and detailed on the attendance card or, as appropriate, by means of remote communication as provided in the internal rules.

For this purpose, the General Secretary and the Secretary to the Board of Directors shall issue and send each shareholder an attendance card made out in their name with details on granting proxies.

Also, and pursuant to article 21.3 of the Articles of Association and article 19.8.c) of the General Shareholders' Meeting Regulations, shareholders may grant proxies for the General Shareholders' Meeting by remote means of communication, either by post, using attendance cards made out in their name, or online ([www.bolsasymercados.es](http://www.bolsasymercados.es)) in accordance with the supplementary rules for granting proxies approved by the Board of Directors for each Meeting.

The procedure for exercising rights of proxy representation is set out in the notice of General Shareholders' Meeting, which also specifies the procedures for voting and granting proxies by remote means of communication.

In the event of public solicitation of proxy appointment, the document recording the appointment must contain the Agenda or have it attached to it, together with the request for instructions for exercising the right to vote and the indication of how the proxy holder will vote if precise instructions are not given. A public solicitation will be deemed to have taken place when a single person represents more than three shareholders.

#### Proxy validity.

A proxy may be revoked at any time. Personal attendance at the General Shareholders' Meeting by the grantor of a proxy shall be deemed to constitute a revocation of the proxy.

Also, the validity of proxies appointed shall be subject to verification against the Company's shareholder register.

#### Exercising the right of proxy appointment.

Shareholders granting proxies may issue voting instructions for the proposals of the Board of Directors where indicated on the attendance card and, if using remote means of communication, in the corresponding section on the corporate website, [www.bolsasymercados.es](http://www.bolsasymercados.es).

If the shareholder has not given precise voting instructions on the attendance card, or, if applicable, in the corresponding section on the corporate website, votes shall be deemed to be in favour of the proposals of the Board of Directors.

The proxy may also include matters that, not being included in the Agenda, may be legally transacted at the Meeting. In this case, the proxy holder may cast the vote in the manner he considers best suits the interests of the shareholder he represents.

If the grantor of the proxy has issued instructions, the proxy holder may vote otherwise should circumstances arise that were not known at the time the instructions were given and there is a risk of jeopardising the interests of the proxy grantor.

In both these cases, the proxy holder must inform the proxy grantor immediately, in writing, explaining the reasons for the vote.

As required by the current Articles of Association, in cases where a Director has publicly solicited appointment as a proxy and faces a conflict of interest when exercising the right to vote of the shares for which he holds the proxy with regard to the proposal being put to the vote, the proxy grantor may resolve this situation by giving instructions for the substitution of the proxy by a third party not affected by the conflict of interest, unless the proxy grantor has explicitly given instructions against. In this case, it will be deemed that the proxy grantor instructs the holder to abstain.

Following the entry into force of Law 25/2011, of 1 August, which amends the Spanish Capital Company Act, the Board of Directors intends to propose to submit to the General Shareholders' Meeting the amendment of the Articles of Association and the General Shareholders' Meeting Regulation in relation with this matter to bring them into line with current legislation.



## Annual Corporate Governance Report

**E.11.** Indicate whether the Company is aware of the policy of institutional investors on whether or not to participate in the Company's decision-making processes.

Yes  No

**E.12.** Indicate the address and mode of accessing corporate governance content on your Company's website.

The address of BME's corporate website is [www.bolsasymercados.es](http://www.bolsasymercados.es); the "Information for shareholder and investors" section contains all relevant information on corporate governance.



BME held its General Shareholder's Meeting on 28 April 2011

# Annual Corporate Governance Report

## F. Degree of Compliance with Corporate Governance Recommendations

Indicate the degree of the Company's compliance with Corporate Governance recommendations.

Should the Company not comply with any of them, explain the recommendations, standards, practices or criteria the Company applies.

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

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

**Complies**  **Explain**

**2.** When a dominant and a subsidiary Company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7.

**Complies**  **Partially complies**  **Explain**  **Not applicable**

**3.** Even when not expressly required under Company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Any acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;

c) Operations that effectively add up to the Company's liquidation.

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

**4.** Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

**Complies**  **Explain**

**5.** Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of Directors, with separate voting on each candidate;

b) Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.

See section: E.8.

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

## Annual Corporate Governance Report

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4.

Complies **X**

Explain

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its value over time.

It should likewise ensure that the Company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies **X**

Partially Complies

Explain

8. The Board should see the core components of its mission as to approve the Company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the Company's interests and corporate purpose. As such, the Board in full should reserve the right to approve:

a) The Company's general policies and strategies, and, in particular:

- i) The strategic or business plans, management targets and annual budgets;
- ii) Investment and financing policy;
- iii) Design of the structure of the corporate group;
- iv) Corporate governance policy;

v) Corporate social responsibility policy;

vi) Remuneration and evaluation of senior officers;

vii) Risk control and management, and the periodic monitoring of internal information and control systems;

viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) On the proposal of the Company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14.

ii) Directors' remuneration, and, in the case of executive Directors, the additional consideration for their management duties and other contract conditions.

See section: B.1.14.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with Directors, significant shareholders, shareholders with Board representation or other persons related thereto ("related party transactions").

## Annual Corporate Governance Report

However, Board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

- 1°. They are governed by standard form contracts applied on an across-the-Board basis to a large number of clients;
- 2°. They go through at market prices, generally set by the person supplying the goods or services;
- 3°. Their amount is no more than 1% of the Company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the Directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the Board in full.

See sections: C.1 and C.6.

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

**9.** In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

Ver epígrafe: B.1.1.

**Complies**  **Explain**

**10.** External Directors, proprietary and independent, should occupy an ample majority of Board places, while the number of executive Directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.2, A.3, B.1.3 and B.1.14.

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

**11.** In the event that some external Director can be deemed neither proprietary nor independent, the Company should disclose this circumstance and the links that person maintains with the Company or its senior officers, or its shareholders.

See section: B.1.3.

**Complies**  **Explain**  **Not applicable**

**12.** That among external Directors, the relation between proprietary members and independents should match the proportion between the capital represented on the Board by proprietary Directors and the remainder of the Company's capital.

This proportional criterion can be relaxed so the weight of Proprietary Directors is greater than would strictly correspond to the total percentage of capital they represent:

1° In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested;

2° In companies with a plurality of shareholders represented on the Board but not otherwise related.

See sections: B.1.3., A.2, and A.3,

**Complies**  **Explain**

## Annual Corporate Governance Report

**13.** The number of independent Directors should represent at least one third of all Board members.

See section: B.1.3.

Complies  Explain

**14.** The nature of each Director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary Directors at the urging of shareholders controlling less than 5% 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.

See sections: B.1.3 and B.1.4.

Complies  Partially Complies  Explain

**15.** When women Directors are few or non-existent, the Board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

- a) The process of filling Board vacancies has no implicit bias against women candidates;
- b) The Company makes a conscious effort to include women with the target profile among the candidates for Board places.

See sections: B.1.2, B.1.27 and B.2.3.

Complies  Partially complies  Explain  Not applicable

**16.** The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that Directors are supplied with sufficient information in advance of Board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the Board and, where appropriate, the Company's chief executive, along with the chairmen of the relevant Board committees.

See section: B.1.42.

Complies  Partially Complies  Explain

**17.** When a Company's Chairman is also its chief executive, an independent Director should be empowered to request the calling of Board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external Directors; and to lead the Board's evaluation of the Chairman.

See section: B.1.21

Complies  Partially complies  Explain  Not applicable

The Board of Directors is of the opinion that the measures described in section B.1.21 of this report guarantee the proper operation of the Board of Directors. These include the establishment by the Board of Directors in plenary sessions of an annual calendar for ordinary meetings at the beginning of each year, the requirement to hold a minimum of nine meetings a year and the Chairman calling a Board Meeting or including new items on the agenda at the request of at least four Directors.

Additionally, in line with the new text of article 246 of the Companies' Law as set out in Law 25/2011 of August 1, the Board of Directors intends to submit an amendment to the Articles of Association to the General Shareholders' Meeting for approval, assigning powers to Directors representing at least one third of all Board members to call a meeting if the Chairman has not summoned the meeting without just cause, one month from the date he was requested to do so.

## Annual Corporate Governance Report

All these measures guarantee that the Board of Directors shall annually hold the necessary meetings to carry out the promotion, management and supervisory functions established in the Company's internal regulations as well as deal with the issues its members consider relevant to the Company.

At the same time, the Appointments and Remuneration Committee, chaired by an external independent Director and comprised by non executive Directors only, shall issue an annual report on the performance of the Board's Chairman and BME's Chief Executive Officer, which is subject to approval by the Board of Directors.

The involvement of the Appointments and Remuneration Committee in drawing up, approving and presenting the Board with its annual report on the performance of the Board's Chairman and CEO shall guarantee the independence of this evaluation process.

Notwithstanding the above, the Board of Directors intends to submit to the General Shareholders' Meeting amendments to the Articles of Association and the Board of Directors' Regulations to increase the degree of compliance with this Recommendation, empowering the Vice-president qualified as Independent Director to request the calling of Board meetings, the inclusion of new items on the agenda and to coordinate the concerns of the independent Directors.

### 18. The Secretary should take care to ensure that the Board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the Company bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others;
- c) Are informed by those good governance recommendations of the Unified Code that the Company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a Board meeting in full; the relevant appointment and removal procedures being spelled out in the Board's regulations.

See section: B.1.34.

Complies

Partially Complies

Explain

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

See section: B.1.29.

Complies

Partially Complies

Explain

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When Directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30.

Complies

Partially Complies

Explain

21. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the Company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

Partially complies

Explain

Not applicable

## Annual Corporate Governance Report

**22.** Board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the Board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

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

**23.** All Directors should be able to exercise their right to receive any additional information they require on matters within the Board's remit. Unless the bylaws or Board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42.

**Complies**  **Explain**

**24.** All Directors should be entitled to call on the Company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.

See section: B.1.41.

**Complies**  **Explain**

**25.** Companies should organise induction programmes for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

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

**26.** Companies should require their Directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should lay down rules about the number of directorships their Board members can hold.

See sections: B.1.8, B.1.9 and B.1.17.

**Compliant**  **Partially Complies**  **Explain**

The Board of Directors' Regulations include various sections on the regulation of the Directors' duties and, in particular, the need to devote sufficient time and effort to perform their duties effectively.

In this regard, BME complies with section a) of this Recommendation as article 21.a) of the Board of Directors' Regulations states that the Appointments and Remuneration Committee must be informed of all professional commitments which may impede the Director from efficiently carrying out his functions.

In keeping with this obligation, article 27 of the Regulations states that Directors must notify the Company, via its Chairman, of any positions they hold at other companies or entities, and before accepting any directorship or management position in another Company or entity, and should inform the Audit Committee of their intention to do so.

With regard to establishing rules on the number of directorships the BME's Board members can hold, as indicated in section B.1.9 of this report, the Board of Directors' Regulations limits the participation of its

## Annual Corporate Governance Report

independent and executive Directors in other Boards of Directors but does not establish a limit on the number of non-independent external Directors.

The lack of limits placed on its proprietary Directors can be justified by the fact that their appointment is put forward by the significant shareholder which they represent based on their knowledge and professional experience in the sector in which the Company operates.

In any event, the Appointments and Remuneration Committee, in compliance with its obligation to previously notify the appointment of a non-independent external Director, may deem that the candidate's other professional obligations could impede him from effectively carrying out his functions as a Director.

Notwithstanding the above, the Appointments and Remunerations Committee intends to ask the Board of Directors to approve rules governing the number of directorships the BME'S proprietary Directors can hold.

**27.** The proposal for the appointment or renewal of Directors which the Board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:

- a) On the proposal of the Nomination Committee, in the case of independent Directors;
- b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2.

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

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

- a) Professional experience and background;
- b) Directorships held in other companies, listed or otherwise;

c) An indication of the Director's classification as executive, proprietary or independent; In the case of proprietary Directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a Company Director; and

e) Shares held in the Company and any options on the same.

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

**29.** Independent Directors should not stay on as such for a continued period of more than 12 years.

See section: B.1.2.

**Complies**  **Explain**

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

See sections: A.2., A.3. and B.1.2.

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

**31.** The Board of Directors should not propose the removal of any independent Directors before the expiry of their tenure for which they were appointed unless they have valid grounds for doing so on the basis of a proposal from the Appointments Committee. In particular, just cause will be presumed when a Director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.



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See sections: B.1.2, B.1.5 and B.1.26.

Complies  Explain

**32.** 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 trial.

The moment a Director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the Board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44.

Complies  Partially Complies  Explain

**33.** All Directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independents and other Directors unaffected by the conflict of interest 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 terms of this Recommendation should also apply to the Secretary of the Board, Director or otherwise.

Complies  Partially complies  Explain  Not applicable

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

See section: B.1.5.

Complies  Partially complies  Explain  Not applicable

**35.** The Company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

a) The amount of the fixed components, itemised where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual payment they give rise to;

b) Variable components, in particular:

i) The types of Directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items;

ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;

iii) The main parameters and grounds for any system of annual bonuses or other non cash benefits; and

iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

## Annual Corporate Governance Report

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount of annual equivalent cost.

d) The conditions to apply to the contracts of executive Directors exercising senior management functions. Among them:

i) Duration;

ii) Notice periods; and

iii) Any other clauses covering hiring bonuses, as well as indemnities or "golden parachutes" in the event of early termination of the contractual relation between Company and executive Director.

See section: B.1.15.

**Complies**

**Partially Complies**

**Explain**

**36.** Remuneration comprising the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to executive Directors.

The delivery of shares is excluded from this limitation when Directors are obliged to retain them until the end of their tenure.

See sections: A.3 and B.1.3.

**Complies**

**Explain**

**37.** External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

**Complies**

**Explain**

**38.** In the case of remuneration linked to Company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

**Complies**

**Explain**

**Not applicable**

**39.** In the case of variable awards, remuneration policies should include 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, atypical or exceptional transactions or circumstances of this kind.

**Complies**

**Explain**

**Not applicable**

**40.** The Board should submit a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each Company sees fit.

The report will focus on the remuneration policy the Board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

# Annual Corporate Governance Report

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

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

**41.** The notes to the annual accounts should list individual Directors' remuneration in the year, including:

a) A breakdown of the compensation obtained by each Company Director, to include where appropriate:

- i) Participation and attendance fees and other fixed Directors payments;
- ii) Additional compensation for acting as chairman or member of a Board committee;
- iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
- iv) Contributions on the Director's behalf to defined-contribution pension plans, or any increase in the Director's vested rights in the case of contributions to defined-benefit schemes;
- v) Any severance packages agreed or paid;
- vi) Any compensation they receive as Directors of other companies in the group;
- vii) The remuneration executive Directors receive in respect of their senior management posts;
- viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the Director.

b) An individual breakdown of deliveries to Directors of shares, share options or other share-based instruments, itemised by:

- i) Number of shares or options awarded in the year, and the terms set for their execution;
- ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
- iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
- iv) Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive Directors and the Company's profits, or some other measure of enterprise results.

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

**42.** When the Company has an Executive Committee, the breakdown of its members by Director category should be similar to that of the Board itself. The Secretary of the Board should also act as secretary to the Executive Committee.

See sections: B.2.1 and B.2.6

**Complies**  **Partially complies**  **Explain**  **Not applicable**

**43.** 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**  **Explain**  **Not applicable**

## Annual Corporate Governance Report

**44.** In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the Board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its Directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first Board plenary following each meeting;
- b) These committees should be formed exclusively of external Directors and have a minimum of three members. Executive Directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation;
- c) Committees should be chaired by an independent Director.
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties;
- e) Meeting proceedings should be minuted and a copy of the minutes sent to all Board members.

See sections: B.2.1 and B.2.3.

**Complies**

**Partially Complies**

**Explain**

**45.** The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

**Compliant**

**Explain**

**46.** All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

**Compliant**

**Explain**

**47.** Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

**Compliant**

**Explain**

**48.** The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

**Compliant**

**Explain**

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

a) The different types of risk (operational, technological, financial, legal, reputational, ...) the Company is exposed to, 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;

## Annual Corporate Governance Report

- c) Measures in place to mitigate the impact of risk events 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** 

### See sections: D

#### 50. The Audit Committee's role should be:

##### 1 With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles;
- b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed;
- c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports;
- d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

##### 2 With respect to the external auditor:

- a) Make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.
- b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
- c) Monitor the independence of the external auditor, to which end:
  - i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same;
  - ii) The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
  - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.
- d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B. 2.2., B.2.3 and D.3.

**Complies** 

**Partially Complies** 

**Explain** 

**51.** 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.

**Compliant** 

**Explain** 

## Annual Corporate Governance Report

**52.** The Audit Committee should prepare information on the following points from Recommendation 8 for input to Board decision-making:

- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group;
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

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

**53.** The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38.

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

**54.** The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent Directors.

See section: B.2.1

**Complies**  **Explain**  **Not applicable**

**55.** The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties;
- b) Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner;
- c) Report on the senior officer appointments and removals which the chief executive proposes to the Board;
- d) Report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3.

**Complies**  **Partially complies**  **Explain**  **Not applicable**

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## Annual Corporate Governance Report

**56.** The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive Directors.

Any Board member may suggest directorship candidates to the Nomination Committee for its consideration.

**Complies**  **Partially complies**  **Explain**  **Not applicable**

**57.** The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Make proposals to the Board of Directors regarding:
  - i) The remuneration policy for Directors and senior officers;
  - ii) The individual remuneration and other contractual conditions of executive Directors;
  - iii) The standard conditions for senior officer employment contracts.
- b) Oversee compliance with the remuneration policy set by the Company.

See sections: B.1.14 and B.2.3

**Complies**  **Partially complies**  **Explain**  **Not applicable**

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

**Complies**  **Explain**  **Not applicable**

# Annual Corporate Governance Report

## G. Other Information of Interest

List any independent Directors who maintain, or have maintained in the past, a relationship with the Company, its significant shareholders or managers, when the significance or importance thereof would dictate that the Directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code.

Yes

No

### BME's adhesion to the Code of Best Tax Practices (Código de Buenas Prácticas Tributarias).

Pursuant to the Code of Best Tax Practices approved by the Large Businesses Forum, to which BME adhered on 30 September 2010, the Annual Corporate Governance Report of companies adhering to said Code must include reference to the compliance with such practices.

In 2011, in order to comply with the Code of Best Tax Practices, the Board of Directors, at its meeting on 24 February 2011, agreed to amend article 17 of the Board of Directors Regulations concerning the powers of the Audit Committee, so as to give this Committee the capacity to have knowledge of the fiscal policies applied by the Company.

To that effect, this article states that the audit committee must receive information from the head of the tax department on the fiscal policies applied, at least, prior to the authorisation of the financial statements, and the filing of the corporate tax return and, whenever relevant, on the fiscal consequences of corporate operations submitted to the Board of Directors for approval.

Prior to this amendment to the Board of Directors Regulations, at the Audit Committee meeting held on 18 February 2011, the head of the tax department reported on the tax policies applied in 2010, before the financial statements were presented at the Board of Directors' meeting on 24 February 2011.

Subsequently, in view of the new powers assigned to it, the Audit Committee, at its meeting on 9 March, approved the Taxation principles applied by the Company and its tax policy, which were approved by the Board of Directors in its meeting on 22 March 2011.

At its meeting on 25 May 2011, the Audit Committee was informed and took due note of the fiscal policies applied by the Company before it filed its income tax return.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 29 February 2012.

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

Yes

No



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## **Securities that are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class, the rights and obligations attaching to it.**

BME has not issued any securities for trading in regulated markets other than on Spanish Stock Exchanges.

## **Any restrictions on the transfer of securities and any restrictions on voting rights.**

### Restrictions on the transfer of securities.

As noted in section A.10 of the Annual Corporate Governance Report, there are no legal or statutory restrictions on the acquisition or transfer of holdings in BME's share capital.

Notwithstanding the above, the Spanish Securities Market Act grants the Spanish regulator, the Comisión Nacional del Mercado de Valores (CNMV) the power to object oppose to the acquisition of significant stakes in the capital of BME pursuant to Royal Decree 361/2007 of 16 March, which amended Securities Market Act 24/1988 of 28 July, in matters related to the share capital of companies which manage secondary markets or securities registration, clearing and settlement systems.

In accordance with the mentioned regulations aforementioned Royal Decree, the CNMV should be informed, prior to the event, of any acquisition of BME shares with which they could reach, would directly or indirectly imply any of the following percentages of its capital or voting rights: 1, 5, 10, 15, 20, 25, 33, 40 or 50 percent, or a lesser percentage that nonetheless supports the exercise of a significant influence over the Company. The ability to appoint or remove at least one Director is in all circumstances characterised as 'significant influence'.

The CNMV will have a time limit of 60 working days from the date of its acknowledgement of receipt of the notice to object to the intended acquisition, subject to the interruptions in the effluxion of the time limit allowed under article 69(6) 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. If the CNMV does not issue a statement within ten working days or thirty working days, respectively, after the date the information is relayed or from the date any additional information required by the entity is delivered, the acquisition will be understood to have been approved that no objection exist.

Furthermore, the Ministry of Economy and Finance, may, following the proposal, 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 the smooth operation of the markets and to avoid distortions, or if Spanish companies are not provided equivalent treatment in the acquirer's country of origin, or that of the entity which directly or indirectly controls the acquirer.

### Restrictions on voting rights.

The Articles of Association of BME lay down no restrictions on the voting rights held by the shareholders.

Article 69.8 of the Securities Market Act restricts the exercising of this right in cases of improper acquisition of major shareholdings, i.e. holdings acquired without being properly authorised by the CNMV, in accordance with the terms set out in the previous section of this Report.

## **Rules governing the amendment to the company's articles of association.**

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 Corporate Enterprises 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, 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 General Meeting shall contain explicit reference, with the necessary clarity, to the points to be amended and to the shareholders' right to examine the full wording at the registered office and, in joint stock companies, to the respective report, and to request cost-free copies of such documents, whether received in hand or forwarded to their address.
- 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 Corporate Enterprises Act. Thus, in accordance with the terms of these sections, for Shareholders' Meetings to be able to validly decide to make any change to the Company's Articles of Association, the quorum of shareholders represented in person or by proxy at first call must be at least 50% of the subscribed voting capital. At second call, shareholders representing 25% of the share capital shall suffice. In this case, if shareholders present

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account for less than 50% of voting capital, changes to the Articles of Association may only be validly carried by a vote of two-thirds of the capital represented at the meeting in person or by proxy.

As well as being subject to the normal rules governing Spanish public limited companies ("sociedades anónimas"), as a holding company for companies that manage the securities registration, settlement and clearing systems for securities and secondary markets in Spain, BME is subject to Additional Provision Seventeen of the Securities Market Act, which states that changes in its Articles of Association must be authorised by the CNMV.

## Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

BME has not entered into any agreements that would take effect, be altered or terminate in the event of a change in control of the Company as a result of a takeover bid.

## Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason following a takeover bid.

### 1.- Executive directors.

There are no agreements which include benefits for executive Directors in the event of dismissal or change of control except for the Chairman.

With regard to the Chairman, classified as 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 will 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. This payment will have a non-competition condition and the Chairman shall not be permitted to work for a period of three years in any other Company with a similar or identical corporate purpose or activity as BME. If this obligation is not met, the Chairman shall return the amount received.*

*The Chairman shall not be paid the amount mentioned above if he voluntarily leaves the post, fails to fulfil his duties or any of the cases needed for Bolsas y Mercados Españoles to be able to take corporate action against him for liability concur.  
(...)"*

The terms of this General Shareholders' Meeting agreement have been included in the services contract between BME and Antonio J. Zoido Martínez, subsequent to a report by the Appointments and Remuneration Committee and approval by the Company's Board of Directors.

### 2.- Senior management.

Three senior Directors have the right to receive compensation in the event of dismissal, equivalent to 45, 36 and 22 months of salary in each respective case.

### 3.- Employees.

The employment contracts entered into by BME and its employees are drawn up in accordance with the terms of the Workers' Statute, which shall apply to cases of termination of employment.

## A description of the main characteristics of the internal control and risk management systems with regard to statutory financial reporting.

### 1.- The entity's control environment.

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

#### 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 articles 25 of the Articles of Association and 7 of the Board of Directors Regulations, the Board of Directors is the Company's most senior governing and administrative body, and shall assume, among other responsibilities, those of being vigilant of the transparency and veracity of the information of the Company in its relations with shareholders and with the markets in general, identifying the principal risks affecting the Company and supervising the internal control systems. In this regard, the BME Group has defined an Integrated Risk Management System (IRMS). On 13 December 2011 the Risk Committee formally incorporated the ICFR system into the abovementioned IRMS.

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 task, the BME Group's finance department is responsible for the design, introduction and functioning of the ICFR.

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The Board, through the Audit Committee, is responsible for ensuring that the BME Group's internal control and risk management systems, which include supervising ICFR, are efficient in accordance with articles 7.4 and 17 of the Board of Directors' Regulations. These articles also stipulate that "the internal control and risk management systems shall be supervised by the Committee". To this end, the internal control and risk management systems shall be reviewed by the Committee at least once a year, to ensure that the main risks are adequately identified, managed and reported. The Committee shall also discuss with the auditors or experts appointed for that purpose, any significant weaknesses detected in the auditing process.

The Internal Audit Department of the BME Group plays a key role in carrying out the competencies delegated to it by the Audit Committee with regard to monitoring IRMS and, particularly, ICFR. 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 to attain goals related to:

- Effectiveness and efficiency of resources and operations.
- Reliability of financial and operational information.
- Compliance with applicable laws and other regulations."

**1.2** If there are, especially in the process of preparing the financial information, the following characteristics:

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

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

Pursuant to articles 7.4 and 17 of the Board of Directors' Regulations, the Board shall monitor the financial information released to shareholders and the markets in general. According to article 17.2 of the

same Regulations, the Audit Committee shall assist the Board in implementing this duty. As we have noted above, the Board of Directors shall entrust the management of the Company's ordinary business to its delegate bodies, executive members and senior management team, focusing its activity on driving, directing and supervising matters of particular significance for the Company, undertaking in this respect as general tasks, among others, those of defining the general strategy and management guidelines of the Company, giving impetus to and overseeing senior management, establishing the basis of the corporate organisation in order to ensure its maximum efficiency.

For that purpose, the BME Group has various procedure manuals in place 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 who take part in preparing relevant financial information, including all subsidiaries of the BME 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 in place an Internal Regulations of Conduct of BME, Sociedad Holding de Mercados y Sistemas Financieros, S.A., approved by the Board, the purpose of which is to lay down the principles and framework of action for the Company and its Group with respect to the securities markets. All BME Group employees receive a copy of these Regulations, together with the appropriate training, either in-person or distance. The Regulations are also permanently available on the Company's website.

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 interest.

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- Use of information.
- Transactions.
- Special rules regarding inside information.
- Material information.
- Rules on the management of treasury stock.
- Non-compliance.
- Entry into force and transitory regime.

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 Markets and Systems Operating Procedures Committee of the Board of Directors. Its remit includes being cognisant of the Internal Regulations of Conduct and periodically receiving information from the Standards of Conduct Committee.

Additionally, the BME Group has a *Declaration of Ethical Values for the preparation of financial information*, which applies to all BME Group employees. This statement was formally approved by the Risk Committee at its meeting on 13 February 2012.

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, and are based on the following principles:

“(…)

- *Independence: employees will 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 interest or any other circumstance, impartiality and objectivity could be affected.*

- *Integrity: employees will show 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 criteria is maintained at all times and that the information is treated in an impartial and complete way.*

- *Responsibility: employees shall use their technical and professional skills when handling and preparing financial information. They shall be responsible for obtaining the necessary training in order to carry out their duties to the best of their ability.*

*Likewise, they shall be subject to applicable legislation regarding financial information and shall respect the procedures established internally. They shall record transactions accurately and maintain the same criteria for all files and records.*

- *Professionalism and dedication: all 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 act in a legal and correct manner.*

- *Confidentiality: all employees are bound by professional secrecy and strict confidentiality when handling financial information to which they are privy during the course of their work.*  
“(…)”

*Whistle-blowing' channel for reporting 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 17 of the Board of Directors' Regulations, outlines, among other issues, the responsibilities delegated to the Audit Committee, stating: “(…)It shall also establish and supervise the proceedings whereby Company personnel may anonymously report any irregularity in the internal control and risk management systems. (…)”

In accordance with the abovementioned article, at its meeting of 25 January 2007, and following approval from 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.

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This procedure for notifying deficiencies is a way for all BME Group staff to report anonymously and in writing, via any mail system, whilst upholding strict confidence, any irregularities in the internal control and risk management systems.

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.

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

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 2011, and 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 methodology for those courses which could be offered in this format). The following areas were covered :

- User applications: Training in the software facilitator for task automation.
- Skills development: Training aimed at developing competences and skills in the workplace.
- Economic/financial: Financial training and/or refresher courses in any of its functional areas, particularly relating to:
  - The General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November;
  - The regulation for preparing Consolidated Annual Financial Statements approved by Royal Decree 1159/2010 of 17 September;
  - Circular 9/2008, of 10 December, of the Comisión Nacional del Mercado de Valores (amended by Circular 6/2011, of 12 December);

- International Financial Reporting Standards;
- Recognition, valuation and impairment of financial instruments;
- Valuation and recognition of provisions and contingent assets and liabilities;
- Analysis of financial statements, and
- Internal Control over Financial Reporting System.
- Markets and Financial Assets: Training in the BME Group's markets, assets and business areas.
- IT: Training on developing and perfecting new technologies.

The various training initiatives were aimed at all employees at BME Group companies. A total of 11,425 hours of training were given in 2011, with 373 hours allocated to the Financial and Internal Audit Departments.

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

Report the following at least:

### **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 paper. 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 (strategic, financial, regulatory, technological, human resource-related) are managed on a centralised basis, being addressed by a coordinated effort across the various areas, and reported on uniformly to the Risk Committee.

This Committee, at its meeting of 13 December 2011, formally incorporated ICFR into the IRMS, applying the same methodological framework to it.

#### *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.*

In order to guarantee the reliability of the relevant financial information based on a criteria 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 entity 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 ICFR.

- Production and maintenance of the corporate risk map requires that each risk officer (ICFR) regularly updates the information on each identified global risk needed for management and control;
- New events are identified, and
- Action plans are rearranged as necessary.

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

#### *Adequate definition of the scope of consolidation, allowing for 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 Company'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 in question;
- b) the percentage of the effective stake held by the BME Group in the company in question;
- c) the activity and corporate purpose; and,
- d) the existence of a "decision-making unit" in accordance with applicable legislation.

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Therefore, in accordance with article 7 of the Board of Directors' Regulations, with regard to the management guidelines and establishing the basis for the corporate organisation of senior management, the functions of the Board shall include the following: *"Approving the following operations: setting up and dissolving companies, acquiring stakes in existing companies, and any merger, takeover, spin-off or concentration operations that the Company is interested in, provided that these are of significance for the Company in terms of their size or nature. In any event, the Board must submit to the General Shareholders' Meeting for approval or ratification any acquisitions of stakes in companies whose corporate purpose is totally unrelated to that of the Company or Group companies if and when the size of the investment represents over 20% of the company's consolidated net worth."*

During 2011 no complex corporate structures or special purpose vehicles were identified.

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

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

- Operational risk.
- Market risk.
- Reputational risk.
- Risk of fraud.
- Legal 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).

*Finally, which of the company's governing bodies is responsible for overseeing the process.*

The Board of Directors shall "supervise the efficiency of the Company's internal control and risk management systems". In order to carry out this function, the Board has an Audit Committee and to this end "(...) the internal control and risk management systems shall be reviewed by the Committee at least once a year, to ensure that the main risks are adequately identified, managed and reported (...)".

Lastly, according to the regulations for the BME Group Internal Audit, one of the Department's missions is to: "(...) assist the Audit Committee in the effective monitoring of the Internal Control and Risk Management System, by exercising an independent function in line with the regulations and professional standards of quality, which help good Corporate Governance and reduce to accepted levels the possible impact of the risks in the attainment of the Company's objectives. (...)". The abovementioned Regulations for the BME Group Internal Audit were formally submitted to the BME Group Risk Committee and to the Audit Committee on 13 and 22 December 2011, respectively.

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## **3.- Control activities**

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

**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. Documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

The preparation of the financial information which is disseminated to the stock market and its subsequent review is entrusted to a suitably defined human and technical team which allows the BME Group to ensure 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 BME's Finance Department. Other departments also assist in ensuring that the necessary level of detail is obtained.

Therefore, the procedures for the accounting close and the preparation of the financial statements occasionally rely on key judgements, estimates and assumptions made by senior management to quantify assets, liabilities, revenue, expenses and commitments and are described in detail in the attached 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 issues have been 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;
- goodwill impairment measurement;
- the fair value of certain financial instruments;
- the calculation of provisions; and
- assumptions used to determine the share-based payment schemes.

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. The Board, through the Audit Committee, has among its functions, pursuant to article 8 of the Board of Directors' Regulations, that of reviewing all the published financial information: "(...) *In matters related to the stock market and bearing in mind the Company's status as an issuer, the Board of Directors, either in full or through its Committees, shall undertake the following specific duties:*

*a) Supervising all periodic financial reports and in general the information released to the financial markets on all events, decisions and circumstances that may affect the Company's share price performance. (...)"*

The Finance Department is responsible for determining the relevant financial information, based on quantitative criteria of materiality, and qualitative criteria, taking into consideration all of 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 the same. These are reviewed and updated periodically.

During 2011 the BME Group finished formally documenting the activity flow charts for approximately 40 processes linked to relevant financial information, in which over 150 risks and more than 200 associated key controls were identified.

The Internal Audit Department shall "(...) *Revise the reliability and completeness of the financial and operating information, as well as of the means used to identify, evaluate, classify and disseminate this information. (...)"*, as stipulated in the Regulations for the BME Group Internal Audit.

**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.



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Specifically policies have been established in relation to:

Safety in accessing the 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 the user class and powers. The process of managing users in these systems is based on established procedures based on 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 area 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 Company's project leaders carry out functional analyses, manage the development projects, developmental and operational management and integration tests.
- The development teams are in charge of technological design, construction and tests, always adhering to the development methodologies defined by the Company. 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 in place 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.

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

BME has in place **Procedures for managing outsourced activities** which stipulate 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, in so far as this is 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 different BME Group companies, 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 will 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, the controls in place at the suppliers are monitored.

In order to appraise, calculate or value the services commissioned from independent experts when these may materially affect the financial statements, BME 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.

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### **4.- Information and communication.**

The entity should state whether it has at least the following components in place, specifying their main characteristics:

**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.**

The 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 and Criteria** manual which describes the accounting treatment of the different types of transactions which may materially affect financial information. This **Procedures and Criteria** 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.

In order to prepare the BME Group's consolidated annual financial statements, accounting policies adopted are pursuant to the legislative framework applicable to the Company and BME Group companies. These are set forth 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 Circular 9/2008, dated 10 December, of the CNMV (amended by Circular 6/2011 dated 12 December), and in the International Financial Reporting Standards adopted by the European Union.

**4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

The 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, which guarantees 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 input. This information is then processed and prepared before being treated by specific back-office systems and segregated according to market and transaction category. This way reliable and exact information is obtained for accounting purposes and generating results. The results and calculation of data once the operations have executed on the market are automatically transferred to reporting and financial consolidation tools which have quality controls to guarantee these are reconciled.

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## **5.- Monitoring**

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

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

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.

The Audit Committee is regulated by both article 35 of the Articles of Association and article 17 of the Board of Directors' Regulations.

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

- Review of processes and activities: arising from the 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 the execution of the review activities carried out and incidents relating to the risks identified in the department's processes.

Likewise, the Internal Audit Department constantly reviews the IRMS which comprises the ICFR, proposes recommendations and suggests the most relevant points of reflection to the Risk Committee. For this purpose, the Director of the Internal Audit Department attends Risk Committee meetings at which he may speak but not vote.

In 2011, the Internal Audit Department took part in formalising ICFR, whose design, roll out and operation is the responsibility of the Finance Department. Its participation largely consisted of supporting the formalisation of ICFR and its integration into the BME Group's Integrated Risk Management System. Particularly it assessed:

- the process of identifying and assessing the risk of errors in the financial information;
- the control environment and IT control systems;
- specific processes and areas for the evaluated financial statements; and
- the units and/or locations in which the evaluation was carried out.

Likewise, in 2011 at regular meetings, the Audit Committee was kept informed of the process for the design and introduction of ICFR, as well as the abovementioned evaluation actions, all of which showed a favourable result. The final ICFR processes were submitted for formal approval at the Risk Committee's meeting of 13 December 2011, and reported to the Audit Committee at its meeting of 22 December 2011.

Finally, the Internal Audit Department presented its annual Activities Plan to the Audit Committee in 2011. This plan describes, among other activities, the evaluation actions to assess the efficiency of the ICFR in 2012.

**5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

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Article 17 of the Board of Directors' Regulations stipulates that, among the other responsibilities delegated to the Audit Committee, it shall: *"supervise the efficiency of the Company's internal control and risk control systems. To this end, at least once a year it will supervise the control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and will discuss with the auditors or audit firms or experts appointed for that purpose, any significant weaknesses detected in the auditing process."*

The Audit Committee shall also *"Liaise with the external auditors in order to receive information on any issues that might jeopardise the latter's independence for examination by the Committee and any others connected with the auditing procedure, and to maintain with the auditors the 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. Each year the auditors will issue written confirmation of their independence from the Company, as well as information on any other type of service provided by the auditors or persons or entities related to them"*.

In this regard, the Audit Committee met on nine occasions in 2011. The external auditors attend those meetings of the Audit Committee at which the financial information is reviewed, as well as those at which they inform the Committee about regulatory changes in this area.

## **6.- Other information**

Not applicable.

## **7.- External auditor's report**

State whether

**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.**

In applying the recommendations included in the CNMV's report on *Internal control over financial reporting in listed companies* published on its website, the Company has requested that its auditor conduct a review of its ICFR disclosures. The resulting report will be included as an Appendix to this Annual Corporate Governance Report.