



ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

FINANCIAL YEAR END 31.12.2014

Tax ID No. (C.I.F.) A-83.246.314

Corporate name:

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

Registered office:

Plaza de la Lealtad, 1, Madrid



A. OWNERSHIP STRUCTURE

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

Last modified	Share capital (€)	Number of shares	Number of voting rights
02/07/2013	250,846,674,00	83,615,558	83,615,558

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

Yes No

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

The information disclosed in this section is based on the Shareholder Register, which records the transactions concluded in 2014.

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
CORPORACIÓN FINANCIERA ALBA, S.A.	0	6,925,789	8.28%

Name or corporate name of shareholder	Transaction date	Description of the transaction
CORPORACIÓN FINANCIERA ALBA, S.A.	ALBA PARTICIPACIONES, S.A.U.	6,925,789

At 31 December 2014, the groups Chase Nominees, Bank of New York Mellon, and State Street Bank and Trust Co. appeared in the Shareholder Register with stakes in BME's share capital of 5.32%, 5.14% and 4.57%, respectively. However, the Company believes that these shares are held in custody for third parties and that, as far as BME is aware, none of these holds over 3% of the company's share capital or voting rights.



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

Name or corporate name of shareholder	Transaction date	Description of the transaction
CORPORACIÓN FINANCIERA ALBA, S.A.	20/05/2014	Stake rose above 3% of share capital
CORPORACIÓN FINANCIERA ALBA, S.A.	08/07/2014	Stake rose above 5% of share capital

On 16 January 2014, Caja de Ahorros y Pensiones de Barcelona notified the Spanish National Securities Commission, Comisión Nacional del Mercado de Valores ("CNMV") that it had sold a significant stake, of 5.01%, which it had held indirectly through its investee Caixabank, S.A.

Meanwhile, Banco Santander, S.A. notified the CNMV that its shareholding in BME had decreased by 1% on 31 March 2014.

Lastly, Banco Bilbao Vizcaya Argentaria, S.A. notified the Company on 3 October 2014 of its decision to reduce its shareholding in BME to below 1%.

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

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
D. ANTONIO J. ZOIDO MARTÍNEZ	8,500	0	0.01%
D. IGNACIO GARRALDA RUIZ DE VELASCO	1,000	0	0.00%
D ^a . MARGARITA PRAT RODRIGO	100	0	0.00%
D. MANUEL OLIVENCIA RUIZ	2,000	0	0.00%
D. CARLOS FERNÁNDEZ GONZALEZ	200	0	0.00%
D ^a . ROSA MARÍA GARCÍA GARCÍA	350	0	0.00%
D. JOAN HORTALÁ I ARAU	1,737	0	0.00%
D. JUAN MARCH JUAN	500	0	0.00%
D. SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUÍN	7,500	0	0.01%
% of total voting rights held by the Board of Directors			0.03%(*)

(*) This figure does not include the equity held by two (2) shareholders represented on the Board of Directors, three (3) of whose members are classified as proprietary Directors. At 31 December 2014, the stake held by these shareholders was 10.80% of the share capital.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2014 stood at 10.83%.



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, including executive Directors, which in accordance with article 219.1 of the *Ley de Sociedades de Capital* (the "Companies Act"), were approved by the General Shareholders' Meeting on 28 April 2011 and 30 April 2014 and notified to the CNMV those same days.

Pluri-Annual Variable Remuneration Programme approved on 28 April 2011.

This programme, which covered the years 2011, 2012 and 2013, consisted 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 were met.

The maximum number of BME shares included in the programme was 428,801, representing 0.5% of BME's share capital, of which a maximum of 56,134 shares could be granted to Antonio Zoido Martínez and 7,246 shares to Joan Hortalá i Arau.

The first period of the programme ended 31 December 2013, with settlement of the shares taking place in the first half of 2014.

The number of shares to be granted in the two remaining years of the programme, 2015 and 2016, will depend on the performance of BME's Total Shareholder Return (TSR) and Efficiency Ratio (ER) compared with those of five (5) benchmarked entities, and will be calculated by dividing in two the number of units assigned in 2012 and 2013, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to the BME's final ranking among the benchmarked companies.

In execution of this programme, the Appointments and Remuneration Committee, at its meetings on 28 February 2012 and 19 February 2013 granted Mr Zoido Martínez and Mr Hortalá i Arau the theoretical units corresponding to the two remaining periods of the programme. Therefore, the maximum theoretical number of BME shares that may be received in accordance with the aforementioned allocation in 2015 and 2016 amount to 19,707 and 19,567, in the case of Mr Zoido, and 2,542 and 2,524, in the case of Mr Hortalá.

Pluri-Annual Variable Remuneration Programme approved on 30 April 2014.

This programme entails assigning a number of theoretical units to beneficiaries in financial years 2014, 2015 and 2016, as the basis for calculating the BME shares to be delivered to the beneficiaries, if appropriate, subject to fulfilment of the programme's objectives in 2017, 2018 and 2019.

The specific number of shares to be granted in 2017, 2018 and 2019 will depend on the performance of BME's ER and TSR compared with those of five (5) benchmarked entities, and will be calculated by dividing in two the number of theoretical units assigned in each financial year, 2014, 2015 and 2016, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to the BME's final ranking among the benchmarked companies.

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

In execution of the programme, the Appointments and Remuneration Committee, at its meetings on 26 June 2014 and 24 February 2015, granted Mr Zoido Martínez and Mr Hortalá i Arau the theoretical units corresponding to the first two periods of the programme. The maximum theoretical number of BME shares that may be received in accordance with the aforementioned allocation in 2017 and 2018 amount to 26,664 and 25,267, in the case of Mr Zoido, and 2,287 and 2,056, in the case of Mr Hortalá.



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

—

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

—

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the *Ley de Sociedades de Capital* (the "Companies Act"). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes No

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

Yes No

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

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the 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
263,706	0	0.32%

(*) Through:

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



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

Authorisation for the issue of shares

The Board of Directors is authorised to increase capital up to a figure not greater than 50% of capital existing at the time such authorisation was given, with an attached power to exclude pre-emptive subscription rights, under the resolution passed at the ordinary General Shareholders' Meeting of 28 April 2011, quoted below:

"(...)

Two.- Delegate the broadest powers necessary under the law to allow the Board of Directors, pursuant to the provisions of article 297.1.b) of the Spanish Companies Law, to increase the share capital by a maximum of 50% of the share capital at the time of this authorisation, within a maximum term of five years from the resolution adopted by the General Shareholders' Meeting, with no need for any subsequent notice or resolution, under the following conditions:

1. Procedure for increasing share capital.

Capital may increase once or several times by issuing new ordinary shares or another type of shares permitted by law, which will be issued at their nominal value or at a premium which in that case must be paid in cash.

The proxy granted will include being able to set the terms and conditions of the capital increase or increases and the characteristics of the shares and will include, in particular, the power: to determine the investors and the markets for the increase or increases and the investment procedure to be followed, and the freedom to issue a new offering of unsubscribed shares during the pre-emptive subscription period or periods; not to increase the capital if the subscription is incomplete; to increase the capital only in accordance with the value of the shares subscribed, pursuant to the provisions of article 311 of the Spanish Companies Act.

The Board of Directors may appoint one or more of its members as the person or persons responsible for exercising any of the resolutions adopted through the proxies granted by the General Shareholders' Meeting, particularly the responsibility for closing the amount of the capital increase.

2.- Amendment of the Company's Articles of Association.

Under this proxy the Board of Directors will draft a new version of article 5 of the Company's Articles of Association in relation to share capital.

3.- Granting a power to exclude pre-emptive subscription rights.

Pursuant to the provisions of section 1 of article 506 of the Spanish Companies Act, this proxy allows the Board of Directors to exclude shareholders' pre-emptive subscription rights.

In any case, if the Board of Directors decides to exclude pre-emptive subscription rights in relation to a particular capital increase permitted under this proxy, and in accordance with the provisions of section 3 of article 506 of the Spanish Companies Act, when the agreement is adopted it must issue a report indicating why this measure is in the Company's interests, the issue price, which will be the subject of a complementary auditor's report by the auditor referred to in section 2.a) of article 308 of the Spanish Companies Act.

These reports will be made available to shareholders and presented at the first General Shareholders' Meeting held after the capital is increased, as stipulated in section 4 of article 506 of the Spanish Capital Companies Act.

4.- Admission to trading.

The Board of Directors is authorised to request admission to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, through the Spanish electronic trading platform (Sistema de Interconexión Bursátil), of the shares actually issued under this proxy, complying with the regulations applicable to trading, ongoing listing and delisting, and also to follow the procedures required by the competent authorities to admit the stock for trading.

5.- Power of substitution.

Under article 249 of the Spanish Companies Act, the Board of Directors is authorised, in turn, to delegate to the Executive Committee the powers granted under this resolution".



The same ordinary General Shareholders' Meeting empowered the Board of Directors to issue, among other instruments, bonds or debentures exchangeable for outstanding shares and/or convertible into freshly issued shares of the Company, and warrants (options to subscribe for new shares or to purchase outstanding shares of the Company). The resolution authorises the Board of Directors to increase capital in the amount required to accommodate requests for conversion or the exercise of warrants on newly issued shares, but in no case in an amount in excess of half of the Company's share capital at the time of the authorisation, and gives the Board of Directors a power to exclude pre-emptive subscription rights. Bonds, debentures and warrants may be issued under this resolution within a term of five (5) years.

As at the date of this report, the Board of Directors has made no use of this delegation of powers.

Authorisation to acquire treasury shares.

The Board of Directors is authorised to purchase and/or transfer treasury shares under the resolution adopted at the 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 in accordance with article 75 and related provisions of the Companies Act [Ley de Sociedades Anónimas] and 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:*
 - *the acquisition, including shares that the Company and of the persons who, in their own name, act on behalf of the Company, that had previously acquired and held by them, will not produce the effect of which the net patrimony, as defined in article 75.1.2ª 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 does 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."

Given the expiration of this authorisation, the Company intends to submit a resolution proposal to the forthcoming General Shareholders' Meeting regarding authorisation to acquire treasury shares under terms similar to the previous one.



A.10 Indicate any restriction on the transfer of securities or the exercise of voting rights. In particular, refer to the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes No

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

Despite the absence of legal restrictions on the acquisition of a shareholding in BME, the Securities Market Act [*Ley del Mercado de Valores*] grants the Spanish regulator, the *Comisión Nacional del Mercado de Valores* (CNMV), the power to object to the acquisition of significant stakes in the capital of BME pursuant to Royal Decree 361/2007 of 16 March, implementing the Securities Market Act in matters related to the share capital of companies which manage secondary markets or securities registration, clearing and settlement systems.

In accordance with the aforementioned Royal Decree the CNMV must be previously informed of any acquisition of BME shares which could reach directly or indirectly any of the following percentages of its capital or voting rights: 1, 5, 10, 15, 20, 25, 33, 40 or 50 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, Section 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 (10) working days or thirty (30) 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 will be deemed to exist.

Furthermore, the Ministry of Economy and Competitiveness, may, at the behest of the CNMV, oppose the acquisition of a significant stake in BME's capital if it deems this to be necessary to ensure 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.

In addition, 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.

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

Yes No

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

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

Yes No

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



B. GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the company's Articles of Association. Describe how it differs from the system of minimum quorums established in the Companies Act.

Yes No

B.2 Indicate and, as applicable, describe any differences between the Company's system of adopting corporate resolutions and the framework established in the Companies Act.

Yes No

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

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

The Company's Articles of Association and the Regulations of the General 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 articles 285 et seq of the *Ley de Sociedades de Capital* (the "Companies Act"), according to which changes in the Company's Articles of Association must be agreed by the Shareholders' Meeting and the following requirements must be met:

- a) The Directors or, as appropriate, the shareholders submitting the proposal, shall draft the wording of the proposed amendment in full and shall also draft a written report justifying the proposal.
- b) The notice convening the General Meeting must clearly set out the points to be altered and make reference to shareholders' right to inspect, at the registered office, the full text of the proposed amendments and of their supporting rationale, and to demand gratuitous delivery of such documents, which must also be made available to shareholders on the Company's website in accordance with article 518 of the *Ley de Sociedades de Capital* (the "Companies Act"), article 12 of the Company's Articles of Association and article 10 of the Regulations of the General Shareholders' Meeting.
- c) The resolution must be approved at the General Shareholders' Meeting in accordance with the rules on quorum and majorities laid down in sections 194 and 201 of the *Ley de Sociedades de Capital* (the "Companies Act").

Article 19 of the General Shareholders' Meeting Regulations already included the requirement stipulated in article 197 bis of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December, regarding separate votes on subjects that are substantially independent and, in any case, amendments to the Company's Articles of Association, with separate votes taken on articles or groups of articles that are substantially independent.

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 amendments to its Company's Articles of Association must be authorised by the CNMV.



B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year and the preceding year.

Attendance data

Date of General meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
30/04/2013	13.52%	27.23%	0.02%	2.09%	42.86%
30/04/2014	2.51%	37.36%	0.03%	4.53%	44.43%

For the purposes of article 148 of the *Ley de Sociedades de Capital* (the "Companies Act"), the constituent quorums of the General Shareholders' Meeting included the 337,333 treasury shares held by the Company at those dates, which amount to 0.40% of share capital.

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

Yes No

B.6 Indicate whether decisions involving a fundamental corporate change ("subsidarisation", acquisitions/disposals of key operating assets, operations that effectively entail the company's liquidation) must be submitted to the General Shareholders' Meeting for approval or ratification even when not expressly required under company laws.

Yes No

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

The address of the corporate website is www.bolsasymercados.es; the "Information for shareholders and investors" section contains all relevant information on corporate governance and General Shareholders' Meetings.



C. STRUCTURE OF CORPORATE ADMINISTRATION

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	9

C.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	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
IGNACIO GARRALDA RUIZ DE VELASCO	-	FIRST DEPUTY CHAIRMAN	27/02/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MARGARITA PRAT RODRIGO	-	SECOND DEPUTY CHAIRMAN	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MANUEL OLIVENCIA RUIZ	-	LEAD DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
ÁLVARO CUERVO GARCÍA	-	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
CARLOS FERNÁNDEZ GONZÁLEZ	-	DIRECTOR	25/03/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
ROSA MARÍA GARCÍA GARCÍA	-	DIRECTOR	24/09/2009	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JOAN HORTALÁ I ARAU	-	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
KAREL LANNOO	-	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JUAN MARCH JUAN	-	DIRECTOR	30/10/2014	30/10/2014	CO-OPTION
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUÍN	-	DIRECTOR	30/10/2014	30/10/2014	CO-OPTION
RAMIRO MATO GARCÍA-ANSORENA	-	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION

Total number of Directors	12
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Rosa María García García resigned as Director on 26 January 2015 for professional reasons unrelated to BME.



Indicate any board members who left during this period.

Name or corporate name of director	Status of the director at the time	Leaving date
TOMÁS MUNIESA ARANTEGUI	Proprietary	21/01/2014
PABLO FORERO CALDERÓN	Proprietary	21/01/2014
JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ	Proprietary	24/03/2014
IGNACIO BENJUMEA CABEZA DE VACA	Proprietary	24/03/2014
JOSÉ A. BARREIRO HERNÁNDEZ	Proprietary	03/10/2014
RICARDO LAISECA ASLA	Proprietary	03/10/2014

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

Executive directors

Name or corporate name of director	Committee informing appointment	Position held in the company
ANTONIO J. ZOIDO MARTÍNEZ	APPOINTMENTS AND REMUNERATION COMMITTEE	Chairman
JOAN HORTALÁ I ARAU	APPOINTMENTS AND REMUNERATION COMMITTEE	Director
Total number of executive Directors		2
% of the board		16.67%

External proprietary directors

Name or corporate name of director	Committee informing appointment	Name or corporate name of significant shareholder represented or proposing appointment
RAMIRO MATO GARCÍA-ANSORENA	APPOINTMENTS AND REMUNERATION COMMITTEE	BNP PARIBAS, SOCIÉTÉ ANONYME
JUAN MARCH JUAN	APPOINTMENTS AND REMUNERATION COMMITTEE	CORPORACIÓN FINANCIERA ALBA, S.A.
SANTOS MARTINEZ-CONDE GUTIÉRREZ-BARQUÍN	APPOINTMENTS AND REMUNERATION COMMITTEE	CORPORACIÓN FINANCIERA ALBA, S.A.

Total number of proprietary Directors	3
% of the board	25.00%



External independent directors

Name or corporate name of director

IGNACIO GARRALDA RUIZ DE VELASCO

Profile

Law Degree from Madrid's Universidad Complutense.

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

He was Founding Member of "AB Asesores Bursátiles, S.A." where he served as Deputy Chairman to 2001. He was Deputy Chairman of "AB Morgan Stanley Dean Witter, S.V., S.A." (1989 to 2001) and Chairman of "Bancoval, S.A." (1994 - 1996). He was Director of "Sociedad Rectora de la Bolsa de Valores de Madrid, S.A." (1991 - 2009).

Actually he is Chairman of "Mutua Madrileña" since 2008, where is Director since 2002 and was Second Deputy Chairman from 2005 to 2008

Also, since 2013 is Director of "Faes Farma, S.A." and "Consortio de Compensación de Seguros", Vice-President of Fundación Lealtad and member of Board of Trustees of "Museo y de la Fundación Reina Sofía", "Fundación Teatro Real", "Real Instituto Elcano" and "Fundación Príncipe de Asturias".

Name or corporate name of director

MARGARITA PRAT RODRIGO

Profile

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

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

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

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

Name or corporate name of director

MANUEL OLIVENCIA RUIZ

Profile

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

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

Since 1960, professor of Commercial and Company Law at Seville University, where he is currently professor emeritus, a permanent member of the General Codification Committee and of the Royal Academy of Jurisprudence and Legislation and the Royal Seville Academies of 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.

Name or corporate name of director

ÁLVARO CUERVO GARCÍA

Profile

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

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

He is also a Trustee of the Endesa Foundation.



External independent directors

Name or corporate name of director

KAREL LANNOO

Profile

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

Mr. Lannoo is an expert on the regulation of financial markets, banking supervision and economic policy. He has written various books (the latest entitled 'ECB Banking Supervision and Beyond, 2014'), reports and articles on these topics. He has participated in various studies and appeared before various national and international institutions.

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

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

Name or corporate name of director

ROSA MARÍA GARCÍA GARCÍA

Profile

A graduate in Mathematics, she is the CEO and Chairman of the Board of Siemens España, where she was formerly the Deputy Chairman from October 2011 to December 2013. She has been a member of the advisory board of the Universidad Europea de Madrid since December 2011. In November 2013 she was appointed to an independent directorship at Acerinox, S.A.

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). She was Deputy Chairman, Consumer & Online, of Microsoft Western Europe until December 2010.

Before joining Microsoft, she held various positions in multinationals such as NEC in Germany and WordPerfect in Spain.

From May 2009 to May 2013 she was an Independent Director on the Board of Banco Español de Crédito, S.A. and a member of the Appointments Committee.

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.

Total number of independent Directors

6

% of the board

50.00%



List any independent Directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the last year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

Other external directors

Name or corporate name of director	Committee informing appointment
CARLOS FERNÁNDEZ GONZÁLEZ	APPOINTMENTS AND REMUNERATION COMMITTEE
Total number of other external Directors	1
% of the board	8,33%

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

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
CARLOS FERNÁNDEZ GONZÁLEZ	Mr Fernández is Chairman of Mediación Bursátil, S.V., S.A., which owns a shareholding of less than 1% of BME's share capital which, in accordance with prevailing legislation, is not considered a significant shareholding. He is also a member of the Board of Directors of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U., a BME Group company, for which he receives per diems, and Investor Ombudsman, for which he receives remuneration.	MEDIACIÓN BURSÁTIL, S.V., S.A. AND SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.



List any changes in the category of each director which have occurred during the year.

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

	Number of female Directors				% of total Directors of each type			
	2014	2013	2012	2011	2014	2013	2012	2011
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	2	2	2	33.33%	40.00%	40.00%	40.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	2	2	2	2	16.67%	14.29%	14.29%	13.33%

At 31 December 2014, the Board of Directors was made up of 12 Directors. There were 14 Directors on 31 December 2013 and 2012, and 15 on 31 December 2011.

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

Explanation of measures

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 of Directors 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 abovementioned 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".

In its endeavour to comply with that article of the Board of Directors Regulations, at its meeting of 29 November 2007 the Appointments and Remuneration Committee, upon beginning its analysis of the criteria to be used in the selection process of independent Directors, recommended that "female candidates must not be discriminated against in this process".

In performance of this resolution and in the exercise of the duty to make proposals to appoint Directors qualifying as independent to fill vacancies arising on the Board of Directors since the stock exchange listing of the Company's shares, almost all the candidates put forward by the Appointments and Remuneration Committee as independent Directors have been women. At 31 December 2014, the proportion of women qualifying as independent Directors accounted for 33% of all Directors within this class.

As to the other categories of Director, the Appointments and Remuneration Committee has taken steps to ensure that selection procedures are not biased against female candidates.

The Appointments and Remuneration Committee is working to comply with article 529 quincecies, section 3b) of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December, to set a target representation of the gender least represented on the Board of Directors and guidelines of how to achieve the objective.



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

Explanation of measures

As indicated in section C.1.5 above, article 18.2.a) of the Board of Directors Regulations entrusts the Appointments and Remuneration Committee with a duty to ensure that Director selection procedures are not gender-biased. At its meeting of 29 November 2007, when discussing the standards to be met by the procedures for the selection of independent Directors, the Committee directed that *“female candidates must not be discriminated against in this process”*.

When, despite the measures taken, there are few or no female Directors, explain the reasons.

Explanation of measures

As indicated in section C.1.5 above, within the scope of its duty to propose the appointment of Directors qualifying as independent the Appointments and Remuneration Committee has actively sought female candidates to fill vacancies for independent Directorships arising since the Company's shares were first listed on stock exchanges.

As to other Director classes, within its powers and duties under prevailing law, the Appointments and Remuneration Committee has reported on the extent to which proposed candidates satisfy the requirements for appointment to a Directorship.

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

At 31 December 2014, the Company's sole significant shareholder was represented on the Board by two Directors qualified as proprietary.

C.1.8 Explain, if applicable, the reasons why proprietary Directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Name or corporate name of shareholder

BNP PARIBAS, SOCIÉTÉ ANONYME

Reason

Although this company does not hold 5% of the share capital, at the date on which the proprietary Director representing it on the Board of Directors was appointed, and at the date on which he was last re-elected, it indirectly held a significant share of voting rights in BME pursuant to Royal Decree 361/2007. This shareholder also holds a higher percentage of voting rights than the other shareholders which are not represented on the Board of Directors and who hold greater stakes, apart from the custodian entities.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary Directors. If so, explain why these requests have not been entertained.

Yes

No



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

Name of director	Reasons for resignation
TOMÁS MUNIESA ARANTEGUI	He tendered his resignation in writing on 21 January 2014. Caja de Ahorros y Pensiones de Barcelona, which he represented on the Company's Board of Directors, sold its significant stake in BME's share capital.
PABLO FORERO CALDERÓN	He tendered his resignation in writing on 21 January 2014. Caja de Ahorros y Pensiones de Barcelona, which he represented on the Company's Board of Directors, sold its significant stake in BME's share capital.
JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ	He tendered his resignation in writing on 24 March 2014. Banco Santander, S.A., which he represented on the Company's Board of Directors, reduced its stake in BME's share capital to below the 1% threshold.
IGNACIO BENJUMEA CABEZA DE VACA	He tendered his resignation in writing on 24 March 2014. Banco Santander, S.A., which he represented on the Company's Board of Directors, reduced its stake in BME's share capital to below the 1% threshold.
JOSÉ A. BARREIRO HERNÁNDEZ	He tendered his resignation in writing on 3 October 2014 following a decision by Banco Bilbao Vizcaya Argentaria, S.A., which he represented on the Company's Board of Directors, to reduce its shareholding in BME to below the 1% threshold.
RICARDO LAISECA ASLA	He tendered his resignation in writing on 3 October 2014 following a decision by Banco Bilbao Vizcaya Argentaria, S.A., which he represented on the Company's Board of Directors, to reduce its shareholding in BME to below the 1% threshold.



C.1.10 Indicate what powers, if any, have been delegated to the Managing Director(s):

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 also promotes 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 he sees fit and other powers necessary to ensure the day-to-day running of the business.

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

Name or corporate name of director	Corporate name of the group entity	Cargo
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.	DEPUTY CHAIRMAN
CARLOS FERNÁNDEZ GONZÁLEZ	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.	DIRECTOR AND SECRETARY

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

Name or corporate name of director	Name of listed company	Position
ÁLVARO CUERVO GARCÍA	ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. (ACS)	DIRECTOR
ÁLVARO CUERVO GARCÍA	SONAE SGPS, S.A. (PORTUGAL)	DIRECTOR
ROSA MARÍA GARCÍA GARCÍA	ACERINOX, S.A.	DIRECTOR
IGNACIO GARRALDA RUIZ DE VELASCO	FAES FARMA, S.A.	DIRECTOR
JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	MANAGING DIRECTOR
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A. (ACS)	DIRECTOR
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	ACERINOX, S.A.	DIRECTOR
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	INDRA SISTEMAS, S.A.	DIRECTOR



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

Yes **No**

Explanation of rules

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.

With regard to Directors classified as proprietary Directors, on the proposal of the Appointments and Remuneration Committee the Board of Directors approved at its meeting on 20 March 2012 a rule for the need to report the number of boards that these proprietary Directors are members of. This rule grants the Appointments and Remuneration Committee powers to receive information about Director nominations, analyse their professional obligations and report in those cases where it believes that these compromise their capacity to perform their functions efficiently.

C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

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

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

Board remuneration (thousands of euros)	2,455 (*)
Amount of total remuneration corresponding to accumulated pension rights of the Directors (thousands of euros)	0
Total board remuneration (thousands of euros)	2,455

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



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

Name or corporate name	Position
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
JAVIER HERNANI BURZAKO	GENERAL MANAGER AND FINANCE DIRECTOR
JOSÉ MASSA GUTIÉRREZ DEL ÁLAMO	CHAIRMAN OF IBERCLEAR AND HEAD OF SETTLEMENT AND REGISTRATION
FRANCISCO NICOLÁS TAHOCES	TECHNOLOGY DIRECTOR
FRANCISCO DE OÑA NAVARRO	CHAIRMAN OF AIAF AND BME CLEARING AND HEAD OF FIXED INCOME AND CLEARING
ARANTZA TELLERÍA DE LA FUENTE	DIRECTOR OF INTERNAL AUDIT DEPARTMENT
JORGE YZAGUIRRE SCHARFHAUSEN	CHAIRMAN OF MEFF AND HEAD OF EQUITIES AND DERIVATIVES
Total remuneration received by senior management (thousands of euros)	4,120 (**)(***)

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

In addition to those listed, BME has a number of employees holding posts of senior responsibility in the Group who meet the conditions for being included in senior management in the near future. These include: Beatriz Alonso-Majagranzas Cenamor, Deputy Manager of Equities, Cristina Bajo Martínez, Deputy General Secretary and Secretary to the Board of Directors, Marta Bartolomé Yllera, Financial Controller, Elena Carnicero Alonso, CEO of Regis TR, Maria Parga Landa, General Manager of BME Innova, Clotilde Salmerón Berdejo, General Manager of MEFF Sociedad Rectora del Mercado de Productos Derivados, and Maria Santos Montesinos, General Manager of Infobolsa.

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

This amount includes post-employment benefits in favour of these executives for €547 thousand, consisting of: the annual periodic contribution to the insurance arranged as a supplementary pension; premiums payable for a collective life assurance policy carrying social provision benefits to cover retirement, death and permanent disability; and the Group's contributions to defined contribution plans.

This figure does not include the €562 thousand of per diems paid to senior management executives in the course of 2014 or the €1,562 thousand corresponding to the value of shares given to senior management after the expiration on 31 December 2013 of the first period of the medium-term variable remuneration plan approved on 28 April 2011.

(***) Included in this amount is the remuneration received by Vicente Olmos Ibáñez as Head of the Internal Audit Department until 30 April 2014 and, from the date, by Arantza Tellería de la Fuente.



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

Name or corporate name of director	Name or corporate name of significant shareholder	Position
JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	MANAGING DIRECTOR
JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF BANCA MARCH, S.A. AND MEMBER OF ITS DELEGATE COMMITTEE
JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DEPUTY CHAIRMAN OF ARTÁ CAPITAL S.G.E.C.R., S.A.
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF BANCA MARCH, S.A.
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF ARTÁ CAPITAL S.G.E.C.R., S.A.
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF ARTÁ PARTNERS, S.A.
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF ALBA PARTICIPACIONES, S.A.
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR OF DEYÁ CAPITAL, S.C.R., S.A.

List, if appropriate, any relevant relationships, other than those included under the previous heading, 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
JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	MEMBER OF THE COORDINATION COMMITTEE OF CORPORACIÓN FINANCIERA ALBA, S.A.

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

Yes
 No



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

The procedures for the appointment, re-election, assessment and removal of Directors applied by the Company in 2014 are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 10, 18, 20 and 21 of the Board of Directors Regulations in force at 31 December 2014.

1. Appointment.

1. A. Responsibility.

The number of Company Directors shall be established at the ordinary General Shareholders' Meeting, and shall be within the maximum (15) and minimum (9) set by the Company's Articles of Association as amended at 30 April 2014. The appointment of Directorships shall also be established at the ordinary General Shareholders' Meeting.

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

However, should any vacancies arise, the Board of Directors may, given its legal powers of co-option, select persons to fill these vacancies until the next General Shareholders' Meeting which, from 24 December 2014 in accordance with the new article 529 decies of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December, do not necessarily have to be shareholders of the Company. The same article states that should a vacancy arise after the General Shareholders' Meeting has been called but before it has been held, the Board of Directors may appoint a Director until the next General Shareholders' Meeting.

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, and need not be shareholders to be appointed as Director.

According to article 21 b) of the Board of Directors Regulations, independent Directors may not hold Directorships at more than four (4) companies whose shares are listed on Spanish or foreign stock markets, nor may they be re-elected for more than three (3) consecutive terms of office, pursuant to article 20(2) of the Board of Directors Regulations.

The same article 21 stipulates that executive Directors may not hold Directorships at any other listed Company.

Also, by virtue of the resolution adopted by the Board of Directors on 20 March 2012, the Appointments and Remuneration Committee is authorised to assess and report on any instances where the other professional commitments of proprietary Directors may impede their ability to efficiently carrying out their duties.

1. C. Term of office.

Directors shall hold office for four-year (4) 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 (3) consecutive terms.

1. D. Procedures.

In 2014, appointment proposals that the Board of Directors submitted to the General Shareholders' Meeting, and the resolutions on appointments by co-option adopted by the Board of Directors, were preceded by a report from the Appointments and Remuneration Committee which assigned new Directors to one of the categories envisaged in Order ECC/461/2013, of 20 March, and their impact on the structure and composition of the Board of Directors was assessed.

In addition, the Appointments and Remuneration Committee was responsible for submitting to the Board of Directors 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. The Appointments and Remuneration Committee took the appropriate steps to identify individuals with a high reputation in the world of business or academia whose expertise and track record qualify them to make a meaningful contribution for the benefit of the Company. The Committee examined the career records of prospective candidates and, as and when appropriate, proposed the appointment of the individual thought to be most suitable for appointment. The selection process actively sought out female candidates.

This procedure must be amended in 2015 to comply with the new requirements of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December.



In any event, in accordance with article 19 of the General Shareholders' Meeting Regulations and now article 197 bis of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014 of 3 December, shareholders at the General Shareholders' Meeting must take separate votes on Director appointments, ratifications and re-elections so that they may properly exercise their discretion on each individual matter.

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 of Directors 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 are 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, and in the case of proprietary Directors, any other professional obligations they have. Directors standing for re-election shall not take part in any discussions or decisions concerning their re-election.

3. Appraisal.

The Board of Directors shall annually assess the efficiency of its operation and the quality of its work on matters within its remit. The Board of Directors 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 should not propose the removal of any independent Directors before the expiry 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.



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

Yes **No**

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

Description of amendments

In accordance with article 10(3) of the Board of Directors Regulations and article 529 nonies of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December, throughout the course of 2014 the Board of Directors assessed the efficiency of its operation and the quality of its work on matters within its remit. The Board of Directors also assessed the operation of its Committees based on the reports they prepared on the performance of their tasks.

C.1.21 Indicate the cases in which Directors must 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 the Board of Directors must tender their resignation in the following circumstances:

- in cases of incompatibility or prohibition stipulated by the Company's Articles of Association and Board of Directors Regulations;
- in the case of proprietary Directors, when the shareholder whom they represent sells their entire shareholding, or in the appropriate numerical proportion to any reduction in that shareholder's stake; and
- 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 section C.1.19, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may propose the removal of independent Directors when they have failed to perform the functions of their office or they are affected by any of the circumstances that are incompatible with their status as independent Directors.



C.1.22 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. 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 Company's 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 undertake 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 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:

- 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.
- Making the Deputy Chairman, who is an independent Director, responsible for coordinating and giving voice to the concerns of external directors of the Company, in accordance with the provisions of article 13.3 of the Board of Directors Regulations.
- The small number of Directors considered Executive Directors, which at 31 December 2014 was 16.67% of the total Board, and a significant presence of independent Directors, which at that date represented 50% (or 58.33% including the Director classified as an Other External Director).
- The broad majority of independent Directors on the Executive Committee, with 75% representation.
- The significant presence and proportional representation of non-executive Directors on Board Committees, in particular the majority of independent Directors comprising the Appointments and Remuneration Committee at 31 December 2014, of 75% (or 100% including the Director classified as an Other External Director), and the Audit Committee, of 66.67%. Since its constitution, the Appointments and Remuneration Committee has been chaired by an independent Director, which is now a requirement since 1 January 2015, when article 529 quidecies of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December, became effective.



- Additional to the competencies assigned to the Chairman relating to the convening of 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 (9) 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. In addition, a Deputy Chairman who is an independent director may call upon the Chairman to convene the Board.
- Directors may request the Chairman to include items on the Agenda and the Chairman is obliged to do so when the request is made by a Deputy Chairman who is an independent Director or by at least four (4) Directors at least ten (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.
- Adoption by the Board of an annual assessment of the performance of the Chairman of the Board and the Company's chief executive. The assessment report is submitted to the Board by the Appointments and Remuneration Committee, which consists entirely of non-executive Directors, most of whom are independent. The Committee Chairman is in charge of overseeing the assessment process in accordance with article 10.3 of the Board of Directors Regulations.
- One of the Company's senior officers is a General Manager. Under the oversight of and in accordance with the directions given by the Chairman in his capacity as CEO, the General Manager has a wide executive discretion to coordinate business units and areas.

Pursuant to the entry into force of section two of the new article 529 septies of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014, of 3 December, the Board of Directors, at its meeting held 17 December 2014, appointed Manuel Olivencia Ruiz as Coordinating Lead Independent Director, empowered in particular to request a call of a Board of Directors meeting or the inclusion of new items on the agenda of a Board Meeting already convened, to coordinate and meet with non-executive Directors and to direct, as appropriate, the periodic assessment of the Chairman of the Board of Directors.

Indicate, and if necessary, explain whether rules have been established that enable any of the independent Directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of external Directors and oversee the evaluation by the Board of Directors.

Yes No

Explanation of rules

Under article 27.1 of the Company's Articles of Association and articles 10.1 and 10.2, of the Board of Directors Regulations, a Deputy Chairman who is an independent Director may call upon the Chairman to convene a meeting of the Board of Directors and include new items on the Agenda for the Board meetings.

Under article 13.3 of the Board of Directors Regulations, if the Deputy Chairman is an independent Director, he or she is competent to hear the concerns of non-executive Directors and see that they are addressed.

Article 10.3 entrusts the Chairman of the Appointments and Remuneration Committee, in his capacity as an independent Director, with overseeing performance assessment of the Chairman as in his dual role as Board Chairman and CEO of the Company.

The above notwithstanding, in accordance with article 529 septies of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014, of 3 December, since its entry into force these competencies also correspond to the Lead Independent Director .



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

Yes No

If applicable, describe the differences.

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

Yes No

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

Yes No

Matters where the Chairman has the casting vote

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 all votes put to them.

C.1.26 Indicate whether the Articles of Association or the board regulations set any age limit for Directors.

Yes No

C.1.27 Indicate whether the Articles of Association or board regulations set a limited term of office for independent Directors.

Yes No

C.1.28 Indicate whether the Articles of Association or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. 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. No upper limit is specified on the number of proxy appointments a single Director may hold. A Director appointed as a proxy need not be of the same type as the Director making the appointment.

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.

Since 24 December 2014, pursuant to the entry into force of article 529 quarter of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014, of 3 December, non-executive Directors may only grant proxies to other non-executive Directors.



C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	12
Number of board meetings held without the Chairman's attendance	0

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegated Committee	11
Number of meetings of the Audit and Compliance Committee	9
Number of meetings of the Appointments and remuneration Committee	7
Number of Markets and Systems Operating Procedures Committee meetings	12

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

Directors' attendance	7
% of attendances of the total votes cast during the year	95.83%

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

Yes No

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



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

The mechanisms established to ensure the individual and consolidated 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 directors' 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 29 April and 30 October 2014, 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 2014 were authorised for issue by the Board of Directors at its meeting on 31 July 2014 after scrutiny and review by the Audit Committee at its meeting of the same date.

Likewise, under 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 agenda includes the audit assessment preceding the issue of the Company's and the Group's financial statements and Directors' report or the release of the Company's half-year financial report.

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

Article 8.1 of the Board of Directors Regulations establishes that in the event 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 such reservations and qualifications.



C.1.33 Is the Secretary of the board also a director?

Yes
 No

C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board in plenary session.

Appointment and removal procedure

Under article 18.2.c of the Board of Directors Regulations, the Appointments and Remuneration Committee must report on compliance with the Articles of Association and the Board of Directors Regulations in the process of appointing or removing the Secretary or the Deputy Secretary to the Board of Directors. This requirement is now established in article 529 octies of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014, of 3 December.

	Yes	No
Does the Nomination Committee propose appointments?	x	
Does the Nomination Committee advise on dismissals?	x	
Do appointments have to be approved by the board in plenary session?	x	
Do dismissals have to be approved by the board in plenary session?	x	

Is the Secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes
 No

Remarks

Under article 14.2 of the Board of Directors Regulations it falls to the Secretary to the Board or, failing this, to the Deputy Secretary to ensure that the Board and its Committees comply with the law, the Articles of Association and applicable corporate governance standards.



C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

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

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 must 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.

Each year 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.

Article 31 of the Board of Directors Regulations states that, in the manner laid down by law, the Board of Directors shall publish the fees that the Company has paid to the audit firm both for audit and for 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 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 2014 the Company did not hire the services of investment banks or rating agencies.



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

Yes No

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

Yes No

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

Yes No

	Company	Group	Total
Amount of non-audit work (in thousands euros)	6	8	14
Amount of non-audit work as a % of the total amount billed by the audit firm	2.60%	3.20%	2.90%

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

Yes No

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

	Company	Group
Number of consecutive years	2	2
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	15.38%	15.38%

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

Yes No

Procedures

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 of group companies, or any expert or third party that he considers appropriate to attend the proceedings based on the matters to be discussed at the meeting. These attendees will have the right to speak but not vote".



C.1.41 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Procedures

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 (48) 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.

In accordance with the new articles 529 sexies and 529 octies of the Ley de Sociedades de Capital (the "Companies Act"), as amended by Law 31/2014, of 3 December, the Chairman of the Board of Directors, with the assistance of the Secretary, shall ensure that Directors receive sufficient information in advance to deliberate on the matters included in the items of the agenda.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging Directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes No

Details of rules

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. 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 Company's 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.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Companies Act.

Yes No

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

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



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

Number of beneficiaries	7
Type of beneficiary	
The Chairman, in connection with his executive duties, and six (6) senior executives.	
Description of the resolution	
1.- Executive Directors.	
There are no such clauses which include benefits for executive Directors except for the Chairman. With regard to the Chairman, classified as an Executive Director, at BME's Extraordinary General Shareholders' Meeting held on 5 June 2006 the following resolution was adopted:	
<p><i>"It is agreed at the General Shareholders' Meeting 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. Payment of this amount implies a non-competition duty binding the Chairman for three years with respect to companies other than the BME Group pursuing identical or similar corporate purposes or activities. If this obligation is not met, the the Chairman shall return the amount received. The Chairman will 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. (...)"</i></p>	
The terms of this resolution by the extraordinary General Shareholders' Meeting have been listed in the provision of services contract between BME and Antonio J. Zoido Martínez, dated 29 June 2007, subsequent to a report by the Appointments and Remuneration Committee and approval by the Board of Directors.	

2.- Senior management.

Three (3) senior executives have signed senior management contracts entitling them to receive compensation in the event of dismissal equivalent to forty-five (45) days' salary per year of service, thirty-six (36) months' gross salary and twenty-two (22) months' gross annual salary, respectively, except to the extent that employment law might determine higher compensation. In addition, three (3) senior executives are under ordinary employment contracts. Two of the executives are entitled to severance compensation equivalent to forty-five (45) days' salary per year of service, while the third is entitled to two (2) years' gross annual salary.

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

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	No	No
Is the General Shareholders' Meeting informed of such clauses?	YES	NO
		No

The six (6) contracts of employment for senior executives of the BME Group that contain indemnity or "golden parachute" clauses were entered into before BME shares were listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. Four (4) of these six (6) contracts were signed by Group companies other than BME itself. The indemnity clause in favour of the Chairman of the Board was adopted by the shareholders of BME at an extraordinary General Meeting.



C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent Directors.

Executive or delegate committee

Name	Position	Type
ANTONIO J. ZOIDO MARTÍNEZ	CHAIRMAN	Executive
ÁLVARO CUERVO GARCÍA	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent
MARGARITA PRAT RODRIGO	MEMBER	Independent

% of executive Directors	25.00%
% of proprietary Directors	0.00%
% of independent Directors	75.00%
% of other external Directors	0.00%

Audit committee

Name	Position	Type
MARGARITA PRAT RODRIGO	CHAIRMAN	Independent
ÁLVARO CUERVO GARCÍA	MEMBER	Independent
RAMIRO MATO GARCÍA-ANSORENA	MEMBER	Proprietary

% of executive Directors	0.00%
% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0.00%



Appointments and remuneration committee

Name	Position	Type
MANUEL OLIVENCIA RUIZ	CHAIRMAN	Independent
ÁLVARO CUERVO GARCÍA	MEMBER	Independent
CARLOS FERNÁNDEZ GONZÁLEZ	MEMBER	Other external
ROSA MARÍA GARCÍA GARCÍA	MEMBER	Independent
% of executive Directors		0.00%
% of proprietary Directors		0.00%
% of independent Directors		75.00%
% of other external Directors		25.00%

Markets and systems operating committee

Name	Position	Type
JOAN HORTALÁ I ARAU	CHAIRMAN	Executive
KAREL LANNOO	MEMBER	Independent
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	MEMBER	Proprietary
% of executive Directors		33.33%
% of proprietary Directors		33.33%
% of independent Directors		33.33%
% of other external Directors		0.00%

Rosa María García García tendered her resignation from the Board of Directors and the Appointments and Remuneration Committee on 26 January 2015.

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



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

Number of female Directors

	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE OR DELEGATE COMMITTEE	1	25.00%	1	16.67%	1	14.29%	1	14.29%
AUDIT COMMITTEE	1	33.33%	1	33.33%	1	33.33%	1	33.33%
APPOINTMENTS AND REMUNERATION COMMITTEE	1	25.00%	1	33.33%	1	33.33%	1	33.33%
MARKETS AND SYSTEMS OPERATING COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%

At 31 December 2014, the Executive Committee had membership of four (4); at 31 December 2013, there were six (6) members and at 31 December 2012 and 2011, there were seven (7).

At 31 December 2014, the Appointments and Remuneration Committee had a membership of four (4); at 31 December 2013, 2012 and 2011, there were three (3) members.

C.2.3 Indicate whether the Audit Committee is responsible for the following:

	Yes	No
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	X	
Monitoring the independence and efficacy of the internal audit function; proposing 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 verifying that senior management are acting on the findings and recommendations of its reports.	X	
Establishing and supervising 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	
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement.	X	
Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.	X	
Monitoring the independence of the external auditor.	X	



C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

The Company will submit for approval at the next ordinary General Shareholders' Meeting any amendments necessary to adapt internal regulations to the Ley de Sociedades de Capital (the "Companies Act"), as amended by Law 31/2014, of 3 December, regarding the powers of the Audit, and Appointments and Remuneration Committees, which became effective 1 January 2015.

1.- Executive Committee

At 31 December 2014, the Executive Committee was regulated by both article 34 of the Company's Articles of Association and article 16 of the Board of Directors Regulations.

1.1 Organisation and operation

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

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

- The Chairman and Secretary of the Executive Board shall be the same as for the Board of Directors and their substitution shall be approved by the Board in the event of absence, inability to attend or vacancies whereby the Chairman shall be substituted by one of the Vice Chairmen in descending order. Likewise, the Secretary shall be substituted by the Deputy Secretary of the Board of Directors and in the event of there being various Deputies, the longest standing one or the eldest shall be chosen.
- Except when higher voting majorities are required by law or under the Company's 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

At 31 December 2014, the Audit Committee was regulated by both article 35 of the Company's Articles of Association and article 17 of the Board of Directors Regulations.

2.1 Organisation and operation

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

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

- The Chairman of the Audit Committee shall be appointed by the Board of Directors from among the independent Directors and must be replaced every four (4) 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 a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but may not vote.
- The Audit Committee shall meet whenever it is convened by the Chairman or a meeting is requested by at least two (2) of its members, and at the request of the Board of Directors.
- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting by proxy. When there is a tie in voting, the Chairman, or the person standing in for him/her, shall have the casting vote.

- In order to perform its tasks the Committee may seek the assistance and collaboration of independent experts and request the attendance at its meetings of Company or group executives.
- The Audit Committee must report to the Board of Directors on its activities in the course of each year, and the Secretary will send the members of the Board of Directors a copy of the minutes of Committee meetings.

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) Propose to the Board of Directors, for presentation to the General Shareholders' Meeting, the appointment of external auditors or auditing companies, and if appropriate, the terms of their engagement, the scope of their professional remit, and the termination or renewal of their appointment, and regularly receive from them information on the audit plan and its execution, as well as to preserve their independence in the exercise of their responsibilities. The Committee should investigate the issues giving rise to the resignation of any external auditor.
- c) Supervise the Company's internal audit services which shall be answerable to the Audit Committee, reporting to the Board of Directors. 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. 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 of regulated financial information, which must be approved by the Board of Directors.
- 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, including tax 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.



- f) Maintain the relationship with external auditors in order to receive information in regard to matters which could jeopardise their independence for examination by the Committee and any other matters relating to the process of account auditing, as well as other communications provided for in account auditing legislation and in the technical auditing regulations. 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. 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 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 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; and
- 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.

Since 24 December 2014, these responsibilities are exercised in accordance with article 230 of the *Ley de Sociedades de Capital* (the "Companies Act") as amended by Law 31/2014, of 3 December.

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

At 31 December 2014, the Appointments and Remuneration Committee was regulated by both article 36 of the Company's Articles of Association and article 18 of the Board of Directors Regulations.

3.1 Organisation and operation

- The Appointments and Remuneration Committee shall comprise at least three (3) and a maximum of five (5) 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 four (4) members pursuant to the agreement adopted by the Board of Directors at its meeting on 27 February 2014.

- The Chairman shall be appointed by the Board of Directors from among its independent 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 (2) 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.



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 at 31 December 2014 consisted of reporting on the following concerns:

- a) Compliance with the legal requirements and requirements of the Company's 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 in the Board of Directors 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, re-election or removal of directors classified as independent or other external Directors for submission at the General Shareholders' Meeting, and for their provisional appointment by co-option.

In addition, every year when the annual Corporate Governance report is prepared, it will inform the Board of Directors of the independent Board members' continuous compliance with the conditions regarding their independence required under the legislation in force, the Company's Articles of Association and the Board of Directors Regulations.

- b) Compliance with the Company's 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 Company's 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.

The Appointments and Remuneration Committee is also responsible for examining and organising, 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 of the structure and policy for senior management pay and incentives, monitoring the decisions taken and criteria applied on the matter at the Group companies, report on the appointment and removal of senior executives of the Company and 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.

In addition to these responsibilities, the Appointments and Remuneration Committee also has the following powers as stipulated by the Board of Directors Regulations:

- To urge to the Board to remove an independent Director before the end of his or her term under the Company's Articles of Association if the Committee believes there are reasonable grounds for doing so (article 20.3 of the Board of Directors Regulations).
- To issue a report for the General Shareholders' Meeting to authorise a Director to take up duties as a director, representative, manager, adviser or provider of services at a business having the same, similar or related activity as that of the Company, or at a company enjoying a position of dominance or control over such business, or to carry on any such activity on his or her own account (article 21 of the Board of Directors Regulations).
- To consider and report on any circumstances in which, in the Committee's view, a proprietary Directors outside professional commitments prevent him or her from carrying out his or her duties effectively by virtue of the Board resolution of 20 March 2012.
- To submit to the Board an assessment report on the performance of the Chairman of the Board and CEO of the Company (article 10.3 of the Board of Directors Regulations).



4.- Markets and Systems Operating Procedures Committee

The Markets and Systems Operating Procedures Committee is regulated by articles 37 and 19 of the Company's Articles of Association and Board of Directors Regulations, respectively, as well as by the Regulations for the Markets and Systems Operating Procedures Committee.

4.1 Organisation and operation

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

The Markets and Systems Operating Procedures Committee currently comprises four (4) members pursuant to the 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.
- 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 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 Chairperson 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 thus the Secretary shall submit copies of the minutes of the meetings of the Markets and Systems Operating Procedures Committee to the Board of Directors and shall draft the reports and proposals as requested by the Board of Directors.

4.2 Responsibilities

The Markets and Systems Operating Procedures Committee has the following duties and powers, as directed 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 of the procedures established so that normal market conditions and the principle of equal treatment are applied to the transactions, operations and actions which the Company, its Directors or shareholders with significant and stable capital shareholdings perform as issuers, clients or users in the markets and systems managed by Group companies.
- c) To be cognisant of 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.



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

Regulations governing the composition and operations of Board committees are detailed in the Company's Articles of Association and Board of Directors Regulations, and are available on the Company's corporate website www.bolsasymercados.es.

In addition to the regulations contained in the Company's Articles of Association and the Board of Directors Regulations, this Committee has drawn up its own Regulations – also available on the website – which were approved by the Board at its meeting on 25 January 2007.

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 2014 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 BME's corporate website.

C.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of Directors.

Yes No

If the answer is no, explain the composition of the Executive or Delegate Committee

See section C.2.1.



D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

Competent body

The Board of Directors.

Procedures

Article 28 of the Board of Directors Regulations provides that transactions or dealings concluded by Directors, significant shareholders or their related parties on markets or using systems managed by Group companies must be authorised by the Board in full. These transactions do not require prior authorisation nor need be reported if they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.

Explain if the authority to approve related-party transactions has been delegated to another body or person.

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

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

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

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

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



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

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

Since 24 December 2014, the general duties of diligence and loyalty, including the duty to avoid conflicts of interest, are regulated by articles 225 to 230 of the *Ley de Sociedades de Capital* (the "Companies Act"), as amended by Law 31/2014, of 3 December.

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 refer 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. Proprietary 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 C.2.4 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.

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

Otherwise, as stated above in section D.1., such operations or activities must be authorised by the Board 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 companies 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 affected 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 (5) days of the moment it becomes known and notification must be given before any decision or measure is taken which may be affected by the existence of this conflict of interests. Individuals affected must keep the information they supply up to date, giving notice of the termination of or any change in the situation of conflict and the emergence of new situations of this type.

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

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

In this regard, article 28 of the Board of Directors Regulations stipulates that transactions, operations or actions undertaken by Directors and significant shareholders and/or their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties. Otherwise, such operations or activities must be authorised by the Board in full.

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

Yes No

Identify the listed subsidiaries in Spain



E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company

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

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

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 on 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 to the nature of each specific risk, the following lines of action are carried on in parallel:

- Business risks are managed on a decentralised basis; each business unit or corporate area is autonomous, and 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.

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.

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

All 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 IRMS Assessment Report. Once approved by the Risk Committee, this report is distributed to the members of the Coordination Committee and the Director of the Internal Audit Department, and its conclusions are explained by the General Director, in his capacity as Chairman of the Risk Committee, each six months to BME's Board of Directors.

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

1. BME Group companies that manage securities registration, clearing and settlement systems, Spanish official secondary markets and multilateral trading systems are governed by European Union law and the Securities Market Act and its implementing provisions.
2. In accordance with this legal framework, BME's financial statements and those of most of its Group companies are verified by an external auditor. Likewise, as required by the laws and regulations governing each market, multilateral trading system, central counterparty clearinghouse, and registration, clearing and settlement system, in addition to their audit report the external auditors must 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. The Company has a Regulatory Compliance Department that operates independently from the Company's executive officers and bodies, reporting to the Audit Committee. Its role is to ensure compliance with the laws and regulations applicable to the Group's activities and to support the Audit Committee in the oversight of the related regulatory compliance risk.
 5. In order to establish common control systems there are regulations governing the different business units and corporate areas which regulate basic matters including:
 - a. Financial and accounting matters. The financial reporting process is subject to an internal control system (ICFR) which has been reviewed and documented in accordance with BME's IRMS methodology. This will enable it to comply with the new regulatory requirements aimed at improving the transparency of listed companies' reports to the market. These include:
 - i. A Procedures Manual for subprocesses containing a description of the operations, identification of the main risks and controls in place to mitigate them, valuation rules and accounting recognition criteria for the activities and transactions that could have a material impact on financial reporting.
 - ii. Corporate Accounting Plan.
 - iii. Annual Calendar for financial and accounting information.
 - iv. Corporate Order Management and Follow-up procedures.
 - b. Information to 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. This area constantly strives to meet the most demanding standards and the sector's best practices. To this end it has:
 - i. An Information Security Management System (SGSI in Spanish) in accordance with ISO/IEC 27001, which includes policies, procedures and organisational structures to ensure that the BME Group's assets are efficiently and suitably protected.
 - ii. A Comprehensive Security Policy for each and every company belonging to the Bolsas y Mercados Españoles Group, in which security applies to protection against any type of risk that could jeopardise the interests of BME, as well as the people, processes, information, facilities, etc. under their responsibility as set out in the Logical Security Policy, the Business Continuity Policy and the Physical Security Policy.
 - iii. A Risk Committee, which reports to the Coordination Committee, comprising senior managers from the various corporate areas in charge of monitoring and analysing the risks arising from the various activities carried on by the Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas. Head of Compliance and Audit, as well as the Head of Security, may attend, but not vote at, the Risk Committee meetings.
 - iv. A Security Committee, reporting to the General Manager, in charge of defining and applying the BME Group's Security Policy on information security, through the Head of Logical Security, who is responsible for implementing, operating and maintaining the SGSI in accordance with the guidelines issued by the Security Committee, and on IT systems, through the Head of Physical Security, who is in charge of safeguarding the physical infrastructures.
 - v. A Joint Business Continuity and Contingency team specifically designed to meet the information and trading needs, the breakdown and settlement of securities and transparency to customers which does not affect its structure or make the contingency operations difficult.
 - vi. Policy on handling sensitive documentation for the entire Group, which governs the handling of sensitive documentation to reduce risks of unrestricted physical or electronic access to information at Bolsas y Mercados Españoles.



6. The Company is a participant 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). CECON initiatives include the creation of the 'CONTINUAM' business continuity institute. The Company, through BME Innova, is a founding partner of the institute, together with AENOR and leading players in the financial sector. The mission of CONTINUAM is to create, disseminate and promote a holistic business continuity culture at all levels of society, with the help of leaders from the various sectors.
7. The Board of Directors approved the Company's Internal Regulations of Conduct which apply to all members of the Boards of Directors and employees of all Group companies, and establish the duties they are liable to perform in the area of confidentiality and integrity, developed by the Board of Directors through the approval of the "Guidelines on the processing and transfer of inside 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. On 30 September 2010, BME embraced the Code of Best Tax Practices, and in monitoring the recommendations included in this Code, on 22 March 2011, the Board of Directors approved the "Policies and guidelines on tax matters", based on a report by the Audit Committee, which receives information regularly from the General Manager regarding the application of the Group's tax policies.
9. In 2012 and at the proposal of BME's Audit Committee, the Board of Directors approved establishing a Crime Prevention System which, among other issues, included a Code of Conduct that comprises the ethical principles and conduct to which all BME Group directors, legal representatives, managers and employees must adhere. A complaints channel is in place to enable employees to blow the whistle on improper or illegal activities that might pose a risk to the Company.
10. Liquidity management is standard throughout the BME Group and the criteria established by the Company's Board of Directors – having taken account of a prior report from the Audit Committee – are followed. Within those bounds, in order to comply with applicable laws and regulations, in 2014 Group companies were able to prioritise investment in assets offering higher liquidity as opposed to returns. In this respect, the latest amendment to criteria for investing the Group's liquidity, approved by the Board of Directors at its meeting held 17 December 2014, sets out the criteria for investing the minimum own funds of BME Clearing, S.A.U. to cover the types defined in Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, on over-the-counter (OTC) derivatives, central counterparties and trade repositories, and its implementing provisions. The conditions under which the Company should effect the purchase of assets, the terms of these operations 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.

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



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

Board of Directors and Executive Committee

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

The general functions of the Board of Directors, which are set out in article 7 of the Board of Directors Regulations, include identifying the Company's main risks and supervising the efficiency of its internal control systems, risk management systems and internal audit systems.

In addition to the responsibilities delegated to it by the Board of Directors, except for those that cannot be delegated in accordance with prevailing legislation, the Executive Committee is responsible for the continuous monitoring and supervision of the administration and day-to-day management of the Company, and ensures that there is adequate coordination among Group companies for their mutual benefit and that of the Company.

Audit Committee

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.

Pursuant to articles 35 of the Company's Articles of Association and 17 of the Board of Directors Regulations, the Audit Committee shall have the following responsibilities:

- To supervise the Company's internal audit services. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports.

- The Company has in place a communication procedure regarding deficiencies in the risk control and management systems which are directly supervised by the Audit Committee.
- As set out in the Company's Articles of Association and the Board of Directors Regulations described in section C.2.4. above, the Audit Committee must also supervise the effectiveness of the Company's internal control and risk control systems, including tax risks, which shall be reviewed by the Committee at least once a year to ensure that the main risks are adequately identified, managed and reported. The Audit Committee is the body in charge of discussions with the auditors or, as the case may be, experts appointed for that purpose, regarding any significant weaknesses detected in the auditing process.

Markets and Systems Operating Procedures Committee

Pursuant to article 37 of the Company's Articles of Association, article 19 of the Board of Directors Regulations, and article 7 of the Regulations of the Markets and Systems Operating Committee, said Committee shall have the following functions:

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



Coordination Committee and Risk Committee

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

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

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

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

Security Committee

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

E.3 Indicate the main risks which may prevent the company from achieving its targets.

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

Operational risks: The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks can be classified according to whether they affect the BME group as a whole or whether they apply exclusively to one of its business areas.

Operational risks affecting all BME business groups and areas include:

- **Risk of fraud:** The risk of action being committed to circumvent the law, causing damage to third parties or to the Group itself.
- **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: La Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) is Spain's central securities depository, governed by article 44 bis of the Securities Market Act, 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 MAB (Mercado Alternativo Bursátil).

These responsibilities mean that IBERCLEAR is responsible for fulfilling specific regulations applicable to the upkeep of book entries of securities admitted to trading on the system and ensuring the settlement of market transactions concluded over systems subject to two of the main governing principles of the Settlement System: the multilaterality and the guaranteed delivery vs. payment principles.

- **Depository risk.** Incorrect balances being fed into the system vs. balances issued, dual entries, incorrect balances in third-party accounts etc. and 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 a request or payment from 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 and buyback.

Unlike securities trading on organised exchanges, public debt and fixed income transactions over the CADE platform are bilateral: if either party defaults, no settlement occurs.

Market risks: These are the current or potential risk 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 BME Clearing:** In its role as the central clearing house, the risk accepted by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk attaching to the collateral called in from and paid by clearing members with respect to that risk.
- **Risk deriving from non-payment of invoices or fees.**

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



E.4 Identify if the company has a risk tolerance level.

As set out in section E.1, BME, whether directly or indirectly, is ultimately the sole shareholder of the companies managing securities registration, clearing and settlement systems, central clearing houses, multilateral trading systems and secondary markets in Spain.

BME's 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 obtaining greater efficiency and 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).

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

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

In accordance with the IRMS methodology discussed earlier, the Risk Committee considers and determines the risk tolerance level to be managed by each corporate area, having regard to the levels prescribed by the regulations specifically applicable to each given Group company.

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

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

E.5 Identify any risks which have occurred during the year.

Of the risks covered by the system, as mentioned in E.3 above, of particular note is IT risk.

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

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

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

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

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



E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

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.*

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

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

The communications network providing access points for participants offer double connections with the primary DPC and the back-up centre which are contracted for with different providers. Procedures and agreements are in place with the main communications service providers to ensure lines from the primary DPC to the back-up centre can be switched in a transparent manner for all entities.

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

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

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 a request or payment from 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 and buyback.*

As mentioned in section E.2, unlike securities trading on organised exchanges, public debt and fixed income transactions over the CADE platform are bilateral: if either party defaults, no settlement occurs.



IBERCLEAR has measures in place to remedy non-settlement incidents on SCLV and imposes penalties on entities that fail to settle securities or cash amounts when due.

The procedures used to manage defaults are as follows:

Failure to deliver securities: centralised securities lending and buyback procedure.

Failure to deliver cash: IBERCLEAR provides Bank of Spain with a comfort letter, in which a financial institution undertakes to pay sufficient cash (up to the maximum amount stipulated in the letter) in the event of failure by an IBERCLEAR participant to meet its payment obligations. If the comfort letter must be enforced, in the last instance funds will be replenished by debiting them from the collateral deposited by the defaulting participant.

IBERCLEAR may resort to the collateral that participants are required to deposit to ensure settlements are correctly completed, pursuant to Chapter IV of Royal Decree 116/1992.

Participants are required to constitute collective collateral to ensure their fulfilment with the obligations deriving from their participation in settlements and the obligations resulting from the mechanisms IBERCLEAR uses to ensure securities and cash are delivered on the settlement date.

The part of the collective collateral to be provided and maintained by each participant shall be used, with no limit, to guarantee compliance with obligations undertaken by them in settlement. Every day, the exposure of each entity is therefore evaluated and, if necessary, additional collateral is requested.

The collateral of each participating must be sufficient to cover, by way of surety, the obligations of other members.

If a participant should fail to fulfil all or part of a settlement, IBERCLEAR shall execute the part of the collateral necessary to cover the amount of the deficit. If the collateral is insufficient, IBERCLEAR shall apply the part of the collateral of the others, prorated by each collateral amount.

Meanwhile, liquid net assets funded by equity are fully separated from resources provided as collateral by infrastructure participants in the accounting process and in the settlement and deposit accounts. This separation is audited by an external firm every six and 12 months. Pursuant to prevailing legislation, MEFF submits the monthly financial statements of each infrastructure to the CNMV, indicating this separation.

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

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

Therefore, under the applicable EMIR rules, the entity has a risk-management framework comprising risk management policies, procedures, and systems that enable it to identify, measure, monitor and manage risks to which it is/may be exposed. In addition, a consultative Risk Committee advises the Board on all matters that might impinge on the central clearinghouse's risk management.

The central clearinghouse risk management framework encompasses: margin requirements and how margins are to be enforced; topping up the default fund in the face of defaults; review of models relied on, stress tests, back testing; control of liquidity risk; and the procedure to be followed in events of default.



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

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

Industry risk: *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.*

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

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

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

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

The Board, through the Audit Committee, is responsible for ensuring that the BME Group's internal control and risk management systems are efficient, in accordance with articles 7.4 and 17 of the Board of Directors Regulations, which state that *"the internal control and risk management systems shall be supervised by the Committee. 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 is supported in its role of supervising the IRMS by the BME Group Internal Audit Department. Thus, the regulations for the BME Group Internal Audit state that, among its functions, the Internal Audit department shall: *"...oversee the proper functioning of the internal control and risk management systems, and keep the Board, Audit Committee and senior management of BME informed, through the Risk Committee, on the adequacy and effectiveness of the procedures, norms, policies and instructions established by Group companies to ensure the proper functioning of these systems"*.



F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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

F.1 The entity's control environment

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

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

As stipulated in articles 25 of the Company's 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. The BME Group has defined an Integrated Risk Management System (IRMS), into which it incorporated the Internal Control over Financial Reporting (ICFR) system, after the ICFR system was approved by the Risk Committee.

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

The Board, through the Audit Committee, is responsible for ensuring that the BME Group's internal control and risk management systems, which include supervising the IRMS (comprising the ICFR), are efficient as per 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, 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 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 with respect to the achievement of goals related to:*

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

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

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

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

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, its executive members and the 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 companies of the Group. With this framework, the BME Group endeavours to guarantee, among other aspects, that the established organisational structure offers a consistent ICFR model.

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

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

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

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

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

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



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

This Committee reports to the 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, approved by the Risk Committee at its meeting on 13 February 2012, which applies to all BME Group employees.

The declaration of ethical values establishes the rules of conduct to which all employees must adhere and the ethical principles related to the preparation of financial information, 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.*
- *Completeness: 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 judgement, and shall ensure that the criteria are 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 reporting 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 the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

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.

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, possible irregularities detected 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 2014, 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 relating to:
 - Main tax developments:
 - Law 16/2013, of 29 October, establishing specific measures on environmental taxation, and adopting other tax and financial measures;
 - RD 828/2013 amending the VAT regime; and
 - Law 14/2013, of 27 September, on support for entrepreneurs and their internationalisation- special cash regime.

– Accounting developments:

- ICAC resolution on impairment of assets;
- ICAC resolution on companies in liquidation; and
- IFRS 13.

– Developments in actuarial matters:

- First-time application of IAS 19 (revised) and the main developments of IAS 19 (revised), and updates on the issue of the discount rate (position of the IFRIC, ESMA, etc.).

– New requirements of environmental and social disclosures by listed companies:

- Until now, environmental and social disclosures were voluntary and reported in sustainability reports. However, recent trends point to the inclusion of this type of information in financial and/or management reporting;

- Guidelines for the preparation of management reports of listed companies issued by the CNMV.

- Markets and Financial Assets: Training in the BME Group's markets, assets and business areas.

- IT: Training on developing and perfecting new technologies.

Training actions are aimed at all BME Group employees. In 2014, Group employees received a total of 13,912.5 hours of training. 634 hours of training were provided in the Financial and Internal Audit Departments.



F.2 Risk assessment in financial reporting

Report at least:

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

- **The process exists and is documented.**

The 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.

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

- **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 Group is the affected party.

- c) Valuation: Transactions, facts and other events are recorded and valued in accordance with applicable standards.
- d) Presentation, disclosure, and comparability: Transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards.
- e) Rights and obligations: Financial information shows, at the corresponding date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards.

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

- 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.

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

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

- a) the significant influence, if applicable, the Company, individually or in conjunction with the rest of the BME Group companies, has over the company 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.



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 Board is responsible for: *“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 of Directors 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 2014 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.
- Tax risk.
- IT risk.
- Credit or counterparty risk.
- Inherent risk in the securities settlement system.

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

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

The Board 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 approved on 30 October 2013, one of the Department’s missions is to: *“(…) assist BME’s Audit Committee and the respective Audit Committees of the companies listed in Appendix II -BME Clearing, S.A.U. and MEFF Euroservices, S.V., S.A.U.- in the effective monitoring of the Internal Control and Risk Management System, by exercising an independent function in line with regulations and professional standards of quality, which help good Corporate Governance and reduce to acceptable levels the possible impact of the risks on the achievement of the Company’s objectives. (…)”*.



F.3 Control activities

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

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations 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 the 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, which are described in detail in the corresponding financial statements. These estimates are made according to the best available information at the date on which the financial statements are prepared, using generally accepted methods and techniques and data, and observable and contrasted assumptions. In the current year, the following 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 variable remuneration schemes relating to BME shares.

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

In 2014, the Board, through the Audit Committee, had 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.*

(...)”

Following the entry into force of Law 31/2014, of 3 December, amending the *Ley de Sociedades de Capital* (the “Companies Act”), specifically article 529 ter, from 2015, the Board of Directors shall approve, subject to a favourable report by the Audit Committee, the financial information which, as a listed company, the Company must disclose periodically.

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.



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.

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

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

Specifically policies have been established in relation to:

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 unit in question are responsible for defining the requirements and final validation tests before any system is rolled out. The rest of the duties fall to different persons within the IT area:

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

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

Management of changes: the BME Group has established mechanisms and policies 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.



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

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, insofar 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 relevant BME Group company, clearly indicating the service to be provided and the means to be used to provide these services. According to the nature or an assessment of the risks identified, the department responsible for subcontracting/outsourcing shall notify suppliers that the service provision contract 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, the Group has in place a system to assess the competence, ability, credentials and independence of all independent experts, prior to their selection. When monitoring this appraisal, BME verifies the reasonableness of the assumptions used by the expert, as well as the completeness of the data and the methods used.

F.4 Information and communication

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

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

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

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.



F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The 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.

F.5 Monitoring

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

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

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 remit of the Audit Committee includes the following duty, pursuant to article 35 of the Company's Articles of Association:

"To supervise the Company's internal audit services which shall be answerable to the Audit Committee, reporting to the Board of Directors."

This power is developed in article 17.2.c) of the Board of Directors Regulations, which textually states:

"To 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 efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the arrangements whereby Company personnel may anonymously report any irregularity in the internal control and risk management systems"

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



- Review of processes and activities: arising from 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.

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

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

In 2014, the Internal Audit Department undertook annual assessment of ICFR and followed up the extent of response to the recommendations given after the previous year's review. With this assessment, the Internal Audit Department validates the effectiveness of the controls in place, through the performance of various audit tests. These tests basically consist of testing compliance in processes and/or risks classified as having a critical impact, and self-assessment questionnaires or specific tests of the existence thereof and their application for the controls in place for risks that have not been deemed to have a critical impact, or controls of a general nature.

Lastly, in 2014, the Internal Audit Department presented the BME Internal Audit Department's 2015 Activities Plan to the Audit Committee. The plan focuses on ongoing improvement in the IRMS through suggestions and proposals by the Risk Committee and, mainly, on reviewing those business processes for which ICFR assessment is mandatory under specifically applicable regulations, to assess its functioning and validate its effectiveness.

F.5.2. 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.

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 (9) occasions in 2014. The external auditors were called to the meetings of the Audit Committee at which the financial information of both BME and its Group companies was reviewed.



F.6 Other relevant information

F.7 External auditor review

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

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.



G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

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

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

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

See section: A.10, B.1, B.2, C.1.23 and C.1.24.

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 section: D.4 and D.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.

See section: B.6

Complies Partially complies Explain

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, 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 Articles of Association, with votes taken on all articles or groups of articles that are materially different.

Complies Partially compliant Explain

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

Complies 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 Partially compliant 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 section: C.1.14, C.1.16 and E.2



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.**
- ii) Directors' remuneration, and, in the case of executive Directors, the additional remuneration for their executive functions and other contract conditions.**
- 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;**
- iv) 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) Transactions which the company conducts with Directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

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 full board.

See section: D.1 and D.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.

See section: C.1.2

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 section: A.3 and C.1.3.

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

11. 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 section: A.2, A.3 and C.1.3

Complies **Explain**

As a result of the disposal of shareholdings in the Company by certain shareholders with representation on the Board of Directors in recent years, the Company does not comply with this recommendation. Moreover, none of the attenuating circumstances regarding the strict proportional criterion included therein are applicable to it.

BME considers that despite the lack of proportionality in the Board of Directors, the structure of the Board of Directors at 31 December 2014 ensured that independent Directors had sufficient representation and sufficiently represented the interests of non-controlling shareholders, without significant shareholders exercised a disproportionate influence over the Board of Directors, which is the objective pursued by this recommendation of the Unified Code of Good Governance.

The same assertion may be made after independent Director Rosa María García García stood down as member of the Board of Directors on 26 January 2015.



In this respect, at 31 December 2014, the Board of Directors featured the following characteristics:

- significant presence of independent Directors (50% of the entire Board of Directors and 60% of external Directors), in addition to the presence of an otheranother external Director, which would increase the percentage of “non-proprietary” Directors to 58.33% of the Board of Directors and 70% of the external Directors. From the aforementioned resignation of Ms. García García, the Board of Directors still shows a high level of independence, with independent Directors accounting for 45.45% of the entire Board and 55.56% of external Directors, of 54.55% and 66.67%, respectively, including the director classified as other external Director;
- the increase throughout 2014 of independent and “other external” Directors compared to proprietary Directors. To illustrate, independent Directors represented 41.67% of external Directors at 31 December 2013, but 60% at 31 December 2014 (or 70% including the “other external” Director). Even although the resignation of Ms. García García affected these percentages, the percentage of independent Directors among external Directors is still higher than at 31 December 2013, representing 55.56% of all external Directors or 66.67% including the other external Director, compared to 33.33% of proprietary Directors;
- the lack of significant and/or major shareholders with disproportionate representation on the Board of Directors. Two significant shareholders are represented on the Board of Directors, of which only one, which holds the largest percentage of BME’s share capital (8.28%), has insisted on the appointment of two members. As these two shareholders represented on the Board of Directors have no relationship to each other, it cannot be considered that these Directors have a position or control or a majority on the Board; and
- the high degree of independence of the Executive Committee, 75% of whose members are classified as independent Directors, with no presence of proprietary Directors.

12. The number of independent directors should represent at least one third of all board members.

See section: C.1.3

Complies **Explain**

13. 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 section: C.1.3 and C.1.8

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



14. When women Directors are few or non existent, 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 section: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Complies Partially complies Explain Not applicable

15. 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: C.1.19 and C.1.41

Complies Partially complies Explain

16. 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: C.1.22

Complies Partially complies Explain Not applicable

17. 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 Articles of Association 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 full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.

See section: C.1.3

Complies Partially complies Explain



18. 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: C.1.29

Complies Partially complies Explain

19. 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 section: C.1.28, C.1.29 and C.1.30

Complies Partially complies Explain

20. 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

21. The 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: C.1.19 and C.1.20

Complies Partially complies Explain

22. All Directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the Articles of Association or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: C.1.41

Complies Explain



23. 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: C.1.40

Complies Explain

24. 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

25. 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 section: C.1.12, C.1.13 and C.1.17

Complies Partially complies Explain

26. 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: C.1.3

Complies Partially complies Explain

27. 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



28. 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 section: A.2, A.3 and C.1.2

Complies Partially complies Explain

29. The Board of Directors should not propose the removal of independent Directors before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the board, based on a proposal from the Nomination 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 Ministerial Order ECC/461/2013.

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 11.

See section: C.1.2, C.1.9, C.1.19 and C.1.27

Complies Explain

30. 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 213 of the *Ley de Sociedades de Capital* (the "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 section: C.1.42 and C.1.43

Complies Partially complies Explain

31. 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.

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies Partially complies Explain Not applicable



32. 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: C.1.9

Complies Partially complies Explain Not applicable

33. 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.

Complies Partially complies Explain Not applicable

34. 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 Partially complies Explain

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

Complies Partially complies Explain

36. 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 Partially complies Explain



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

See section: C.2.1 and C.2.6

Complies Partially complies Explain Not applicable

BME complies with the second part of this Recommendation as the Secretary of the Board of Directors is also the Secretary of the Executive Committee, as stipulated in articles 34 of the Company's Articles of Association and article 16.2 of the Board of Directors Regulations.

Regarding the breakdown of the Executive Committee's members by director category, this is not the same as that of the Board of Directors.

Following the changes in the shareholder structure indicated in reference to Recommendation 11 and its impact on the composition of the Board of Directors and its Executive Committee, this body currently includes an ample majority of independent Directors (75% of the total) and one executive Director.

BME considers the lack of similarity between the breakdowns by director category of the Board of Directors and the Executive Committee does not pose a risk of these bodies carrying out their responsibilities using different criteria, especially considering that, despite the broad powers attributed to it, the Executive Committee's functions mainly entail providing advice and preparing Board of Director meetings, and keeping the Board of Directors informed of any exceptional resolutions adopted under the scope of its responsibilities to ensure the full coordination of the two bodies.

Moreover, the ample majority of independent Directors on the Executive Committee ensures that the interests of the Company's non-controlling shareholders are sufficiently represented, offsetting in this way the lack of proportionality between proprietary Directors and the share capital they represent on the Board of Directors, as indicated in the explanation regarding non-compliance with Recommendation 11.

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

Complies Partially complies Explain

39. 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 Appointments and remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Appointments 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 sent to all board members.**

See section: C.2.1 and C.2.4

Complies Partially complies Explain



40. 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.

See section: C.2.3 and C.2.4

Complies Explain

41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Complies Explain

42. 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.

See section: C.2.3

Complies Explain

43. 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.

Complies Partially complies Explain

44. 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;
- 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.

See section: E

Complies Partially complies Explain



45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

- a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.
- b) Monitor the independence and efficacy of the internal audit function; proposing 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.
- c) 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 of the external auditor:

- a) 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.
- b) 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 investigate the issues giving rise to the resignation of any external auditor.

See section: C.1.36, C.2.3, C.2.4 and E.2

Complies Partially complies Explain

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

Complies Explain

47. 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 section: C.2.3 and C.2.4

Complies Partially complies Explain



48. 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: C.1.38

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

49. The majority of Nomination Committee members – or Appointments and remuneration Committee members as the case may be – should be independent Directors.

See section: C.2.1

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

50. 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: C.2.4

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



51. 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

52. 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 section: C.2.4

Complies Partially complies Explain Not applicable

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

Complies Partially complies Explain



H. OTHER INFORMATION OF INTEREST

- 1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**
- 2. You may include in this section any other information, clarification or observation related to the above sections of this report.**

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

- 3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.**

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 Reports of companies adhering to said Code must include reference to the fact that these companies comply with such practices.

In 2014, in order to comply with the commitments undertaken by the Company through its adhesion to the Code of Best Tax Practices and the taxation principles to be applied by the Company approved by the Board of Directors at its meeting on 22 March 2011, the Audit Committee, at its meeting on 21 February 2014 was informed and took due note of the fiscal policies applied by the Company, before it prepared the annual financial statements.

At its meeting on 22 July 2014, the Audit Committee was informed of the fiscal policies applied by the Company before it filed its income tax return.

As a complement to sections E and F on tax-related risks, BME's risk control and management systems include the set of processes affecting the tax function, in particular those that could have an impact on the Group's financial statements. These processes are included in the Internal Control over Financial Reporting (ICFR) and, as explained in section F herein, are subject as part of the ICFR to an annual assessment to verify the effectiveness of the controls and the degree of mitigation of the risks associated with these processes. Additionally, there is a specific function in charge of updating applicable regulations, which receives regular training and refresher courses, as indicated for the ICFR in section F.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 26 February 2015.

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

Yes No