



ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

FINANCIAL YEAR END 31.12.2015

Tax I.D Number (C.I.F.) A-83.246.314

Corporate name:

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

Registered office:

Plaza de la Lealtad, 1, Madrid.



A. OWNERSHIP STRUCTURE

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

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

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

Yes No

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

The information disclosed in this section is based on the Shareholder Register which contains the transactions concluded in 2015.

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	8,838,320	10.57%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
CORPORACIÓN FINANCIERA ALBA, S.A.	ALBA PARTICIPACIONES, S.A.U.	8,838,320

At 31 December 2015 "State Street Bank and Trust CO", "Chase Nominees" and "Bank of New York Mellon" appeared in the Shareholder Register with stakes in the share capital of BME exceeding 3%. However, the Company understands that these shares are held in custody on behalf of third parties.



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

Name or corporate name of shareholder	Transaction date	Description of the transaction
CORPORACIÓN FINANCIERA ALBA, S.A.	26/11/2015	Stake rose above 10% of share capital

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

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ANTONIO J. ZOIDO MARTÍNEZ	16,582	0	0.02%
IGNACIO GARRALDA RUIZ DE VELASCO	1,000	0	0.00%
MARGARITA PRAT RODRIGO	100	0	0.00%
MANUEL OLIVENCIA RUIZ	2,000	0	0.00%
CARLOS FERNÁNDEZ GONZALEZ	200	0	0.00%
JOAN HORTALÁ I ARAU	2,828	0	0.00%
JUAN MARCH JUAN	500	0	0.00%
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-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 underlying the classification of three (3) of them as proprietary Directors. At 31 December 2015, the stake held by these shareholders was 13.18% of the share capital.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2015 stood at 13.21%.



Jorge Yzaguirre presents commemorative sculpture at ORYZON new listing at Spanish Stock Exchange



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

At 31 December 2015 the executive Directors were beneficiaries of the Pluri-Annual Variable Remuneration Programmes in Shares 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' Meetings 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.

31 December 2015 marked the end of the third and final period of the Programme's validity, whose settlement shall be undertaken in 2016. At the date of this report there is no data regarding the Total Shareholder Return and Efficiency Ratio figures for the 5 benchmarked entities necessary to confirm, as established in the aforementioned resolution of the General Shareholders' Meeting, the achievement of the targets set in the Programme and, where appropriate, the specific number of shares that would correspond to each of the beneficiaries, including the executive Directors.

The maximum number of shares that may be received by Zoido Martínez and Hortalá i Arau in 2016 through the conversion of the theoretical units corresponding to the third period of the Programme's validity, which were assigned by the Appointments and Remuneration Committee at its meeting held on 19 February 2013, are 19,567 and 2,524 respectively.

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

This programme entailed assigning a number of theoretical units to beneficiaries in 2014, 2015 and 2016, as the basis for calculating the 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 Efficiency Ratio and Total Shareholders Return compared with those of five (5) benchmarked companies, and will be calculated by dividing into two parts the number of theoretical units assigned in each financial year, 2014, 2015 and 2016, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to BME's final ranking among the benchmarked companies.

The maximum number of shares included in the Programme is 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 to Joan Hortalá i Arau, as executive Directors.

In execution of the aforementioned Programme, the Appointments and Remuneration Committee, at its meetings held on 26 June 2014 and 24 February 2015, allocated the theoretical units corresponding to the first two periods of the Programme's validity to Zoido Martínez and Hortalá i Arau. 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.

At the date of this report, the Appointments and Remuneration Committee has not adopted the resolutions relating to the allocation of the theoretical units convertible into shares corresponding to the third and final period of the Programme's validity.



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. If so, give a brief description:

Yes No

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

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

Yes No

A.8 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
195,916	0	0.23%

(*) Through:

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



A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, purchase 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 Articles of Association.

Under this proxy the Board of Directors will draft a new version of article 5 of the 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 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 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 30 April 2015, quoted below:

"(...) the Ordinary General Shareholders' Meeting has authorised the Company's Board of Directors, pursuant to article 146 of the Companies Act and related provisions, to implement the derivative acquisition of treasury shares under the terms and conditions indicated as follows:

- a) *The acquisition may be carried out either directly by the Company itself or indirectly through Group companies.*
- 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 the shares that the Company or person acting in his own name but for the company's account acquired previously and held in portfolio, does not result in the equity being reduced to below the amount of the share capital plus the statutory or bylaw restricted reserves; and,*
 - *the nominal value of the treasury shares acquired, directly or indirectly by the Company, together with those already held by the Company and the companies of its Group, does not exceed 10% of the subscribed share capital, pursuant to that established in article 509 of the Companies Act.*

- 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 may not be less than the par value or more than 20% of the market price at which the share is trading on the Spanish electronic trading platform (SIBE) at the time of the acquisition.*

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

In addition, for the purposes of paragraph two of article 146.1.a) of the Companies Act, authorisation to acquire the Company's shares has been expressly granted to any companies of its Group on the same terms under this resolution.

It is expressly placed on record that any treasury shares acquired as a result of this authorisation may be either disposed of or redeemed, or allocated to employee remuneration schemes, as set forth in the last paragraph of article 146.1.a) of the Companies Act."

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

A.9 bis. Estimated floating capital:

	%
Estimated floating capital	86.55



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

Yes No

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

Despite the absence of legal restrictions on the acquisition of a shareholding in BME, the revised text of the *Ley del Mercado del Mercado* (hereinafter, the Securities Market Act), approved by Royal Legislative Decree 4/2015, of 23 October, 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 176 of the Securities Market Law. 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 178 of the Securities Market Act restricts the exercise of this right in the event of the irregular acquisition of significant holdings, i.e. shares acquired without the express authorisation of the CNMV, under the terms described in the following section.

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

Yes No

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

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

Yes No

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



B. GENERAL SHAREHOLDERS' MEETING

B.1 Indicate, and if any, detail the quorum required to convene the General Shareholders' Meeting with respect to 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 making such amendments.

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

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

- a) The Directors or, as appropriate, the shareholders submitting the proposal, shall draft the wording of the proposed amendment in full and shall also draft a written report justifying the proposal.
- b) The notice convening the 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 corporate website in accordance with article 518 of the Companies Act.
- c) The resolution must be approved at the Shareholders' Meeting in accordance with the rules on quorum and majorities laid down in sections 194 and 201 of the Companies Act.

Article 197 bis of the Companies Act includes the requirement for separate votes on subjects that are substantially independent and, under all circumstances, amendments to the Articles of Association, with separate votes taken on each article 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 Six of the Securities Market Act, which states that amendments to its Articles of Association must be authorised by the CNMV.



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

ATTENDANCE DATA

Date of General Meeting	% attending in person	% by proxy	% REMOTE VOTING		Total
			Electronic means	Other	
30/04/2014	2.51%	37.36%	0.03%	4.53%	44.43%
30/04/2015	2.39%	39.49%	0.02%	3.12%	45.02%

For the purposes of the provisions of article 148 of the Companies Act, in the quorum necessary for the General Shareholders' Meeting held on 30 April 2014, the 337,333 treasury shares held by the Company in its portfolio at the corresponding date were included, equivalent to 0.40% of the share capital, and in the quorum necessary for the General Shareholders' Meeting held on 30 April 2015, the 263,706 treasury shares held by the Company in its portfolio at the corresponding date were included, equivalent to 0.32% of the share capital.

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

Yes No

B.6 Section revoked.

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

In the "Information for shareholders and investors" section of the address of the corporate website **www.bolsasmercados.es**.



C. STRUCTURE OF COMPANY ADMINISTRATION

C.1 Board of Directors.

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

Maximum number of directors	15
Minimum number of directors	9

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

Name or corporate name of Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
ANTONIO J. ZOIDO MARTÍNEZ	-	EXECUTIVE	CHAIRMAN	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
IGNACIO GARRALDA RUIZ DE VELASCO	-	INDEPENDENT	FIRST DEPUTY CHAIRMAN	27/02/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MARGARITA PRAT RODRIGO	-	INDEPENDENT	SECOND DEPUTY CHAIRWOMAN	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MANUEL OLIVENCIA RUIZ	-	INDEPENDENT	INDEPENDENT LEAD DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
ÁLVARO CUERVO GARCÍA	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
CARLOS FERNÁNDEZ GONZÁLEZ	-	OTHER EXTERNAL DIRECTOR	DIRECTOR	25/03/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JOAN HORTALÁ I ARAU	-	EXECUTIVE	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
KAREL LANNOO	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JUAN MARCH JUAN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
SANTOS MARTINEZ-CONDE GUTIÉRREZ-BARQUÍN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
RAMIRO MATO GARCÍA-ANSORENA	-	PROPRIETARY	DIRECTOR	15/02/2002	30/04/2013	GENERAL SHAREHOLDERS' MEETING RESOLUTION
Total number of Directors						11



Indicate any Board members who left during the reporting period:

Name or corporate name of Director	Category of the director at the termination date	Leaving date
ROSA MARÍA GARCÍA GARCÍA	INDEPENDENT	26/01/2015

External proprietary directors

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

Total number of proprietary Directors	3
% of the board	27.27%

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

Executive directors

Name or corporate name of director	Position held in the company
ANTONIO J. ZOIDO MARTÍNEZ	Chairman
JOAN HORTALÁ I ARAU	Director

Total number of executive Directors	2
% of the board	18.18%



External independent directors

Name or corporate name of director

IGNACIO GARRALDA RUIZ DE VELASCO

PROFILE

Graduated in Law 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 has been Second Deputy Chairman from 2005 to 2008.

Also, since 2015 he holds the position of Director qualified as external independent of "ENDESA" and since 2013 is Director of "Faes Farma, S.A." and "Consortio de Compensación de Seguros", Deputy Chairman 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

Graduated 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. Obtained a PhD in Economics and Business in 1989. From 1989 onwards, several of her works and articles have been published.

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.

She was Director of Internal Audit of Madrid's Universidad Pontificia Comillas from 2004 to 2012.

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

She is member of the Spanish Institute of Internal Auditors, in which she has been Chairman of the Audit Committee until September 2014. Likewise, she is member of the executive committee of the Spanish Institute of Financial Analysts.

Name or corporate name of director

MANUEL OLIVENCIA RUIZ

PROFILE

Graduated in Law, winning the Extraordinary Graduation Prize, from Sevilla's Faculty (1951). PhD in Law from Bologna University (1953) and a prolific author of scientific material. He has been decorated with four Great Crosses (the Isabel la Católica, Alfonso X el Sabio, San Raimundo de Peñafort and Military Merit crosses).

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

Since 1960, professor of Commercial Law at Sevilla 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

Emeritus 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.

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



External independent directors

Name or corporate name of director	
D. KAREL LANNOO	
PROFILE	
Karel Lannoo is the principal executive of CEPS, with headquarters in Brussels. CEPS is one of the more important independent "think tanks" of Europe, leader for the quality of his analysis in topics of economic and financial politics.	
Lannoo is expert in regulation of the financial markets, bank supervision and economic politics. It has published on these topics several books (`The Great Financial Plumbing, From Northern Rock to Banking Union`, Roman & Littlefield, 2015`, is the last), reports and numerous articles in press. Likewise, Mr. Lannoo has participated in studies and hearings to national and international institutions	
Graduate in Philosophy and Máster in History for Leuven's University, Belgium, Lannoo possesses in addition a postgraduate in European Studies for Nancy's University, France.	
He is Director of Lannoo Publishing Group. Mr. Lannoo directs also other two centers of studies, ECMI and ECRI, dedicated respectively the capital markets and the credit in Europe. In addition he is member of Steering Committee of the European Money Markets Institute (EMMI) that manages the Euribor and member of the board of trustees of the Carlos de Amberes Foundation.	
Total number of independent Directors	5
% of the board	45,45%

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

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

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
D. CARLOS FERNÁNDEZ GONZÁLEZ	He is Chairman of Mediación Bursátil, S.V., S.A., which owns a holding of less than 1% of BME's share capital.	MEDIACIÓN BURSÁTIL, S.V., S.A. Y SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.
	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 of the Bolsa de Madrid, for which he receives remuneration.	

Total number of other external directors	1
total % of the board	9.09%



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

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

	Number of female directors				% of total directors of each type			
	2015	2014	2013	2012	2015	2014	2013	2012
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	1	2	2	2	20.00%	33.33%	40.00%	40.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	1	2	2	2	9.09%	16.67%	14.29%	14.29%

On 31 December 2015, the Board of Directors was made up of 11 Directors. There were 12 Directors on 31 December 2014, and 14 on 31 December 2013 and 2012.

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

Explanation of measures

In accordance with that established in section 3.b) of article 529 quincecies of the Companies Act, the Appointments and Remuneration Committee, at its meeting held on 23 December 2015, agreed to set the representation target for the gender less well represented on the Board at 30% of the total number of Directors and, in order to achieve this percentage, it agreed that for each vacancy for an independent Director that needs to be filled, the curriculums vitae to be considered by the Appointments and Remuneration Committee will be at least 50% women.

In this regard, it must be recalled that almost all appointment proposals for independent Directors put forward by the Appointments and Remuneration Committee, since the listing of its shares for trading on the Stock Exchanges, have been women.

Moreover, with regards 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.



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

Explanation of measures

As has been indicated in section C.1.5 above, the Appointments and Remuneration Committee, at its meeting held on 23 December 2015, agreed to set the representation target for the gender less well represented on the Board at 30% of the total number of Directors and agreed that for each vacancy for an independent Director that needs to be filled, the curriculums vitae to be considered by the Appointments and Remuneration Committee will be at least 50% women.

Notwithstanding the foregoing, 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 for independent Directors, recommended that *“female candidates must not be discriminated against in these processes”*.

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

Explanation of the reasons

As indicated in sections C.1.5 and C.1.6 above, within the scope of its duty to propose the appointment of independent Directors, the Appointments and Remuneration Committee has actively sought female candidates to fill vacancies for this category of Directors arising since the Company's shares were first listed on stock exchanges, also ensuring that the Director selection processes do not discriminate due to gender diversity.

As to other Director categories, 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.1.6 bis Explain the conclusions of the Appointments Committee on the verification of compliance with the directors' selection policy. And in particular, how this policy is promoting the objective that in 2020 the number of female directors represents at least 30% of total Board members.

At its meeting dated 26 November 2014, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, approved the medium and long-term Planning for the structure and composition of the Board of Directors (hereinafter, “Medium and long-term Planning for the Board of Directors”), planning which included, among other matters, the requirements that the Company considers essential for anyone being considered for the post of Director.

This Planning has been developed throughout 2015 by the Appointments and Remuneration Committee for the purposes of incorporating the representation target for the gender less well represented on the Board and the measures adopted by the Committee to achieve this, under the terms outlined in section C.1.5.

In 2015 the only resolutions adopted by the Appointments and Remuneration Committee and the Board of Directors in matters of the composition of the Board of Directors, was the raising, to the Ordinary General Shareholders' Meeting, of the ratifications as Directors of Juan March Juan and Santos Martínez-Conde y Gutiérrez-Barquín, qualified as proprietary directors. With regards to these ratifications, within the scope of its powers, the Appointments and Remuneration Committee reported favourably its ratification, subject to prior verification of compliance by both with the requirements established for proprietary Directors in the medium and long-term Planning for the Board of Directors.

The Appointments and Remuneration Committee is in the process of identifying the possible candidates to fill the vacancy on the Board of Directors as a result of the resignation submitted by Rosa María García García, a process in which the aforementioned medium and long-term Planning for the Board of Directors is being followed, and in which there will be considered the target for representation of the gender less well represented on the Board set by the Appointments and Remuneration Committee and the measures described in sections C.1.5 and C.1.6 above.



C.1.7 Explain the form of representation on the board of shareholders with significant holdings.

At 31 December 2015, the Company's sole significant shareholder was represented on the Board by two (2) 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 3% of the share capital:

Name or corporate name of shareholder

BNP PARIBAS, SOCIÉTÉ ANONYME

REASON

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

Indicate whether there has been no answer to formal requests for presence on the board received 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 such requests have not been satisfied:

Yes No

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

Name of director

ROSA MARÍA GARCÍA GARCÍA

Reasons for resignation

She offered her resignation in writing on 26 January 2015 due to professional reasons unrelated to the Company, which did not enable her to appropriately perform her role as Director of it.



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

The Company has no Managing Director.

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

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

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	Position	Does he/she have executive functions?
ANTONIO J. ZOIDO MARTÍNEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	CHAIRMAN	YES
ANTONIO J. ZOIDO MARTÍNEZ	SOCIEDAD DE BOLSAS, S.A.	CHAIRMAN	YES
CARLOS FERNÁNDEZ GONZÁLEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	DIRECTOR	NO
JOAN HORTALÁ I ARAU	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BARCELONA, S.A.U.	CHAIRMAN	YES
JOAN HORTALÁ I ARAU	SOCIEDAD DE BOLSAS, S.A.	VICE-CHAIRMAN	NO

C.1.12 Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Name or corporate name of director	Name of listed company	Position
IGNACIO GARRALDA RUIZ DE VELASCO	FAES FARMA, S.A.	DIRECTOR
IGNACIO GARRALDA RUIZ DE VELASCO	ENDESA, 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 Board of Directors' regulations have established rules regarding the maximum number of boards on which its directors can sit:

Yes No

Explanation of Rules

Article 23 of the Board of Directors' Regulations, following the amendment of its wording by agreement of this body at its meeting held on 23 December 2015, establishes that the Company's non-executive Directors may not hold directorships in more than four (4) companies whose shares are listed for trading on domestic or foreign stock exchanges. They will be considered one role the directorships held in companies belonging to the same Group and those held in representation of the same significant shareholder they represent in the Company.

Executive Directors may not hold directorships at any listed company.

C.1.14 Section revoked.

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

Board remuneration (thousands of euros)	2,408 (*)
Amount of cumulative pension rights of serving directors (thousands of euros)	2,508
Amount of cumulative pension rights of former directors (thousands of euros)	0

(*) This figure does not include the value of shares that, if appropriate, shall be received by executive Directors on the expiry of the third and final validity 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 the 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 BOLSAS Y MERCADOS ESPAÑOLES, SISTEMAS DE NEGOCIACIÓN, S.A.
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)	4,105 (**)

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

In addition to those listed, BME has a number of employees holding posts of senior responsibility in the Group who meet the conditions for 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, Marta Bartolomé Yllera, Financial Controller, Elena Carnicero Alonso, CEO of Regis TR, María Parga Landa, General Manager of BME Innova, Clotilde Salmerón Berdejo, General Manager of MEFF Sociedad Reitora del Mercado de Productos Derivados, and María Santos Montesinos, General Manager of Infobolsa.

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

This amount includes the estimated amount that, as variable remuneration corresponding to 2015, shall be received by the senior management, post-employment benefits in favour of these executives for €542,000, consisting of: the annual periodic contribution to the insurance arranged as a supplementary pension; premiums payable for a collective life assurance policy carrying social provision benefits to cover retirement, death and permanent disability; and the Group's contributions to defined contribution plans.

This figure does not include the €584,000 that was paid in 2015 to the members of the senior management as per diems, or the amount for the shares that, where appropriate, shall be received by the members of the senior management as a result of the expiry of the third and final validity period of the Pluri-Annual Variable Remuneration Programme described in section A.3 of this Report.



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

Name or corporate name of director	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, who is an external proprietary Director of the company on behalf of the significant shareholder Corporación Financiera Alba, S.A., is Director and member of the Delegate Committee of Banca March, S.A. and Deputy Chairman of Artá Capital S.G.E.C.R., S.A., entities forming part of the significant shareholder's group.

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

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors 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 MANAGEMENT COMMITTEE

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

Yes No

Description of amendments

The Board of Directors, at its meeting held on 24 March 2015, agreed to amend its Regulations and approve a new revised text in order to adapt its content to Law 31/2014, of 3 December, that has significantly affected the internal regulations of all capital companies, especially listed companies, and to carry out an overall review of its content to include improvements to its structure and wording.

With the amendment of the above articles, this revised text included, among other matters, the new system of responsibilities and operation of the Board of Directors, the new appointment and re-election requirements for Directors, as well as the configuration of the Board's Committees. The content of the articles relating to Directors was restructured to include new duties of conduct for Directors and formal requirements relating to their remuneration scheme.

The Company reported the aforementioned amendments at the Ordinary General Shareholders' Meeting held on 30 April 2015, and they were entered in the *Registro Mercantil* (Companies Register) on 22 June 2015.

Subsequently, the Board of Directors, at its meeting held on 23 December 2015, agreed to amend its Regulations in order to incorporate in them the Good Governance Code Recommendations considered appropriate to the Company and its shareholding and organisational structure, and which may promote its corporate interests and maximise its financial value, as well as to include minor improvements to its wording.

In particular, the duties of the Lead Director were extended, the maximum number of Boards of Directors of which all its Directors may form part regardless of their qualification, was set, and additional duties were assigned to the Executive, Audit and Appointments and Remuneration Committees.

The Company shall report the aforementioned amendment to the General Shareholders' Meeting at its next meeting and carry out the relevant procedures to register it in the Companies Register.



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

Procedures for the appointment, re-election, assessment and removal of Directors are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 10, 20, 22 and 23 of its Board of Directors' Regulations. The criteria for selecting candidates is contained in the medium and long-term Planning for the Board of Directors approved on 26 November 2014.

1. Appointment.

1. A. Responsibility.

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

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

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

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 aforementioned medium and long-term Planning for the Board of Directors also sets out the additional requi-

rements that must be met by the candidates for Director depending on the category or type of Director that they are going to undertake.

The proposed candidates must not be affected by any conflict of interest 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.

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

1. C. Term of office.

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

1. D. Procedures.

The Appointments and Remuneration Committee is responsible for proposing the appointment or re-election of members of the Board of Directors if they are independent or other external Directors, and the Board of Directors is responsible for doing so in all other cases, accompanied by a prior report from the Appointments and Remuneration Committee.

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

The Appointments and Remuneration Committee takes the appropriate measures to identify persons of recognised prestige in the business or academic field, whose professional knowledge and experience means that they could actively collaborate to the benefit of the Company. It also analyses their career records, verifies



whether they meet the requirements which, with regards to the type of Director, are established in the medium and long-term Planning for the Board of Directors and, where appropriate, proposes the appointment of the person who has been considered the most suitable. In particular, it shall comply with the measures established to achieve the target for the gender less well represented on the Board of Directors.

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

1. E. Breakdown of Directorships by type.

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

2. Re-election.

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

3. Appraisal.

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

In addition to this assessment, as detailed in sections C.1.20 and C.1.20 bis, in 2015 the Appointments and Remuneration Committee commissioned Egon Zehnder International S.L. to assess the quality and efficiency of the operation of the Board of Directors, the operation and composition of its Committees and the diversity in the composition and responsibilities of the Board of Directors.

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. Just cause shall be deemed to exist when the Director occupies new posts or assumes new obligations preventing him/her from devoting sufficient time to performing Director functions, when he/she breaches the duties inherent in his/her post or when any of the circumstances arise causing a conflict with his/her status as independent.

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



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

Description of amendments

Since 2006 the Board of Directors has annually approved its Activities Report, in which the efficiency of the operation and quality of its work and the operation of its Committees is assessed.

The conclusions reached in these reports have not revealed the need to introduce significant changes to the internal organisation of the Board itself or the procedures applicable to its activities.

In 2015 the Company has looked in more depth at the process of assessing the operation of the Board of Directors. In this regard, the Appointments and Remuneration Committee has commissioned an independent external consultancy, Egon Zehnder International S.L., to carry out an assessment of the Board of Directors and its Committees. This assessment process has not been concluded at the approval date of this report.

C.1.20.bis Describe the assessment process and the areas assessed by the board of directors aided, where appropriate, by an external consultant, regarding the diversity of its structure and competences, the functioning and breakdown of its committees, the performance of the chairman of the board of directors and of the first managing director, together with the diligence and contributions of each director.

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

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

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

The assessment of the Board of Directors and its Committees, which in 2015 is being undertaken by Egon Zehnder International S.L. and which has been referred to in the above section, covers the quality and efficiency of the operation of the Board of Directors, the operation and composition of its Committees and the diversity of the composition and powers of the Board of Directors. It has not been considered necessary to assess the individual performance and contribution of each Director.

In order to carry out this assessment, all members of the Board of Directors have been issued with a questionnaire relating to the structure and composition of the Board, its operation, the contribution and development of its responsibilities and powers. This also requests their personal assessment of the effectiveness and contribution of the Board of Directors. The members of the Committees must also analyse the same aspects with regards to the Committees of which they form part.

The consultants shall subsequently hold a personal interview with each Director in order to elaborate on the questionnaire responses.

In addition to the above assessments, and in accordance with the provisions of article 10.4 of the Board of Directors' Regulations, this collegiate body annually assesses the performance of their duties by the Chairman



of the Board and first managing director of the Company, an assessment process led by the Lead Director, and whose elaboration involves the full participation of the Appointments and Remuneration Committee, which approves it for its subsequent raising to the Board of Directors.

This report assesses the performance of the Chairman in his duties as Chairman of the General Shareholders' Meeting, the Board of Directors and the Executive Committee, and of those arising from his role as first managing director of the Company, for which it assesses the performance of the Chairman in the ordinary management of the Company and the Group companies, which is coordinated and supervised by the Chairman, the evolution of the markets and systems managed by the Company during the period being assessed and the evolution of the main management indicators from recent financial years.

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

The only relationship that the Company holds with Egon Zehnder International S.L. is that relating to the services to assess the Board of Directors of BME and of a group company, BME Clearing, S.A.U.

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

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

- in cases of incompatibility or prohibition stipulated by the Company's Articles of Association and Board of Directors' Regulations;
- in the case of proprietary Directors, when the shareholder 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 the Director occupies new posts or assumes new obligations preventing him/her from devoting sufficient time to performing Director functions, breaches the duties inherent in his/her post or when any of the circumstances arise causing a conflict with his/her status as independent.

C.1.22 Section revoked.



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

Yes No

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board of directors.

Yes No

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

Yes No

Matters in which the Chairman has the casting vote

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

Likewise, as stipulated in articles 34 of the Articles of Association and articles 13 and 18 of the Board of Directors' Regulations, the Chairman of the Executive Committee shall hold the casting vote in all votes put to 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 the board regulations set a limited term of office for independent directors, other than that set forth in the regulations:

Yes No

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

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

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



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

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

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

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

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

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:

Number of Board meetings held with all directors in attendance	6
% of attendances of the total votes cast during the year	90.91%

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

Yes No

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



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

The mechanisms established to avoid the individual and consolidated accounts formulated by the Board of Directors being presented to the General Shareholders' Meeting with qualifications in the audit report are set out in articles 8, 19 and 31 of the Board of Directors' Regulations.

Specifically, article 8 of the Board of Directors' Regulations states that the Board of Directors shall be responsible for ensuring that the Company's 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.

Moreover, article 31 of the same Regulations establishes 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 securities markets is prepared in accordance with the same principles and practices as are used in the preparation of the annual financial statements, and that it is equally reliable.

Likewise, article 19 of the Board of Directors' Regulations commissions the Audit Committee to maintain the relationship with the external auditors in order to receive information on any issues connected with the auditing procedure, and to carry out the other communication tasks envisaged in the legislation on auditing accounts and in the technical auditing standards, regarding the audit plan and the results of its execution, and to verify that the senior management takes into account its recommendations.

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 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

If the secretary of the board is not also a director, fill in the following table:

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

C.1.34 Section revoked.



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

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

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

Article 19 of the Board of Directors' Regulations establishes that the Audit Committee must liaise with the external auditors in order to receive information on any issues that might jeopardise their independence, for examination by the Committee, and monitor compliance with the regulations in force concerning the provision of additional services of any kind, the corresponding fees received, and the limits in regard to the business concentration of the auditor and, in general, any other rules aimed at ensuring the auditor's independence.

Each year the Committee will receive from the auditors 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 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 assessment of the provision of any kind of additional services, considered individually or as a whole, other than legal auditing and with regards to the system of independence or the regulating audit standards.

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 management of information by the department of Investor Relations is carried out with the utmost respect for the principles of transparency and non-discrimination, and always with strictest compliance with the regulations relating to the securities markets and the Policy for communicating with shareholders, analysts, institutional investors and voting advisers approved by the Board of Directors at its meeting held on 23 December 2015, prior favourable report from the Audit Committee.

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

In 2015 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 and outgoing auditor:

Yes No

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

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

Yes No

	Company	Group	Total
Amount of non-audit work (in thousands of euros)	6	14	20
Amount of non-audit work/ Aggregate amount billed by the audit firm (%)	2.56%	5.45%	4.07%

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 such reservations or qualifications:

Yes No

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

	Company	Group
Number of consecutive years	3	3
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	21.43%	21.43%

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, and where appropriate detail, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Procedures

The Board of Directors meeting is, with general character, called at least six days in advance of the date on which it is scheduled to be held. The call notice includes the agenda of the Board meeting and the relevant documentation and information on the matters included in the agenda.

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

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

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

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

Yes No

Details of rules

Article 28 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 38.2 of the Articles of Association and 20.4 of the Board of Directors' Regulations stipulates that Directors must resign when their continuation in office could jeopardise the Company's interests.

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 Capital 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 expected to be taken by the Board up until the date of this report.

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

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



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

Number of beneficiaries	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:

"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. In the event the Chairman fails to comply with this obligation, he will have to 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. (...)"

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 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 executive, proprietary, independent and other external directors forming part thereof:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
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%

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

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

ORGANISATION AND OPERATION

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

- At its meeting after the Ordinary General Shareholders' Meeting of 30 April 2014, the Board of Directors established the number of members of the Executive Committee at five (5), there being one (1) vacancy.

- The Chairman and Secretary of the Executive Board shall be the same as for the Board of Directors with the substitution regime stated or the Board of Directors whereby the Chairman shall be substituted by one of the Vice Chairmen in descending order in case the office is vacant or the Chairman is absent, unable to attend or falls sick. Likewise, the Secretary shall be substituted by the Deputy Secretary of the Board of Directors and in the event of there being various Deputies, the longest standing one or the eldest shall be chosen.

- Except when higher voting majorities are required by law or under the Articles of Association, resolutions shall be adopted by an absolute majority of the Board members who are either present or represented at the meeting. In the event of a tie, 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 will send a copy of the minutes of the Committee's meetings to its members.



RESPONSIBILITIES

The Executive Committee shall have the following responsibilities:

- a) The continuous monitoring and supervision of the day-to-day management of the Company, also ensuring that there is adequate coordination between the Group companies for their mutual benefit and that of the Company.
- b) Analysing and proposing to the Board of Directors the guidelines that are to define the Company's strategy, and supervising their implementation.
- c) Supervising the strategy for communication and relation with investors and shareholders.
- d) Supervising implementation of the Company's corporate social responsibility policy and monitor the strategy and practices of corporate social responsibility.
- e) Assessing matters related to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks, and coordinating the process of reporting of non-financial information.
- f) 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 particular economic importance for the Company.
- Assessment of the Company's achievement of its objectives.
- g) Adopting resolutions relating to the acquisition or disposal of the Company's treasury shares, if and as authorised at the General Shareholders' Meeting and the general policy regarding treasury shares established by the Board of Directors.

In addition to the responsibilities described above, all the Board's powers have been delegated 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.

ACTIONS UNDERTAKEN IN 2015

Throughout 2015, the Executive Committee has held eleven (11) meetings in which it has addressed all responsibilities attributed to it, from which the relevance of none of them can be highlighted, with all of them meeting the condition of important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2015, which is available in the section of information for shareholders and investors on the Company's corporate website: www.bolsasymercados.es.



Indicate whether the breakdown of the delegate or executive committee reflects participation on the Board of the different types of directors:

Yes
 No

If the answer is no, explain the composition of the executive or delegate committee

See the table in this section C.2.1 that reflects its composition.

AUDIT COMMITTEE

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

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

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

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

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, under no circumstances less than two (2), 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 its independent Directors and must be replaced every four (4) years. The Chairman may be re-elected one year after completing his term.

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

- The Secretary to the Committee shall be appointed by the Board of Directors from among its members and shall draw up the minutes of the resolutions adopted. The Board may also appoint the Board Secretary or any of the Deputy Secretaries as Secretary to the Committee even if they are not Committee members, as well as a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but may not vote.

- The Audit Committee shall meet whenever it is convened by the Chairman or a meeting is requested by at least two (2) of its members, and at the request of the Board of Directors.

- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting by proxy. When there is a tie in voting, the Chairman, or the person standing in for him, shall have the casting vote.

- In order to perform its tasks the Committee may seek the assistance and collaboration of independent experts and request the attendance at its meetings of Company or group executives.

- The Audit Committee must report to the Board of Directors on its activities in the course of each year, and the Secretary will send the members of the Board of Directors a copy of the minutes of Committee meetings.



RESPONSIBILITIES

The Audit Committee has been assigned the duties established in article 529 quaterdecies of the Companies Act, as well as the following additional competences:

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

ACTIONS UNDERTAKEN IN 2015

Throughout 2015, the Audit Committee has held nine (9) meetings in which it has addressed all responsibilities attributed to it, from which the relevance of none of them can be highlighted, with all of them meeting the condition of important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2015, which is available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

Identify the director member of the audit committee appointed in light of his/her knowledge and experience of accounting, audit or both and report on the number of years the Committee chairman has held his post:

Name of the director with experience ⁽¹⁾	MARGARITA PRAT RODRIGO
No. of years the Chairman has held this post ⁽²⁾	2

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

(2) Margarita Prat Rodrigo has held the position of Chairwoman of the Audit Committee since 30 April 2014. She previously performed this role from 27 July 2006 to 29 April 2010.

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
D. MANUEL OLIVENCIA RUIZ	CHAIRMAN	Independent
D. ÁLVARO CUERVO GARCÍA	MEMBER	Independent
D. CARLOS FERNÁNDEZ GONZÁLEZ	MEMBER	Other external

% of proprietary Directors	0.00%
% of independent Directors	67.00%
% of other external Directors	33.00%



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

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

ORGANISATION AND OPERATION

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

Currently, the Appointments and Remuneration Committee comprises four (4) members pursuant to the resolution adopted by the Board of Directors at its meeting on 27 February 2014, although there is one (1) vacancy.

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

- The Board of Directors shall also appoint a committee Secretary, an office which need not be held by a member of the Committee and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but not vote.

- The Committee shall meet as often as is necessary in the Chairman's opinion for the performance of its functions, at the request of the Board of Directors and whenever a meeting is requested by at least two (2) Committee members.

- There shall be 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. In the event of a tie, the Chairman shall have the casting vote.

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

RESPONSIBILITIES

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

- To report on compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment, re-election and removal of members of the Board of Directors proposed to sit on any of the Board Committees, as well as, where applicable, to hold any office thereon.

- To report on compliance with the Articles of Association and this Board of Directors' Regulations regarding the appointment and removal of the Chairman, Deputy Chairmen, Secretary and, as appropriate, Deputy Secretaries of the Board.

- To verify compliance with the Company's remuneration policy.

- To verify information on remuneration received by Company Directors and senior executives contained in corporate documents.

- To monitor the independence of the external advice provided to the Committee.

- To supervise, at the request of the Board of Directors, compliance with the rules of corporate governance.

ACTIONS UNDERTAKEN IN 2015

Throughout 2015, the Appointments and Remuneration Committee has held eleven (11) meetings in which it has addressed all responsibilities attributed to it, from which the relevance of none of them can be highlighted, with all of them meeting the condition of important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2015, which is available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.



MARKETS AND SYSTEMS OPERATING PROCEDURES COMMITTEE

Name	Position	Category
JOAN HORTALÁ I ARAU	CHAIRMAN	Executive
KAREL LANNOO	MEMBER	Independent
SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	MEMBER	Proprietary

% of executive directors	33.00%
% of proprietary directors	33.00%
% of independent directors	33.00%
% of other external directors	0.00%

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

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

The Markets and Systems Operating Procedures Committee is regulated by articles 37 and 21 of the Articles of Association and Board of Directors' Regulations, respectively, as well as by the Regulations for the Markets and Systems Operating Procedures Committee.

ORGANISATION AND OPERATION

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

The Markets and Systems Operating Procedures Committee currently comprises four (4) members pursuant to the resolution adopted by the Board of Directors at its meeting on 29 November 2007, and there is one (1) vacancy.

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

- The Board of Directors shall appoint a committee Secretary, an office which need not be held by a member of the Board and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's Legal Advisory Services. In these cases, the Secretary may speak at meetings but not vote.

- The Markets and Systems Operating Committee shall meet 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 must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting. When there is a tie in voting, the Chairperson shall have the casting vote.

- The Markets and Systems Operating Procedures Committee shall report to the Board of Directors in regard to the performance of its tasks, and thus the Secretary will 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.

RESPONSIBILITIES

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

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 with the application of the Internal Regulations of Conduct of the Company and its Group. Therefore, it shall periodically receive information in this regard from the Standards of Conduct Committee or equivalent body as envisaged in the aforementioned Regulations, and shall also report prior to any amendment of those Regulations submitted to the Company's Board of Directors for approval.

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

ACTIONS UNDERTAKEN IN 2015

Throughout 2015, the Markets and Systems Operating Procedures Committee has held ten (10) meetings in which it has addressed all responsibilities attributed to it, from which the relevance of none of them can be highlighted, with all of them meeting the condition of important.

All of these actions are detailed in the report that this Committee approves regarding the development of its responsibilities during 2015, which is available in the section of information for shareholders and investors on the Company's corporate website www.bolsasmercados.es.

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

NUMBER OF FEMALE DIRECTORS

	2015		2014		2013		2012	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE OR DELEGATE COMMITTEE	1	25.00%	1	25.00%	1	16.67%	1	14.29%
AUDIT COMMITTEE	1	33.33%	1	33.33%	1	33.33%	1	33.33%
APPOINTMENTS AND REMUNERATION COMMITTEE	0	0%	1	25.00%	1	33.33%	1	33.33%
MARKETS AND SYSTEMS OPERATING PROCEDURES COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%

At 31 December 2015 and 2014, the Company's Executive Committee had membership of 4; at 31 December 2013, there were 6 members and at 31 December 2012, there were 7.

At 31 December 2015, the Appointments and Remuneration Committee had a membership of 3; at 31 December 2014 there were 4 members and at 31 December 2013 and 2012 there were 3.



C.2.3 Section revoked.

C.2.4 Section revoked.

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

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

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

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

C.2.6 Section revoked.



Tecnoquark representatives commemorated their new listing on MAB



D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

Procedure to notify the approval of related-party transactions

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

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

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

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

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

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

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

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

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

0 (in thousands of euros)

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of 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.

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



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

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

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

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

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

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 21.2.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 29 of the Board of Directors' Regulations stipulates that transactions, operations or actions undertaken by Directors and significant shareholders and/or their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties. Otherwise, such operations or activities must be authorised by the Board in full.

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

Yes No

Listed subsidiary

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

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

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

Mechanisms to resolve possible conflicts of interest



E. RISK CONTROL AND MANAGEMENT SYSTEMS

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

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

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

Risk control and management policy, laid down by the Board of Directors and managed by the Coordination Committee, is 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 ("IRMS") 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 also has a Regulatory Compliance Department that operates independently from the Company's executive officers and bodies, reporting to the Audit Committee. Its role is to ensure compliance with the laws and regulations applicable to the Group's activities and to support the Audit Committee in 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.
 - 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 companies in the BME Group in the framework of a scheme of management coordinated through Business Units and Corporate Areas, as well as of the logical and physical security risks. 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 Information in order to establish a criterion to classify and handle documents according to the level of confidentiality in order to reduce the risk of unauthorised access to sensitive information of the Bolsas y Mercados Españoles Group.
 - d. Project Management Office. The Project Management Office defines and maintains the standards for managing the projects of the BME Group, following best practices in project management and the strategy defined for the organisation. This Office is responsible for centralising the information and



status of all the group's projects and regularly reporting to the project managers, the heads of the different departments and the management of BME regarding the status of the projects and the progress, risks or changes identified in the different monitoring tasks.

6. The Company is a participant of CECON (Consortio Español de Continuidad de Negocio, the Spanish business continuity consortium), together with the leading players in the financial services industry (regulatory bodies and commercial entities). It was created to contribute to financial stability by improving awareness about the continuity of business and disseminating the best practices applicable. CECON initiatives include the creation of the 'CONTINUAM' business continuity institute. The Company, through BME Innova, is a founding partner of the institute, together with AENOR and leading players in the financial sector. The mission of CONTINUAM is to create, disseminate and promote a holistic business continuity culture at all levels of society, with the help of leaders from the various sectors.
7. The Board of Directors approved the Company's Internal Regulations of Conduct which apply to all members of the Boards of Directors and employees of all Group companies, in which their duties in the area of confidentiality and integrity are established, and that have been implemented in the area of insider information with the approval by the Board of Directors 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, the Board of Directors determined the Company's tax strategy, following a favourable report from the Audit Committee at its meeting held on 23 March 2015. In 2015, the process for the Group's companies to embrace the Code of Best Tax Practices began, in such a way that the Group's companies agreed, following a favourable report from the Audit Committee at its meeting of 29 October 2015, to embrace the Code of Best Tax Practices, approved in the Large Businesses Forum of 20 July 2010, to which the Company has belonged since the 2010 financial year.
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 – is followed. Within

those bounds, in order to comply with applicable laws and regulations Group companies may prioritise investment in assets offering higher liquidity as opposed to returns. In this respect, the latest amendment to criteria for investing the Group's liquidity, approved by the Board of Directors at 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 personnel from the Company and the Group's companies may anonymously report any irregularity in the aforementioned systems.

In addition to the Group's risk control system, which applies to all Group companies, BME Clearing, S.A.U., the central 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.

Finally, MEFF Euroservices, S.V., S.A.U., in its capacity as an investment services company, has adapted its governance systems and control mechanisms under Royal Decree 358/2015, of 8 May, and Circular 1/2014, of 26 February, of the CNMV, and also has the internal bodies responsible for the implementation of the policies and procedures for preventing money laundering and terrorism funding in accordance with the provisions of Law 10/2010, of 28 April.



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

Board of Directors 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 particularly importance to the Company.

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

In addition to the responsibilities delegated to it by the Board of Directors, the Executive Committee is responsible for the continuous monitoring of the ordinary running of the Company, also ensuring that there is adequate coordination among Group companies for their mutual benefit and that of the Company. To perform this duty, the Board of Directors has the support of the Audit Committee.

Audit Committee

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

- To supervise the effectiveness of the Company's internal control and risk control systems, including tax contingencies, which shall involve the review, at least once a year, of the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported. The Audit Committee is 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.

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

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

A Criminal Prevention Committee has been established within the Audit Committee and this is entrusted, in the field of criminal risk prevention, with monitoring the effectiveness of the internal controls implemented in the BME Group.

Markets and Systems Operating Procedures Committee

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

- To analyse and monitor the procedures and regulations set forth by group companies for the correct operation of the markets and systems managed thereby.
- To be cognisant of the application of the Internal Code 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, including tax contingencies, that can 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, Liquidación y Compensación de Valores, S.A.U. (IBERCLEAR) is Spain's central securities depository, governed by Articles 47 and thereafter of Spain's Royal Legislative Decree 4/2015 of 23 October approving the revised text 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 the 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.

In 2016 the risks of the Securities Settlement System shall be amended as a result of the entry into force of the reform of the securities clearing and settlement system.

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 and controlling 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 competency, 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, including with respect to tax contingencies.

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, including tax contingencies that 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 to which the company is exposed to, including tax contingencies.

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 Banco de España 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.

In 2016 the risks of the Securities Settlement System shall be amended as a result of the entry into force of the reform of the securities clearing and settlement system.

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 and controlling the collateral called in from and paid by clearing members with respect to that risk.

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

As has also been mentioned above in section E1 of this report, as a consequence of the adhesion of BME to the Code of Best Tax Practices and the approval of the Company's fiscal strategy by the Board of Directors, the Audit Committee took due note of the tax policies applied by the Company during 2014, which were explained by the General Manager before the formulation of the annual financial statements. Subsequently, at its meeting on 16 July 2015, the Audit Committee was informed by the General Manager of the tax policies applied by the Company for the filing of the income tax return corresponding to 2014.

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, including tax risks, as is contained in article 19 of the Board of Directors' Regulations, which, among other matters, state that the Audit Committee shall have jurisdiction to "*supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it 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 Board of Directors determined, in accordance with that established in article 529 ter of the Companies Act, the Company's tax strategy, following a favourable report from the Audit Committee at its meeting held on 23 March 2015. This document follows the "Policies and guidelines on tax matters" that the Board of Directors, following a favourable report from this Committee, approved on 22 March 2011, and that have been applied since that date.

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 RISK MANAGEMENT AND CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

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

F.1 The entity's control environment

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

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

As stipulated in articles 25 of the Articles of Association and 7 of the Board of Directors' Regulations, the Board of Directors is the Company's most senior governing and administrative body, and shall assume, among other responsibilities, those of being vigilant of the transparency and veracity of the information of the Company in its relations with shareholders and with the markets in general, identifying the principal risks affecting the Company, including tax risks, 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 of Directors, through the Audit Committee, is the body responsible for ensuring the efficiency of the Company's internal control and the BME Group's risk management systems, including tax risks, which includes supervising the IRMS (comprising the ICFR), as per article 19.2.e) of the Board of Directors' Regulations. This article, among other questions, stipulates that the Audit Committee shall have the jurisdiction to *"supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it 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, tax and operational information.*
- *Compliance with applicable laws and other regulations, including tax.*

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

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

The BME Group is a group of companies with coordinated management, based on the definition of seven Business Units (Equity, 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).

The Board of Directors, by virtue of that established in article 7.4 of the Board of Directors' Regulations, is responsible for approving the financial information that, due to it being a listed company, must periodically be made public, whose preparation and presentation process is supervised by the Audit Committee, as stipulated in article 19.2 of the aforementioned Regulations.

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 the general responsibility of driving, directing and supervising matters of particular significance for the Company, undertaking, among others duties, to give impetus to and oversee the 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 Online Human Resources section under "Code of Conduct", where they are requested to acknowledge that they have read them.

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

- Individuals included.
- Actions included and securities affected.

- Standards of Conduct Committee.
- General principles of conduct.
- Conflicts of 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, to report to the Audit Committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating**

whether reports made through this channel are confidential.

Article 19.2.c) of 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 to the Audit Committee, through the Internal Audit Department, 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 2015, 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.
- 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 2015 Group employees received a total 7,397 hours of training. 549 hours of training were provided in the Financial and Internal Audit Departments.

F.2 Risk assessment in financial reporting

Report at least on:

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

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

The Risk Committee has developed an integrated risk management system (IRMS) based on the methodological framework specified in the COSO II 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, tax, 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 the risk identification process, including tax risks, and formalisation of the ICFR, in order to guarantee the reliability of the relevant financial information based on a 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 7.3.g) 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 creation or acquisition of ownership interests in special purpose vehicles or entities resident in jurisdictions considered to be tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group"*.

During 2015 no complex corporate structures or special purpose vehicles were identified.

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

The risk identification process takes into consideration both business and support processes, and 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.
- Criminal risk.
- IT risk.
- Credit or counterparty risk.
- Inherent risk in the securities settlement system.



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

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

The Board of Directors is responsible for *“determining the risk management and control policy, including tax risks, and overseeing the internal information and control systems, including the process of preparing and submitting regulated financial information. To carry out this duty, the Board of Directors has the support of the Audit Committee, to which it entrusts, among others, the task to “supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it 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”.*

Lastly, according to the *Regulations for the BME Group Internal Audit*, whose latest version was approved by the Audit Committee on 24 November 2014, the Internal Audit Department's missions include that 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 ensures that this information is precise, true and comprehensive according to current legislation. The procedures for preparing and reviewing financial information have been defined and documented by the Finance Department. Other departments also assist in ensuring that the necessary level of detail is obtained.

Therefore, the procedures for 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;
- the assumptions used to determine the variable remuneration schemes relating to BME shares; and ;
- the recognition of deferred tax assets.

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



In 2015, the Board of Directors, through the Audit Committee, has been responsible for, in accordance with that established in article 7.4.b) of the Board of Directors Regulations, *“approving the financial information that, due to it being a listed company, must periodically be made public”*, whose preparation and presentation process is supervised by the Audit Committee, as stipulated in article 19.2 of the aforementioned Regulations.

The Finance Department is responsible for determining the relevant financial information, based on quantitative criteria of materiality, and qualitative criteria, taking into consideration all 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 to 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 to capture and prepare financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes, as well as disclosures concerning ICFR.

The BME Group has mechanisms for the capture and preparation of financial information based on tools of renowned prestige. All BME Group companies use the same tools, 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 Oversight of the system's functioning

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

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

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

Article 19.2.c) of the Board of Directors' Regulations assigns the Audit Committee the responsibility to "supervise the Company's internal audit services which shall depend on the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the arrangements whereby Company personnel may anonymously report any 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 2015, 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 2015, the Internal Audit Department presented the BME Internal Audit Department's 2016 Activities Plan to the Audit Committee. The plan focuses on ongoing improvement in the IRMS through suggestions and proposals by the Risk Committee and, mainly, on reviewing those business processes for which ICFR assessment is mandatory under specifically applicable regulations, to assess its functioning and validate its effectiveness.

F.5.2. State whether a discussion procedure exists whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its Audit Committee or Board of Directors: State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 19 of 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, including tax risks. 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. In this regard, each year the external auditors will issue written confirmation of their independence from the Company, as well as information on any other type of service provided and the related fees received by the external auditors or persons or entities related thereto."

In this regard, the Audit Committee met on 9 occasions in 2015. 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 audit report

State whether:

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

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 company's degree of compliance to the recommendations of the Good Governance Code of listed companies.

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

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

Complies **Explain**

2. **When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:**

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

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

3. **During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

- a) **Changes taking place since the previous annual general meeting.**
- b) **The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

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

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

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

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



5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

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

Complies Partially complies Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reviews of the operation of the audit committee and the nomination and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Report on corporate social responsibility policy.

Complies Partially complies Explain

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

Complies Explain

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

Complies Partially complies Explain

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

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

Complies Partially complies Explain



10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
- a) Immediately circulate the supplementary items and new proposals.
 - b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
 - c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
 - d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies Partially complies Explain Not applicable

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

Complies Partially complies Explain Not applicable

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

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

Complies Partially complies Explain

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

Complies Explain



14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable;
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

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

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies Partially complies Explain

15. Proprietary and independent directors should constitute an ample majority on the board of directors, 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.

Complies Partially complies Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies Explain



BME considers that the current structure of the Board of Directors ensures that the independent Directors have sufficient weight in this body and suitably represent the interests of the non-controlling shareholders, without there being significant shareholders who exercise a disproportionate influence over the Board of Directors.

In this respect, at 31 December 2015, the Board of Directors featured the following characteristics:

- The significant presence of independent Directors (45.45% of the entire Board of Directors and 55.56% of external Directors), in addition to the presence of an "other external" Director, which would increase the percentage of "non-proprietary" external Directors to 54.54% of the Board of Directors and 66.67% of the external Directors.
- The lack of significant and/or major shareholders with disproportionate representation on the Board of Directors. Two (2) significant shareholders are represented on the Board of Directors, of which only one (1), which holds a large percentage of BME's share capital (10.57%), has insisted on the appointment of two (2) members. As these two (2) 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 this body.
- The high degree of independence of the Executive Committee, 75% of whose Directors are classified as independent Directors, with no presence of proprietary Directors.

17. Independent directors should be at least half of all board members.

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

Complies **Explain**

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.**
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) Dates of their first appointment as a board member and subsequent re-elections.**
- e) Shares held in the company, and any options on the same.**

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

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

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



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

Complies Partially complies Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

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

Complies Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board 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 offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies Partially complies Explain



23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm 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 also apply to the secretary of the board, even if he or she is not a director.

Complies Partially complies Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies Partially complies Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies Partially complies Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies Partially complies Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies Partially complies Explain



28. 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, they should be recorded in the minute book if the person expressing them so requests.

Complies Partially complies Explain Not applicable

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

Complies Partially complies Explain

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

Complies Explain Not applicable

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

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies Partially complies Explain

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

Complies Partially complies Explain



33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

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

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

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

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

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

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

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

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



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

Complies Explain

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

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies Partially complies Explain

The process for the annual assessment of the operation of the Board of Directors and its Committees is based on the Company's basic principles of corporate governance and, as a result, from the moment it became a listed company, the Board of Directors' Regulations included, among its obligations, that of carrying out an annual assessment of the efficiency of the operation and quality of the work of the Board of Directors and the Board's Committees, as well as the performance of their duties by the Chairman of the Board and the Company's first managing director.

In 2015, the Company has looked in more depth at the process for the assessment of the operation of the Board of Directors, with the Appointments and Remuneration Committee having agreed that the assessment corresponding to 2015 will be carried out with the involvement of an external consultant. In this way the Company has acted in advance of that required in the recommendation itself, which refers to the advisability of the Board of Directors, when carrying out the assessment, being assisted by an external consultant every three years.

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

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



Following this first assessment, and as established in article 22, section 2, of the Board of Directors' Regulations, the quality of the services provided and the dedication of each of the Directors is assessed by the Appointments and Remuneration Committee and by the Board of Directors, in the corresponding re-election or ratification proposals.

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

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

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

Complies Partially complies Explain Not applicable

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 article 34 of the Articles of Association and article 18, section 2, of the Board of Directors' Regulations.

Regarding the breakdown of the Executive Committee's members by director category, this is not similar to that of the Board of Directors. BME considers that this lack of similarity does not pose a risk of these bodies

carrying out their responsibilities using different criteria, especially considering that, regardless of the powers attributed to it, the Executive Committee's functions mainly entail providing advice and preparing Board of Director meetings, and keeps it informed of any exceptional resolutions adopted under the scope of its responsibilities to ensure the full coordination of the two bodies.

Moreover, the strong 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.

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

Complies Partially complies Explain Not applicable

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

Complies Partially complies Explain



40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board’s non-executive chairman or the chairman of the audit committee.

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

Article 19 section 2.c) of the Board of Directors’ Regulations assigns the Audit Committee the responsibility to “supervise the Company’s internal audit services which shall depend on the Audit Committee” and break down the main supervisory functions that correspond to it in relation to these services.

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

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

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

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

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) **Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.**
- b) **Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service’s budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; 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 appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**

2. With regard to the external auditor:

- a) **Investigate the issues giving rise to the resignation of the external auditor, should this come about.**
- b) **Ensure that the remuneration of the external auditor does not compromise its quality or independence.**
- c) **Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**



- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies Partially complies Explain

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

Complies Partially complies Explain

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

Complies Partially complies Explain Not applicable

45. Risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), 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) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies Partially complies Explain

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

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies Partially complies Explain



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

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

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

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

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

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

47. Appointees to the nomination and remuneration committee or of the nomination committee and remuneration committee, if separately constituted should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

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

48. Large cap companies should operate separately constituted nomination and remuneration committees.

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

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

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

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



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

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies Partially complies Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies Partially complies Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies Partially complies Explain Not applicable

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

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



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

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

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**

- f) Monitor and evaluate the company's interaction with its stakeholder groups.**
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Complies
X **Partially complies**
 Explain

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

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

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



54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

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

Complies Partially complies Explain

BME understands that corporate social responsibility is integrated into its overall strategy and the daily management of the Group, without considering it necessary to define a corporate social responsibility policy to strictly follows this recommendation.

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

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

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

Complies Partially complies Explain

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

BME considers that the preparation of this report is sufficient proof of the importance to BME of its environment, and that in this it discloses all relevant information regarding the financial and non-financial aspects of the Company's activities with the greatest possible transparency, in the way that is considered most suitable and without the fact that this report is not strictly in keeping with an internationally recognised methodology being understood as a lack sensitivity by the Company towards its environment.

Notwithstanding the foregoing, the 2015 Corporate Social Responsibility Report contains a series of basic content from the fourth edition of the internationally accepted methodological guide for the preparation of sustainability reports (GRI4) published by the independent international organisation *Global Reporting Initiative*.

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors

Complies Explain



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

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

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

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

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

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to**

long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

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

The system for determining the variable remuneration of the Chairman of the Board of Directors, the only Director who receives variable remuneration from BME with regards to the duties assigned to him as first managing director of the Company, established in the remunerations policy for Directors for 2016, 2017 and 2018, complies with all the requirements of this recommendation, except that relating to the variable components of remuneration including non-financial criteria that are suitable for long-term value creation.

This system for determining the Chairman's variable remuneration, in place since 2008, fully complied with the recommendations in matters of remuneration of the Unified Good Governance Code of Listed Companies.

As a result of the approval of the Good Governance Code of Listed Companies, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, plans to submit a policy for the remuneration of Directors to the Company's Ordinary General Shareholders' Meeting to be held in 2016, that will amend the system for determining the variable remuneration of the Chairman, all in keeping with the basic principles that guide the actions of the Board of Directors contained in its Corporate Governance Policy, included among which is the following of best practices in matters of good corporate governance, without prejudice to the fact that they are applied on the basis of the specific circumstances and needs of the Company.

Should the policy for the remuneration of Directors be approved by the General Shareholders' Meeting, the new system for determining the Chairman's variable remuneration shall include non-financial criteria, adapted to the Company's activity and suitable for long-term value creation.

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

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



60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies Partially complies Explain Not applicable

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

Complies Partially complies Explain Not applicable

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

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

Complies Partially complies Explain Not applicable

The current Pluriannual Variable Remuneration Programmes in Shares, described in section A.3 of this report, and for which the Company's executive Directors are beneficiaries, include the granting of theoretical units to the beneficiaries throughout three different financial years and the shares that, if any, may eventually be received by the beneficiaries of these Programmes shall be delivered by the Company throughout the three financial years following those of the allocation of the theoretical units.

In view of these characteristics of the Pluriannual Variable Remuneration Programmes in Shares, BME considers that they include a clear element of deferral which allows effective meeting of the targets to be verified without it being necessary to establish additional retention periods.

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

Complies Partially complies Explain Not applicable

BME does not engage in credit, investment banking, or business activities that entail balance sheet risks associated, for example, with changes in the price of assets, whose volatility could give rise to profits one year and losses the next. Clearing house activities obtain funds from the total volume of instruments arranged to which it provides service and from the balance thereof. This is not an investment activity subject to price volatility.

The absence of volatility in the Company's results linked the assumption of balance sheet risks derived from the nature of the activities carried out by BME, justifies, in the Company's view, the fact that the Chairman's variable remuneration does not establish clauses that allow the Company to claim repayment.

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

Complies Partially complies Explain Not applicable

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



H. OTHER INFORMATION OF INTEREST

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

2. In this section, you may include any other significant information, clarification or qualification related to the above sections of this report that has not already been addressed.

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

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

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 2015, 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 25 February 2015 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 16 July 2015, the Audit Committee was informed of the fiscal policies applied by the Company before it filed on the occasion of the presentation of its Corporation Tax.

This annual corporate governance report was approved by the company's board of directors at its meeting held on 25 February 2016.

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

Yes No