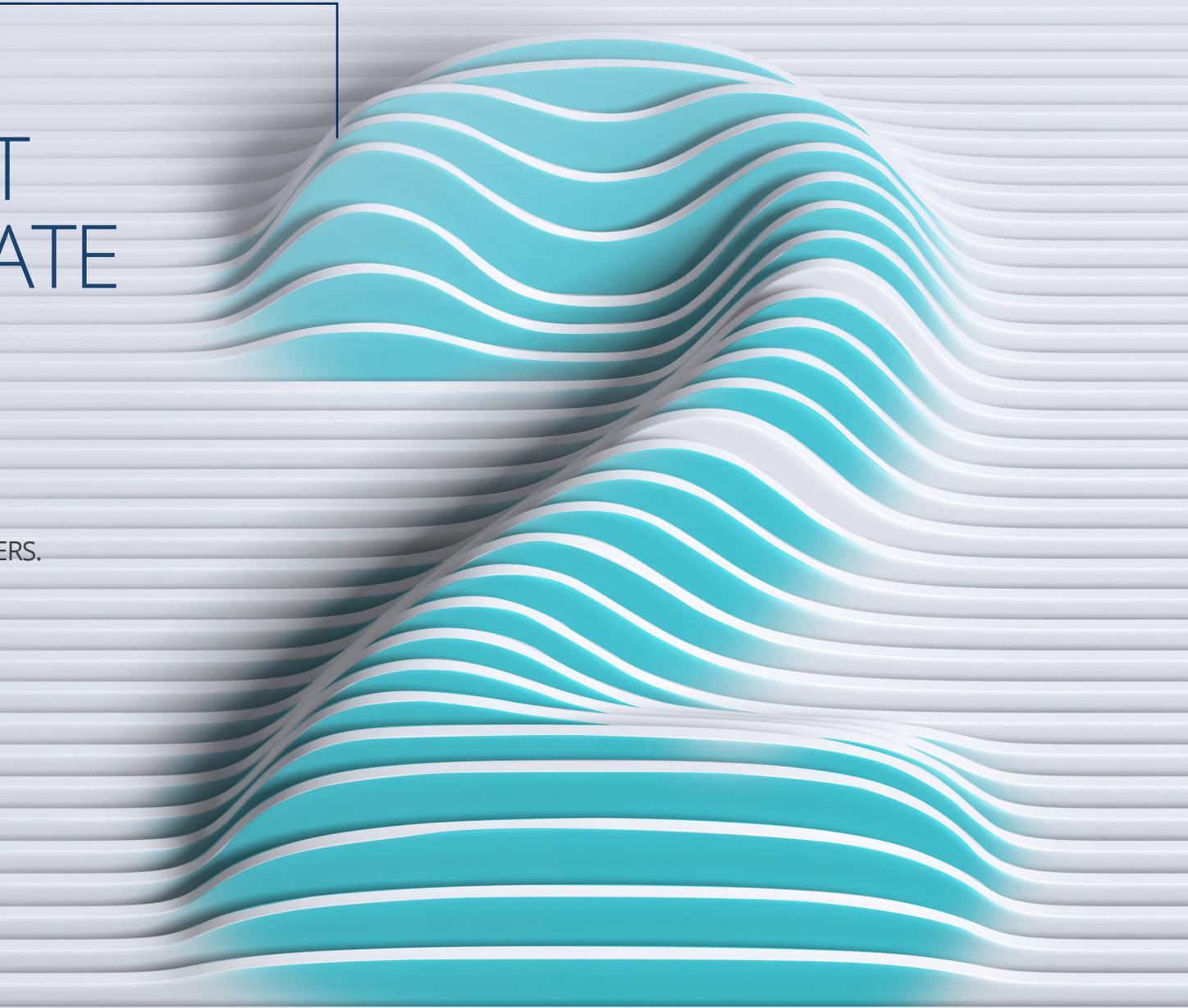


# RESPONSIBLE MANAGEMENT AND CORPORATE GOVERNANCE

- 2.1. RESPONSIBLE MANAGEMENT MODEL.
- 2.2. BME'S RELATIONS WITH ITS STAKEHOLDERS.
- 2.3. CORPORATE GOVERNANCE.





## 2.1 Responsible Management Model

As the manager of Spain's financial markets and systems, BME is the nexus between Spanish and international companies and investors. It provides a channel through which savings can be used to finance companies, while endeavouring to offer maximum speed, reliability, transparency, efficiency and security to the markets and systems it manages.

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

BME understands that corporate social responsibility should be an integral part of the Group's general strategy and day-to-day operations. It discloses all relevant information on financial and non-financial issues affecting the Company's activities with the utmost transparency.

BME incorporates its basic principles of action into its Corporate Social Responsibility Report, the definition of which takes into account the needs and priorities of the different market participants, as well as society in general, as the ultimate beneficiary when financial markets and, by extension, the economy, operate properly.

### **Collaboration with National Archeological Museum.**

Digitalization of Greek vessels.  
Getting the vessels ready for digitalization at the laboratory.

### General conduct principles and guidelines

BME has always been committed to setting a benchmark for the economy and for businesses in Spain and Latin America (through the Latibex). To achieve this, its actions are guided by the following principles:

- **Efficient service provision**, which is essential for the financial market to perform its key role in fostering sustainable economic growth.
- **Market integrity**, enabling several centres to undertake trading activity simultaneously and under identical conditions.
- **An impartial trading environment**, achieved through strict compliance with laws and regulations governing the financial markets and systems.
- **Transparency and fairness in the market**, by providing complete information on market performance so that investors can operate under identical conditions, without privileges of any sort.

- **Innovation and cutting-edge technology**, by providing the means necessary to help companies grow and participate actively in the creation of new financial products and the development of systems infrastructure.

- **Training**, as a cornerstone for the sustainable development of financial markets.

- **Investor protection**, crucial for creating a bond of trust between investors and the market.

The Company's guidelines for actions for the actors involved in the markets and society in general can be summarised as:

- Compliance with Spanish and international laws and regulations, and the codes to which it adheres voluntarily, as well as complying strictly with social ethics and best practice standards in its business operations.

- Making the necessary efforts to ensure that relations with users, investors and shareholders are profitable for all concerned.

- Maintaining solid and fluid relationships, through official channels, with government and watchdog bodies.

- Implementing clear procedures for selecting partners and marketing services and technology.

- Continuing contact with shareholders and potential investors.

- Building fluid relationships between the company, its employees and trade union organisations.

### Initiatives and awards in 2016

The companies in the BME Group and its investees, and their employees, received the following awards in 2016:

- The “15th AECA Award for Business Transparency 2016” for the “IBEX Medium and Small Cap listed” category, recognising BME for the quality, accessibility, usability, contents and distribution of information in the general, financial, sustainability and corporate governance sections of its website.
- The “2016 All-Europe Executive Team” Award from the USA’s “*Institutional Investor*” magazine, in which BME was ranked in first place for the Best *Investor Relations programmes*, in second place for the best “sell side” Financial Directors, granted to General Manager Javier Hernani Burzako, and third place for *Investor Relations* professionals, awarded to Brian Warren, Head of the Investor Relations department.
- The Duque de Ahumada Award, presented by the Guardia Civil to the Instituto de Continuidad de Negocio (Business Continuity Institute) -a founding member of BME Innova, BME’s innovation subsidiary- for the best action to promote safety.

BME was also involved in the following national and international initiatives:

- Since 2010, the Code of Best Tax Practices. In 2016, almost all of the companies in the BME Group completed their individual membership of the Code of Best Tax Practices.



Javier Hernani receives AECA award in acknowledgement of BME transparency.



Brian Warren receives award as one of the best European Investor Relations.

- *The United Nations Global Compact (UNGC)*. BME has complied with its fundamental responsibilities in the areas of human rights, employment, the environment and corruption, by incorporating the principles of the Global Compact into its strategies, policies and procedures since 2011, and by fostering a culture of integrity.
- *The United Nations Sustainable Stock Exchanges (SSE) initiative* since 2015, of which it is a Partner Exchange. This initiative aims to raise awareness of best corporate governance and social and corporate responsibility practices, and to foster sustainable business practices.

In execution and development of this, in 2016, BME prepared and published a voluntary guide to aspects of sustainability on its website. This is aimed at listed companies in Spain and is a useful and practical tool for distributing high quality and exhaustive information on corporate responsibility efficiently.

As part of the SSE initiative, the issuing companies listed on the financial markets and systems managed by BME provided comprehensive sustainability information in 2016. As a result, the companies listed on BME hold third place in the sustainability rankings prepared by analysts at *Morningstar*.



BME subscribed the Sustainable Stock Exchanges Initiative in 2015.



Network Spain  
**WE SUPPORT**

BME subscribed UN Global Compact in 2011.



BME has published a Sustainability Guide for issuers.

### Tax transparency

Effective tax management and greater legal certainty in tax matters enhance the results of the Company and the Group, and lessens the risks inherent in complying with tax obligations.

- On 30 September 2010, BME signed the Code of Best Tax Practices and, in response to these recommendations, in 2011 it approved certain tax policy principles. These remained in place in 2016 and form the basis for the Company's tax strategy. They can be summarised as: Compliance with prevailing regulations, settling taxes in accordance with current legislation, avoiding inefficiencies in relation to tax costs.
- Adopting tax decisions based on prevailing law, in relation to the Company's business, operations and activity, and the condition of its assets, functions and risks.
- Shunning transactions of an artificial nature or with no business rationalisation deriving from the activity of the Company with the sole purpose of reducing its tax liabilities, together with investments in territories considered tax havens, except when directly related to the performance of its business activity.

- Transparency in the criteria adopted for tax matters (which shall be based on a reasonable interpretation of applicable regulations) and their motivation;

- Transparency, trust, good faith and straightforwardness in the Company's relations with the tax authorities, without prejudice to any disputes that might arise with the authorities in defence of its interests and the interests of its shareholders.

The Board of Directors, through its Audit Committee, must be informed of all corporate transactions that might take place and that are considered relevant for the Company given the special tax treatment they receive - such as creation or acquisition of holdings in special purpose vehicles or those domiciled in countries or territories considered tax havens - and any transaction or business of a similar nature that might undermine the Group's transparency.

### Total tax contribution

Details of the Company's total tax contribution are shown in the table below. This includes the taxes on its activities, which are an effective cost for the Company, and the taxes collected and paid on behalf of other tax payers as a result of the economic activity

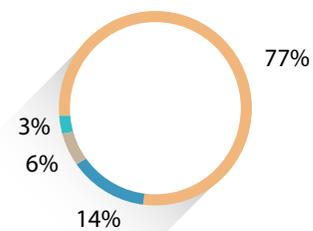
generated: namely, corporate income tax, local taxes and charges, social security and personal income tax withholdings, and other indirect taxes, together with Value Added Tax.

	2014	2015	2016
<b>Total tax contribution</b>	152,819	150,987	134,497
Taxes paid	82,944	80,955	66,117
Taxes collected	<b>69,875</b>	<b>70,032</b>	<b>68,380</b>

The average corporate income tax rate paid by BME is very similar to the general rate for this tax.

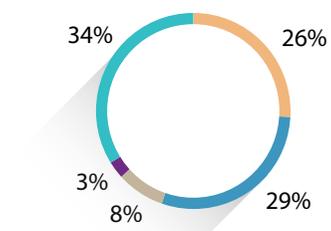
	2014	2015	2016
<b>Average corporate income tax rate for BME</b>	29.52%	27.67%	%
<b>General tax rate</b>	<b>30%</b>	<b>28%</b>	<b>24.86%</b>

### Taxes paid (2016)



- Corporate Income Tax
- Social Security (company)
- VAT
- Other taxes, fees and special contributions

### Taxes collected (2016)



- Personal Income Tax
- RCM
- IRNR
- VAT
- Social Security (employee)

## 2.2 BME's Relations with its Stakeholders

BME provides a number of communication channels for the main actors in the market, namely its internal and external stakeholders. These channels facilitate communication with the Company, enabling stakeholders to air their concerns, suggestions and questions about aspects of the Company's activity.

The Company considers its stakeholders to include the users of its services, its shareholders, company employees, service providers and society at large. The communication channels made available to these five groups of stakeholders are discussed in more detail elsewhere in this report.



Annual Meeting with the media.

### Relations with other relevant sectors

In view of the importance of the functions performed by BME in ensuring the smooth running of financial markets and, by extension, the Spanish economy, the company must maintain a smooth relationship with public bodies through official channels, predicated on strict adherence to applicable regulations, and with the domestic and international media.

- *Relations with Public Administrations.* BME performs its role as the manager of regulated markets, trading systems, central counterparty (CCP) and

registration, clearing and settlement system, in compliance with European and Spanish regulations on the sector. Accordingly, BME and the majority of its subsidiaries are supervised by the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores, CNMV) and by the *European Securities and Markets Authority* (ESMA).

As part of its strong relationship with the CNMV, BME actively participates in the forums established by the regulator and serves on the Consultative Committee, the advisory body to the

CNMV Board of Directors, and the Coordination Committee set up for the reform of the securities clearing, settlement and registration system, whose second phase is expected to be completed in 2017.

The BME Group is also involved in the National Users Group, chaired by the Bank of Spain, contributing to the implementation of the European Central Bank's *Target 2 Securities* (T2S) project.

2016 saw the completion of the application processes for practically all Group companies to the Code of Best Tax Practices. This Code was approved by the Large Businesses Forum on 20 July 2010, with BME becoming a signatory on 30 September 2010.

- *Relations with the media.* BME serves the domestic and international media through its Corporate Communications department, satisfying day-to-day demands for information through regular press releases and by responding to ad hoc requests from the media and others through its [newsbme@grupobme.es](mailto:newsbme@grupobme.es), email, meetings with the press, cooperation with professional associations, sponsorship of awards by business newspapers and holding forums and events.

It also keeps all relevant information on the Company up-to-date on its corporate website, where speeches by the Chairman and other relevant documents can be found in the "Press" section, which also offers live broadcasts of the General Shareholders' Meeting and presentations of its results.

The stock exchange trading floor continues to attract the attention of the media. This has prompted BME to strive to meet the infrastructure needs of TV and radio stations and other media, and to create an active press room, fully equipped with computer systems, subscriptions to financial information services, and other resources.

BME does not contribute to any political parties or organisations, allowing BME's management to remain independent in its relationships with local, regional and national government bodies.

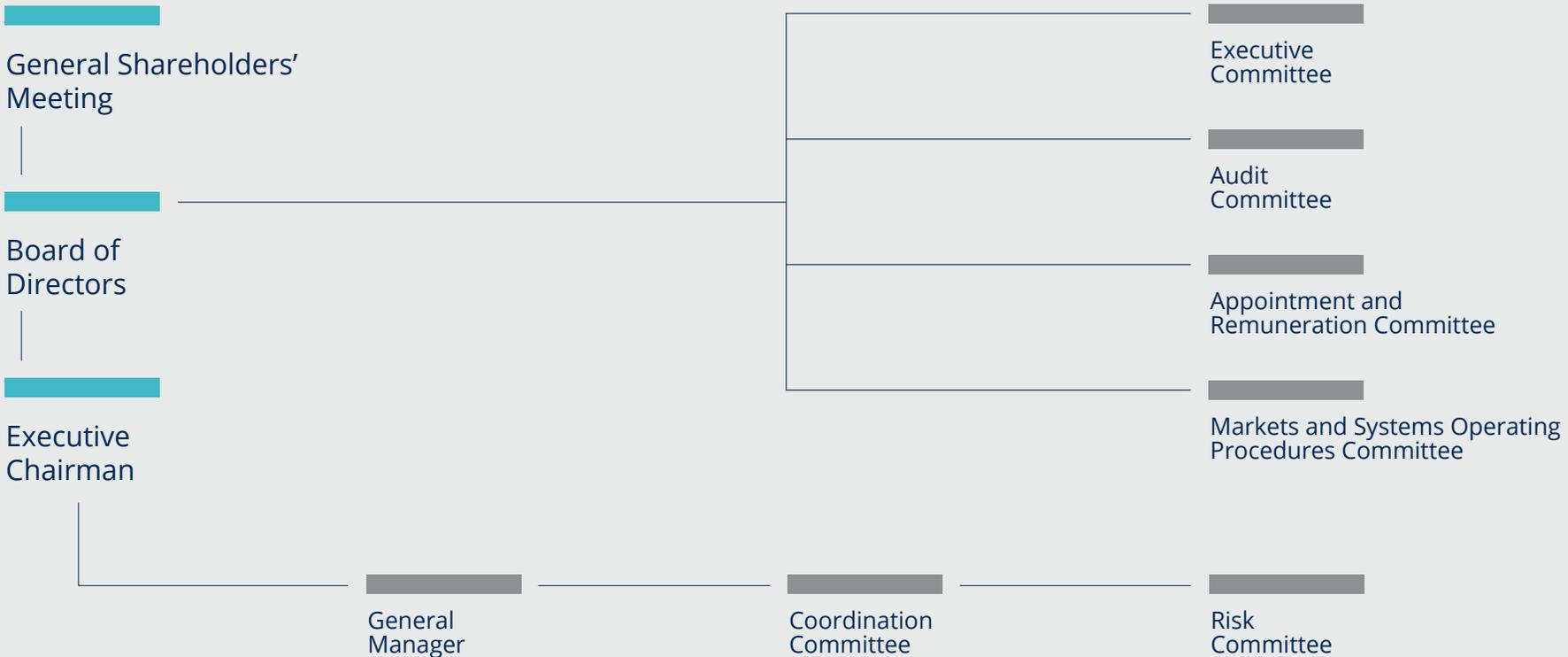
BME did not receive any financial aid from the government or public authorities in general in 2016. However, it did avail itself of subsidies offered by the Fundación Tripartita para la Formación en el Empleo (Tripartite Foundation for On-the Job Training) to provide in-company training initiatives for its employees (see Chapter 5 for more information).

## 2.3 Corporate Governance

BME's corporate governance structure conforms to the highest market standards in this field. Its guiding principles are transparency, shareholder participation and the independence of the external auditor.

BME's internal regulations are available under the "Information for Shareholders and Investors" section of the corporate website: [www.bolsasmercados.es](http://www.bolsasmercados.es).

# Corporate Governance bodies





\* María Helena dos Santos, whose picture is on page 25, joined BME Board of Directors after the GSM.

BME Board of Directors.

The **Board of Directors** is the company's most senior governing and administrative body. At 31 December 2016, it comprised 12 members of recognised capacity, integrity and independence. The Board of Directors is responsible for approving the corporate social responsibility policy.

The composition of the board complies with the recommendations of the Unified Good Governance Code for listed companies, with 10 external directors (3 proprietary, 6 independent and 1 other external director) and only 2 executive directors.

All information relating to corporate governance at BME can be found in the company's 2016 Annual Corporate Governance Report, Annual Report on Directors' Remunerations and Report on the Activity of the Board of Directors, all of which are available on the corporate website [www.bolsasymercados.es](http://www.bolsasymercados.es).



María Helena dos Santos, new member of BME Board in 2016.

## Composition of Board of Directors

DIRECTORS	Position on the Board	Character	Committees			
			Executive Committee	Audit Committee	Appointments and Remuneration Committee	Markets and Systems Operating Procedures Committee
Antonio J. Zoido Martínez	Chairman	Executive	Chairman	-	-	-
Ignacio Garralda Ruiz de Velasco	First Vice Chairman	External independent	Member	-	-	-
Mrs. Margarita Prat Rodrigo	Second Vice Chairwoman	External independent	Member	Chairwoman	-	-
Manuel Olivencia Ruiz	Lead Director	External independent	-	-	Chairman	-
María Helena dos Santos Fernandes de Santana	Director	External independent	-	-	-	-
Álvaro Cuervo García	Director	External independent	Member	Member	Member	-
Carlos Fernández González	Director	Other external director	-	-	Member	-
Joan Hortalá i Arau	Director	Executive	-	-	-	Chairman
Karel Lannoo	Director	External independent	-	-	-	Member
Juan March Juan	Director	External proprietary	-	-	-	Member
Santos Martínez-Conde y Gutiérrez-Barquín	Director	External proprietary	Member	-	Member	-
Ramiro Mato García-Ansorena	Director	External proprietary	-	Member	-	-

\* Secretary of the Board and of the Committees: Luis María Cazorla Prieto.

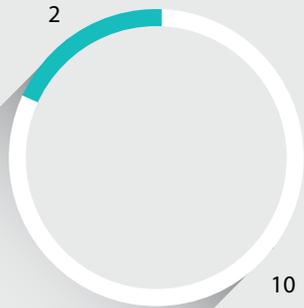
\* Deputy Secretary of the Board and of the Committees: Mrs. Cristina Bajo Martínez.

\* Legal advisor: Jaime Aguilar Fernández-Hontoria.

## Classification of members of the Board of Directors

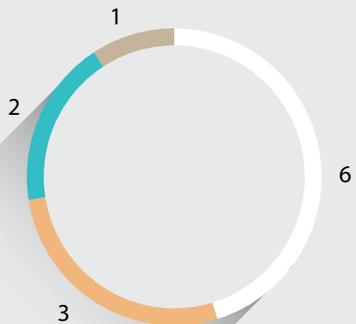
At 31 December 2016

### External/ internal directors



- Internal directors
- External directors

### Type of director

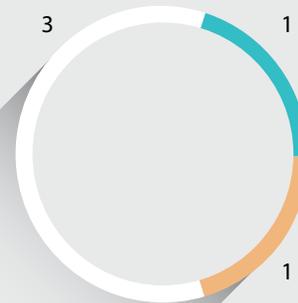


- Independent directors
- Proprietary directors
- Executive directors
- Other external directors

## Classification of committee members

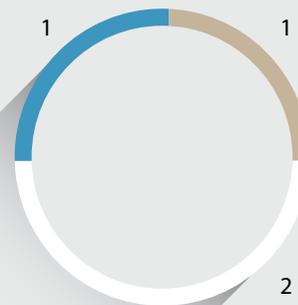
At 31 December 2016

### Executive Committee



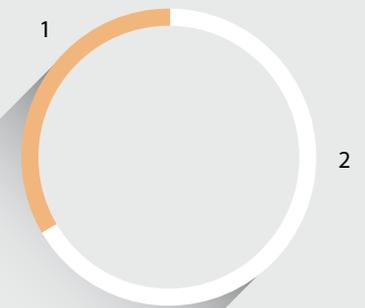
- Proprietary directors
- Executive directors
- Independent directors

### Appointments and Remuneration Committee



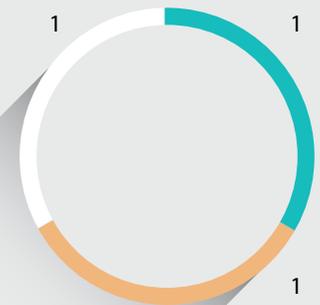
- Independent directors
- Proprietary directors
- Other external directors

### Audit Committee



- Independent directors
- Proprietary directors

### Markets and Systems Operating Procedures Committee



- Independent directors
- Executive directors
- Proprietary directors

### BME's structure

As established in the company's Articles of Association and Board of Directors' Regulations, the Board of Directors has entrusted the running of its ordinary business to its delegate bodies, the Board's executive members and the senior management team.

Accordingly, the company has a **General Manager**, who, with the supervision and support of the Chairman, as the most senior executive, coordinates the business units and areas, and a **Coordination Committee**, which is responsible for permanently coordinating the group's various business units and the activities of the company and Group companies.

#### Coordination Committee

Antonio Zoido Martínez (Chairman)

Javier Hernani Burzako (General Manager)

Ramón Adarraga Morales

Jaime Aguilar Fernández-Hontoria

José Massa Gutiérrez del Álamo

Francisco Nicolás Tahoces

Jorge Yzaguirre Scharfhausen

Given the Group's corporate structure, the coordinated management of its activities is based on a structure of seven business units and seven corporate areas providing support functions to all business units.

#### Business units

**Equities:** Trading of securities through the electronic trading platform (Sistema de Interconexión Bursátil) or on the stock exchange floor and all corresponding post-trade activities, as well as listing and maintenance services for issuers on the equity market.

**Derivatives:** Trading of derivatives by electronic means.

**Fixed Income:** Trading of private fixed-income and public debt securities as well as listing and maintenance services for issuers on the private fixed-income market.

**Settlement and registration:** Registration and settlement of equity, private fixed-income and public debt trades.

**Clearing:** Clearing, central counterparty activities for equities, derivatives, public debt repos, interest rate derivatives and electricity derivatives.

**Information:** Dissemination of information as a primary source, index licences and other.

**IT&Consulting:** Production and sale of software, global access, advisory and training services.

Corporate area	Head
Human Resources	Luis García Berral
Technology	Francisco Nicolás Tahoces
Financial	Javier Hernani Burzako (Director General)
International Relations	Ramón Adarraga Morales
General Secretary	Luis María Cazorla Prieto
Legal services	Jaime Aguilar Fernández-Hontoria
Corporate Communications	Pablo Malumbres Muguerza

## Risk management

BME has put in place an integrated risk management system (SIGR), based on the methodological framework set out in the COSO II report. This ensures that any significant risks that could affect the Group's objectives and activities are identified, evaluated and controlled as described in BME's Annual Corporate Governance Report.

The Risk Committee, the Internal Audit Department and the Compliance Department assist the Board of Directors and the Audit Committee in developing a suitable risk management programme.

The **Board of Directors**, as the Company's senior governance and administrative body, defines the control and management policy for risks, including tax risks, and monitors internal information-management and control systems.

The **Audit Committee**, which reports to the Board of Directors, monitors the effectiveness of the Company's internal control and risk-control systems, including that for tax risks, the Company's internal and external audit services, and the Group's regulatory compliance function.

The **Risk Committee**, chaired by the General Manager, reports to the Coordination Committee. These two units work together to implement the risk control and management policy laid down by the Board of Directors. The committee monitors and analyses the risks arising in the day-to-day activities of BME group companies.

The Risk Committee has created an Integrated Risk Management System (IRMS) and also maintains the Corporate Risk Map, which includes the Internal

Control over Financial Reporting system (ICFRS). A description of which is available in the Annual Corporate Governance Report.

The company has also had a Criminal Risk Prevention System since 2013, as described in Chapter 5 of this report. The system was gradually updated in 2015 and 2016, to reflect changes in the Criminal Code. The Audit Committee has set up a Criminal Prevention Committee, which is responsible for the implementation and development of, and compliance with, the BME Group's criminal risk prevention system.

### Independence of the external auditor

The **Internal Audit Department** is charged with providing senior management and the Board, through the Audit Committee to which this department reports, with information that enables them to fulfil the company's objectives, including assessment and evaluation of the efficiency of the risk assessment tasks carried out. Its remit is therefore aimed at evaluating and improving the efficiency of the risk management processes, control and governance, by identifying key risks and controls.

Irrespective of the maximum time limits for contracting auditors set down in audit regulations, BME has considered and continues to consider the number of consecutive years in which the external audit firm has audited the annual financial statements of the Company and its Group, in order to foster the independence of the auditors.

In order to create an independent body that could monitor compliance with the regulations governing the activities of BME and its group companies, the Executive Committee approved the formation of a group-wide **Regulatory Compliance Department**, which reports to the Audit Committee. The Regulatory Compliance Department's primary duties include supervising compliance with prevailing regulations, codes of conduct and commercial agreements; verifying the suitability of procedures and compliance therewith; supporting the Audit Committee in supervising regulatory compliance risk; and helping employees to monitor regulatory changes that could affect the activities carried out by the group.



Internal Audit staff.