

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

ISSUER'S PARTICULARS

FINANCIAL YEAR-END

31.12.2017

COMPANY TAX ID N° (C.I.F.)

A-83.246.314

Corporate name:

**BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS
FINANCIEROS, S.A.**

Registered office:

PLAZA DE LA LEALTAD, 1 (MADRID)

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES
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A OWNERSHIP STRUCTURE

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

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

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

Yes No

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

The information disclosed in this section is based on the Shareholder Register, which contains transactions carried out in 2017.

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
CORPORACIÓN FINANCIERA ALBA, S.A.	10,084,949	0	12.06%

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

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

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. ANTONIO J. ZOIDO MARTÍNEZ	32,363	0	0.04%
MR. JAVIER HERNANI BURZAKO	15,936	0	0.02%
MR. IGNACIO GARRALDA RUIZ DE VELASCO	1,000	0	0.00%
MRS. MARGARITA PRAT RODRIGO	100	0	0.00%
MR. MANUEL OLIVENCIA RUIZ (*)	2,000	0	0.00%
MR. CARLOS FERNÁNDEZ GONZALEZ	600	0	0.00%
MR. JOAN HORTALÁ I ARAU	4,620	0	0.01%

MR. JUAN MARCH JUAN	500	0	0.00%
MR. SANTOS MARTÍNEZ- CONDE GUTIÉRREZ BARQUÍN	7,500	0	0.01%

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

% of total voting rights held by the Board of Directors	0.08% (*)
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(*) This figure does not include the equity held by the shareholder represented on the Board of Directors justifying the qualification of two (2) of its Members as proprietary Directors. At 31 December 2017, the stake held by this shareholder was 12.06% of the share capital.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2017 stood at 12.14%.

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

At 31 December 2017 the executive Directors are beneficiaries of two medium-term variable remuneration Plans to be implemented by the Company and its subsidiaries, designed for members of the management team, including the executive Directors who, in accordance with article 219.1 of the Companies Act, were approved by the company's Ordinary General Shareholders' Meetings on 30 April 2014 and 27 April 2017 and notified to the Spanish Securities Market Commission (CNMV) at these dates.

Medium-term remuneration scheme approved on 30 April 2014.

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

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

The maximum number of BME shares included in the Plan is 555,048, representing 0.66% of BME's share capital, of which a maximum of 79,992 shares shall be granted to Antonio Zoido Martínez and 6,894 shares to Joan Hortalá i Arau, as executive Directors. This maximum number of shares did not include any shares that may be allocated to Mr. Javier Hernani Burzako, who was appointed Managing Director at the time the theoretical share-convertible units were allocated.

At 31 December 2017 the second period of the Plan expired and shall be settled up in 2018, although at the date of this report no data are available to establish compliance with the targets set in the Plan and, where applicable, the specific number of shares to be received by each of the beneficiaries, including the executive Directors.

In execution of this Plan, the Appointments and Remuneration Committee, at its meetings on 24 February 2015 and 25 May 2016, granted Mr. Zoido Martínez and Mr. Hortalá i Arau the theoretical units corresponding to the second and third periods of the Plan. Thus the maximum theoretical number of shares that may be received in accordance with the aforementioned allocation in 2018 and 2019 amount to 25,267 and 31,693, in the case of Mr. Zoido Martínez, and 2,056 and 2,580, in the case of Mr. Hortalá i Arau.

The maximum theoretical number of shares that may be received by Mr. Hernani Burzako in 2018 and 2019 arising from the theoretical units allocated in 2015 and 2016 in his capacity as the Company's Managing Director are 10,309 and 10,323.

Medium-term remuneration scheme approved on 27 April 2017.

This Plan was based on the allocation in 2017 of a number of theoretical units which shall serve as the basis for calculating any shares to be delivered, subject to fulfilment of the objectives of the Plan in the year 2020.

The specific number of shares to be granted in the year 2020 shall depend on the performance of BME's Efficiency Ratio and *Total Shareholder Return*, compared with those 5 benchmarked entities, and shall be calculated by dividing in two the number of theoretical units assigned in 2017, 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 Plan is 190,263, representing 0.23% of BME's share capital, of which a maximum of 24,067 shares may be granted to Antonio Zoido Martínez, 10,203 shares to Javier Hernani Burzako and 2,550 shares to Joan Hortalá i Arau, as executive Directors.

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
489,258	0	0.59%

(*) 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

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

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

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

Authorisation to acquire treasury shares

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

A.9 bis Estimated floating capital:

	%
Estimated floating capital	87.28%

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 de Valores (hereinafter, Spain's Securities Market Act), approved by Royal Legislative Decree 4/2015 of 23 October, grants the CNMV the power to object to the acquisition of significant stakes in the capital of BME pursuant to *Royal Decree 361/2007 of 16 March implementing Securities Market Act 24/1988 of 28 July concerning stakes in the capital of companies which manage secondary markets or securities registration, clearing and settlement systems*.

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

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

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

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

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

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

Yes No

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

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

Yes No

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

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate and 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 Regulations of the Shareholders' Meeting set no special rules for amendments to the Articles of Association.

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

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

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

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

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

Date of General Meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic vote	Other	
28/04/2016	14.16%	27.90%	0.06%	1.41%	43.53%
27/04/2017	16.08%	27.02%	0.09%	1.49%	44.68%

For the purposes of the provisions of article 148 of the Companies Act, in the quorum necessary for the General Shareholders' Meeting held on 28 April 2016, the 195,916 treasury shares held by the

Company at the corresponding date were calculated, equivalent to 0.23% of the share capital, and in the quorum necessary for the General Shareholders' Meeting held on 27 April 2017, the 524,833 treasury shares held by the Company were calculated, equivalent to 0.63% of the share capital.

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

Yes No

B.6 Section revoked.

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

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

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
MR. ANTONIO J. ZOIDO MARTÍNEZ	-	EXECUTIVE	CHAIRMAN	15/02/2002	27/04/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. JAVIER HERNANI BURZAKO	-	EXECUTIVE	CEO	27/04/2017	27/04/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. IGNACIO GARRALDA RUIZ DE VELASCO	-	INDEPENDENT	FIRST DEPUTY CHAIRMAN	27/02/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MRS. MARGARITA PRAT RODRIGO	-	INDEPENDENT	SECOND DEPUTY CHAIRMAN	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. MANUEL OLIVENCIA RUIZ (*)	-	INDEPENDENT	LEAD INDEPENDENT DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA	-	INDEPENDENT	DIRECTOR	28/04/2016	28/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. ÁLVARO CUERVO GARCÍA	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. CARLOS FERNÁNDEZ GONZÁLEZ	-	OTHER EXTERNAL	DIRECTOR	25/03/2014	30/04/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. JOAN HORTALÁ I ARAU	-	EXECUTIVE	DIRECTOR	15/02/2002	27/04/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. KAREL	-	INDEPENDENT	DIRECTOR	05/06/2006	30/04/2014	GENERAL SHAREHOLDERS'

LANNOO						MEETING RESOLUTION
MR. JUAN MARCH JUAN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN	-	PROPRIETARY	DIRECTOR	30/10/2014	30/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

Total number of directors	12
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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
MR. RAMIRO MATO GARCÍA ANSORENA	PROPRIETARY	27/09/2017

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company
MR. ANTONIO J. ZOIDO MARTÍNEZ	CHAIRMAN
MR. JAVIER HERNANI BURZAKO	CEO
MR. JOAN HORTALÁ I ARAU	DIRECTOR

Total number of executive directors	3
% of the Board	25.00%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
MR. JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.
MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.

Total number of proprietary directors	2
% of the Board	16.67%

EXTERNAL INDEPENDENT DIRECTORS

Name or corporate name of director
MR. IGNACIO GARRALDA RUIZ DE VELASCO
Profile
<p>Graduate in Law from Madrid's Universidad Complutense.</p> <p>He was Trade Collegiate Broker (1976 - 1982), stock-broker agent of "Ilustre Colegio de Agentes de Cambio y Bolsa de Madrid" (1982-1989) and Notary on unpaid leave since 1989.</p> <p>He was Founding Member of "AB Asesores Bursátiles, S.A." where he served as Deputy Chairman to 2001. He was Deputy Chairman of "AB Morgan Stanley Dean Witter, S.V., S.A." (1989 to 2001) and Chairman of "Bancoval, S.A." (1994 - 1996). Between 1991 and 2009 he was a Director of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.</p> <p>He has been Chairman of "Mutua Madrileña" since 2008, where he has been a Director since 2002 and was Second Deputy Chairman from 2005 to 2008. He was appointed CEO on 27 June 2013, and was renewed in the post on 14 May 2015.</p> <p>He has also worked as external proprietary Director at Caixabank, S.A. since 2017, and as external independent Director at ENDESA since 2015. Between 2013 and 2017 he was a Director at Faes Farma, S.A. and Consorcio de Compensación de Seguros.</p> <p>He is Vice-President of "Fundación Lealtad" and member of the Board of Trustees of "Museo y Fundación Reina Sofía", "Fundación Teatro Real", "Real Instituto Elcano" and "Fundación Príncipe de Asturias".</p>

Name or corporate name of director
MRS. MARGARITA PRAT RODRIGO
Profile
<p>Graduate in Law from Madrid's Universidad Complutense in 1971 and in Economics and Business from Madrid's Universidad Pontificia Comillas in 1982, receiving an extraordinary prize, and holder of a PhD in Economics and Business (1989). She has also published several works and articles since 1989.</p> <p>She was Director of the Financial Management Department in the Economics and Business faculty of Madrid's Universidad Pontificia Comillas from 1984 to 2000, Vice Dean at the same university from 1990 to 1993 and Dean from 1993 to 2002. From 2004 to 2012, she was Head of Internal Audit at Universidad Pontificia Comillas de Madrid.</p> <p>She 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.</p> <p>Until September, she was Chairman of the Audit Committee at the Institute of Internal Auditors in Spain, of which she is a member. She is also a member of the Management Board of the Spanish Institute of Financial Analysts.</p>

Name or corporate name of director
MR. MANUEL OLIVENCIA RUIZ (*)
Profile
<p>Graduate in Law from Seville University, where he was awarded the Extraordinary Graduation Prize (1951), he took his doctorate in law at Bologna University (1953). He was the author of numerous academic works. He was decorated with four Great Crosses (Isabel la Católica,</p>

Alfonso X el Sabio, San Raimundo de Peñafort and Military Merit crosses).

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

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

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

Name or corporate name of director
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA
Profile
<p>Mrs. Maria Helena dos Santos Fernandes de Santana has a degree in economics from the Faculty of Economics and Administration of the University of São Paulo (FEA-USP).</p> <p>She is a member of the Audit Committee at ITAU UNIBANCO HOLDING, S.A.; coordinator of the Audit Committees Forum at IBGC - Brazilian Institution of Corporate Governance since 2017; member of the Management Board at the IFRS FOUNDATION, a body forming part of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB); and a member of the Consultative Committee of the MERCADO DE GOVERNANÇA DE ESTATAIS de BM&FBOVESPA and of the Mergers and Acquisitions Committee ("CAF").</p> <p>She was also a member of the Board of Directors and Chairman of the Corporate Governance Committee at COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO, S.A. between 2013 and 2017; a member of the Board of Directors and Coordinator of the Audit Committee at TOTVS, S.A. between 2013 and 2017; a member of the Board of Directors at CPFL ENERGÍA, S.A. between 2013 and April 2015; Executive Chairman of the Brazilian Securities And Exchange Commission (COMISSION DE VALORES MOBILIARIOS (CVM)) between 2007 and 2012; Director of this Commission between 2006 and 2007; and representative of this Commission on the FINANCIAL STABILITY BOARD (FSB) between 2009 and 2012.</p> <p>She was previously Chairman of the Executive Committee of the International Organization of Securities Commissions (IOSCO) between 2011 and 2012, while also a member of the INTERNATIONAL INTEGRATED REPORTING COMMITTEE (IIRC); and Vice Chairman of the Brazilian Institute of Corporate Governance or INSTITUTO BRASILEIRO DE GOVERNANÇA between 2004 and 2006, and member of its Board of Directors since 2001.</p> <p>She worked in Special Projects at the SÃO PAULO STOCK EXCHANGE (BOVESPA, now BM&FBOVESPA) between 1994 and 2006, and was Executive Superintendent of Corporate Relations between 2000 and 2006. In this post, she was responsible for the supervision of listed companies and development of the "Novo Mercado" or New Market segment, which requires high standards of corporate governance.</p>

Name or corporate name of director
MR. ÁLVARO CUERVO GARCÍA
Profile
Emeritus Professor of Business Economics at Madrid's Universidad Complutense, President of

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

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

Name or corporate name of director
MR. KAREL LANNOO
Profile
<p>He is the chief executive of the Centre for European Policy Studies, CEPS, based in Brussels. CEPS is one of Europe's major independent think tanks, leading the way in its research on economic and financial policies.</p> <p>Mr. Lannoo is an expert on the regulation of financial markets, banking supervision and economic policy. He has published various books on these subjects (most recently 'The Great Financial Plumbing, From Northern Rock to Banking Union' 2015), in addition to reports and a large number of press articles. He has also been involved in surveys and has addressed a number of national and international institutions.</p> <p>He holds a degree in Philosophy and an MA in History from the University of Leuven (Belgium) and a postgraduate degree in European Studies from the University of Nancy (France).</p> <p>Mr. Lannoo also heads up the ECMI and ECRI research institutes specialising in Europe's capital and credit markets. He is also a director of Lannoo Publishing Group.</p>

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

List any independent directors who receive from the company or group any amount or payment other than standard directors' remuneration or who maintain or have maintained during the last year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained 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	Company, executive or shareholder with whom the relationship is maintained	Reasons
MR. CARLOS FERNÁNDEZ GONZÁLEZ	MEDIACIÓN BURSÁTIL, S.V., S.A. and SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID,	He is Chairman of Mediación Bursátil, S.V., S.A., which holds a stake of less than 1% of

	S.A.U.	BME's share capital. He is also a member of the Board of Directors of "Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U.", a BME Group company, for which he receives per diems, and also its Investor Ombudsman, for which he receives remuneration.
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Total number of other external directors	1
% of the Board	8.33%

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

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

	Number of female directors				% of total directors of each type			
	FY 2017	FY 2016	FY 2015	FY 2014	FY 2017	FY 2016	FY 2015	FY 2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	2	1	2	33.33%	33.33%	20.00%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	2	2	1	2	16.67%	16.67%	9.09%	16.67%

At 31 December 2017, 2016 and 2014 the Board was composed of 12 Directors, and of 11 Directors at 31 December 2015. At 31 December 2017, 2016 and 2014 the Board was composed of 6 independent Directors, and of 5 independent Directors at 31 December 2015.

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
<p>At a meeting on 23 December 2015 the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors and, in order to attain this percentage, agreed that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.</p> <p>Practically all the proposed appointees as independent Directors submitted by the Appointments and Remuneration Committees since shares were admitted for trading on the Stock Exchanges have been women.</p> <p>Moreover, with regard to the other categories of Director, the Appointments and Remuneration</p>

Committee ensures that selection procedures are not biased against female candidates.

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

Explanation of measures
<p>As stipulated in section C.1.5 above, the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors, and that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.</p> <p>Notwithstanding the foregoing, at a meeting on 29 November 2007 the Appointments and Remuneration Committee, on commencing the analysis of the criteria to be met for procedures to select independent Directors, had already established that "<i>female candidates must not be discriminated against in the selection processes</i>".</p>

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

Explanation of the reasons
<p>As indicated in section C.1.5 above, within the scope of its duty to propose the appointment of independent Directors and "other external Directors", the Appointments and Remuneration Committee has actively sought female candidates to fill vacancies for independent directorships arising since the Company's shares were first admitted for trading, also ensuring that the Director selection processes do not discriminate due to gender diversity.</p> <p>With respect to other Director categories, within its powers and duties under prevailing law, the Appointments and Remuneration Committee reports on the extent to which the candidates proposed satisfy the requirements for appointment to a Directorship.</p>

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

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

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

In order to enhance the role of the Appointments and Remuneration Committee in identifying the main candidates for independent directorships, following a proposal by the Appointments and Remuneration Committee, at a meeting on 27 October 2017 the Board of Directors approved the internal procedure for selection of candidates for independent Directors or "other external Directors", which establishes the mechanism for an orderly planned proposal of these categories of Director to fill any vacancies arising on the Board of Directors.

In 2017 the Company embarked upon a gradual and progressive process of transformation in the organisation of the Company's highest executive functions, from an organisational structure whereby

the Chairman carried out executive functions towards a model of a Chairman with executive functions working alongside a CEO.

As part of this process, following a report by the Appointments and Remuneration Committee, at the Ordinary General Shareholders' Meeting on 27 April 2017 the Board of Directors submitted proposals to increase the number of members of the Board, re-elect the three proprietary and executive Directors whose terms were due to expire in 2017, and appoint a new executive Director to carry out functions as CEO.

To this end the Appointments and Remuneration Committee examined the advisability of the new organisational structure proposed by the Board of Directors with an executive Chairman and a CEO, the dimension of the Board and its knowledge, competences and experience, and the members making up the Board of Directors at that time, and concluded it was advisable to proceed with the re-election of the three Directors whose terms were due to expire in 2017, and simultaneously bring a new member onto the Board of Directors who would meet the necessary requirements to be appointed CEO subsequently.

Having reached this conclusion, the Appointments and Remuneration Committee defined the personal and professional profile which had to be met for the post of executive Director, identifying potential candidates with this profile, and the process terminated with the proposal to appoint Mr. Javier Hernani Burzako.

The Appointments and Remuneration Committee considers that the level of compliance of the Medium and long-term Planning for the Board of Directors in the process to re-elect and appoint Directors in 2017 was satisfactory, since it took account of the overall composition of the body, the diversity of knowledge, competences and experience, and made improvements to the structure of senior executive functions with the appointment of a Director, who was subsequently appointed CEO, in line with the best practices of good corporate governance.

The Appointments and Remuneration Committee took account of the fact that the proposals submitted to the General Meeting entailed a reduction in the percentage of women on the Board of Directors.

Notwithstanding the foregoing, during the process of appraisal of the composition of the Board of Directors to examine the advisability of re-election of Directors, and also during the process to define the professional profile and identify the candidate for executive Director, priority was given to selection criteria in relation to the knowledge, competence and professional experience of candidates, though under no circumstances did this hinder the selection of female candidates.

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

At 31 December 2017 the Company's sole significant shareholder was represented on the Board by two (2) Directors qualifying as proprietary.

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

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

Yes No

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

Name of director
MR. RAMIRO MATO GARCÍA ANSORENA

Reasons for resignation
He tendered his resignation in writing on 27 September 2017 due to his retirement from the BNP Paribas Group, the major shareholder he represented on the Board of Directors.

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

Name or corporate name of director
MR. JAVIER HERNANI BURZAKO
Brief description
The Board delegates all its powers to the CEO, except when these powers cannot be delegated by law.

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 company	Position	Does he/she have executive functions?
MR. ANTONIO J. ZOIDO MARTÍNEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	CHAIRMAN	YES
MR. ANTONIO J. ZOIDO MARTÍNEZ	SOCIEDAD DE BOLSAS, S.A.	DIRECTOR	NO
MR. JAVIER HERNANI BURZAKO	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BILBAO, S.A.U.	DIRECTOR	NO
MR. JAVIER HERNANI BURZAKO	BOLSAS Y MERCADOS ESPAÑOLES MARKET DATA, S.A.	DIRECTOR	NO
MR. JAVIER HERNANI BURZAKO	BOLSAS Y MERCADOS ESPAÑOLES INNTECH, S.A	JOINT DIRECTOR	YES
MR. JAVIER HERNANI BURZAKO	BOLSAS Y MERCADOS ESPAÑOLES SERVICIOS CORPORATIVOS, S.A.	JOINT DIRECTOR	YES
MR. CARLOS FERNÁNDEZ GONZÁLEZ	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U.	DIRECTOR	NO

MR. JOAN HORTALÁ I ARAU	SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BARCELONA, S.A.U.	CHAIRMAN	YES
MR. JOAN HORTALÁ I ARAU	SOCIEDAD DE BOLSAS, S.A.	DIRECTOR	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
MR. IGNACIO GARRALDA RUIZ DE VELASCO	CAIXABANK, S.A.	DIRECTOR
MR. IGNACIO GARRALDA RUIZ DE VELASCO	ENDESA, S.A.	DIRECTOR
MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA	ITAU UNIBANCO HOLDING, S.A.	MEMBER OF THE AUDIT COMMITTEE
MR. JUAN MARCH JUAN	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	CORPORACIÓN FINANCIERA ALBA, S.A.	CEO
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	ACERINOX, S.A.	DIRECTOR
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN	INDRA SISTEMAS, S.A.	DIRECTOR

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

Yes No

Explanation of rules
Article 23 of the Board of Directors' Regulations establishes that the Company's non-executive Directors may not hold directorships in more than four (4) companies whose shares are listed for trading on domestic or foreign stock exchanges. Directorships in companies belonging to the same Group and those in representation of the same significant shareholder they represent in the Company shall be considered a single post. 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)	2,981 ⁽¹⁾
Amount of cumulative pension rights of serving directors	2,556

(thousands of euros)	
Amount of cumulative pension rights of former directors (thousands of euros)	0

⁽¹⁾ This figure includes remuneration received by Mr. Javier Hernani Burzako following his appointment as CEO on 27 April 2017, and does not include any shares that may be delivered to executive Directors as a result of expiry of the second validity period of the medium-term variable remuneration plan described in section A.3 of this Report.

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

Name or corporate name	Position
MR. RAMÓN ADARRAGA MORALES	DIRECTOR OF INTERNATIONAL COORDINATION AND HEAD OF INFORMATION AND ADDED-VALUE SERVICES
MR. JAIME AGUILAR FERNÁNDEZ-HONTORIA	DIRECTOR OF LEGAL COUNCIL
MRS. MARTA BARTOLOMÉ YLLERA	FINANCE DIRECTOR
MR. JESUS BENITO NAVEIRA	HEAD OF SETTLEMENT AND REGISTRATION
MR. LUIS MARÍA CAZORLA PRIETO	GENERAL SECRETARY AND SECRETARY TO THE BOARD
MR. PABLO MALUMBRES MUGUERZA	DIRECTOR OF COMMUNICATION
MR. FRANCISCO NICOLÁS TAHOSES	TECHNOLOGY DIRECTOR
MR. JORGE YZAGUIRRE SCHARFHAUSEN	CHAIRMAN OF MEFF AND AIAF AND HEAD OF EQUITIES, FIXED INCOME AND DERIVATIVES
MRS. ARANTZA TELLERIA DE LA FUENTE	DIRECTOR OF INTERNAL AUDIT DEPARTMENT

Total remuneration received by senior management (thousands of euros)	3,465 (**) (***)
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(*) Senior management includes members of the Management 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.

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

This amount includes the estimated amount of variable remuneration for 2017; post-employment benefits in favour of these executives in the amount of €289,000, 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 €273,000 paid in 2017 to members of senior management as per diems, or the amount of the shares that, where appropriate, shall be received by members of senior management as a result of expiry of the first validity period of the Share-based Variable Remuneration Plan described in section A.3 of this Report.

(**) This includes sums received from BME and the other companies in the Group, including severance pay for termination of the contractual relationship, by Mr. José Massa Gutiérrez del Álamo, up to 28 September 2017, the date on which he ceased to be a member of BME's senior management, by Mr. Javier Hernani Burzako, up to 27 April 2017, the date on which he was appointed CEO, by Mrs. Marta Bartolomé Yllera, as of 24 May 2017, by Mr. Pablo Malumbres Muguerza, as of 27 September 2017, and by Mr. Jesús Benito Naveira, as of 26 October 2017, the dates on which they joined the Management Committee.

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

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

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

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

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

Yes No

Description of amendments
<p>At a meeting on 27 April 2017, after the Ordinary General Shareholders' Meeting of the same date, the Board of Directors agreed to amend the Board Regulations in order to regulate the concept of the CEO and establish an age limit for appointment or re-election as Director.</p> <p>Approval was thus given to amend articles 10, section 4, 13, sections 2 and 3, and 15 and the addition of a new article 16.bis to address the existence and functions of the CEO, and add certain adaptations in articles referring to the Chairman of the Board of Directors and to the Lead Director for the purpose of harmonising their functions in accordance with a CEO.</p> <p>An amendment was likewise made to article 6, section 2 of Board of Directors Regulations to establish a maximum age limit for the appointment or re-election of Directors, set at 70 for executive Directors and 75 for non-executive Directors.</p>

The Company shall report the aforementioned amendment to the General Shareholders' Meeting at the next meeting, which has been entered in the Madrid Companies Register.

At a meeting on 31 January 2018, the Board of Directors agreed to amend the Board of Directors Regulations in relation to the competences attributed to the Markets and Systems Operating Procedures Committee in terms of interpretation and monitoring of the Internal Code of Conduct.

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

Procedures for appointing, selecting, re-electing, evaluating and removing Directors are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 10, 20, 22 and 23 of its Board of Directors Regulations. The criteria for selection of candidates are set out in the Medium and long-term Planning for the Board of Directors referred to in section C.1.6.bis of this report, implemented by the Board of Directors at the behest of the Appointments and Remuneration Committee in the "Procedure for selection of candidates for independent or "other external Directors".

1.- Appointment.

1. A.- Responsibility.

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

In accordance with the agreement approved at the Ordinary General Shareholders' Meeting held on 27 April 2017, the Board of Directors shall comprise thirteen (13) members.

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

1. B.- Appointment requirements.

Candidates proposed by the Board of Directors for appointment or re-election as Directors must be persons of acknowledged prestige, solvency and honourability, who have the necessary expertise for the performance of their functions. Likewise, following the amendment of article 6, section 2 of Board Regulations, referred to in section C.1.18, those who have reached the age of 75, in the case of non-executive Directors, and the age of 70 in the case of executive Directors, cannot be appointed or re-elected as Directors.

The Medium and long-term planning for the Board of Directors sets out the additional requirements that must be met by the candidates for Director depending on the category of directorship that they are to undertake.

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

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

1. C.- Term of office.

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

1. D.- Procedure.

The Appointments and Remuneration Committee is responsible for proposing the appointment or re-election of members of the Board of Directors if they are independent or other external Directors, and

the Board of Directors is responsible for doing so in all other cases. In the latter case, a preliminary report shall be issued by the Appointments and Remuneration Committee.

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

The Appointments and Remuneration Committee, within the scope of its competences to propose and appoint independent or other external Directors, approved the aforementioned "Procedure for selection of candidates for independent or other external Directors", which establishes the procedure to be followed in the event of a vacancy on the Board of Directors which the Appointments and Remuneration Committee considers must be filled by an independent Director.

To summarise, this Procedure establishes that the Appointments and Remuneration Committee shall initially determine the academic profile, professional experience and diversity criteria that must be met by the candidate, and to this end it shall take account of the Medium and long-term Planning of the structure and composition of the Board, and shall take account of the various profiles of professional training and experience of members of the Board of Directors at any given time.

When the Appointments and Remuneration Committee has received the professional CVs of the candidates from Directors and, where applicable, from the external consultant or consultants, it shall check the mandatory legal requirements and shall exclude any candidates that do not meet the characteristics of the profile determined.

Following an appraisal of the suitability of the candidates in accordance with the criteria determined by the Company and their availability, the Appointments and Remuneration Committee shall submit a selection of alternative proposals for analysis and where applicable for appointment to the Board of Directors, in the order of preference given to candidates, to fill the vacancy on the Board.

The Board of Directors shall submit the proposal to the General Shareholders' Meeting to appoint the candidate it deems most suitable for proper operation of the Board.

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

1. E.- Breakdown of Directorships by type.

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

2.- Re-election.

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

3.- Appraisal.

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

4.- Resignation and removal.

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

The Board of Directors may not propose the removal of any independent Directors before the expiry of the term for which they were appointed, unless they have just cause on the basis of a proposal from the Appointments and Remuneration Committee. Just cause shall be deemed to exist when the Director occupies new positions, undertakes new obligations preventing him/her from devoting

sufficient time to performing Director functions, when he/she breaches the duties inherent in his/her post or when any of the circumstances arise causing a conflict with his/her status as independent.

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

C.1.20 Explain, 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
In 2017 the Board assessed its functioning in the terms described in section C.1.20.bis, and this report did not state the need for any further changes to the internal organisation of the Board or to the procedures applicable to its activities.

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

Assessment of the Board of Directors

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

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

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

In 2017 the Board's assessment was carried out without the assistance of an independent external consultant.

Assessment of the Chairman and the CEO

Pursuant to the provisions of article 10.4 of Board of Directors Regulations, this collegiate body annually assesses the performance of the functions of the Chairman of the Board of Directors and the Company's chief executive and of the CEO. If the Chairman of the Board of Directors is considered an executive Director, the process to assess the Chairman shall be undertaken by the Lead Director. Following the death of BME's Lead Director Mr. Manuel Olivencia Ruiz on 1 January 2018, the process to assess the functions of the Chairman of the Board of Directors in 2017 shall be led by the Appointments and Remuneration Committee.

For the purposes of boosting active participation by all Directors in the process to assess the Chairman, at a meeting on 27 October 2016 the Board of Directors approved the Procedure for assessment of performance of the functions of the Chairman of the Board of Directors, which was amended by a Board resolution on 26 October 2017 to include the procedure for assessment of performance of the functions of the CEO.

Pursuant to the provisions of said assessment process, in December 2017 the Directors were sent a questionnaire assessing performance of the functions of the Chairman and the CEO, in order to compile their individual impressions and opinions.

The aspects which shall be taken into account to assess exercise of the functions of the Chairman of the Board of Directors are dedication to the post of Chairman, leadership capacity on the Board and the Executive Committee, and quality of relations with the other Directors.

The aspects to be taken into account with respect to assessment of exercise of the functions of the CEO shall be dedication to the CEO's post, his relations with the Chairman, the Board as a whole and Directors on an individual basis, his leadership capacities in the ordinary management of Company business, in carrying out the Company's strategy and organisation and management of the administration team and employees of the Company to meet its objectives.

The Appointments and Remuneration Committee shall examine and approve the reports assessing the functions of the Chairman and the CEO, and they shall be submitted to the Board of Directors for approval.

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.

No independent external consultants were engaged to assess the Board of Directors in 2017.

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

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

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

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

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

C.1.22 Section revoked.

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

Yes No

If applicable, describe the differences:

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

Yes No

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

Yes No

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

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

Yes No

Age limit for Chairman: 0 years.

Age limit for CEO: 0 years.

Age limit for directors: 0 years.

Article 6, section 2 of Board of Directors Regulations establishes a maximum age limit for the appointment or re-election of Directors, set at 70 for executive Directors and 75 for non-executive Directors.

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

Yes No

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

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

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

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

Number of Board meetings	12
Number of Board meetings held without the Chairman in attendance	0

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

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

Executive or delegate committee	1
Audit Committee	8
Appointments and Remuneration Committee	16
Market 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 shall also include proxies appointed with specific instructions:

Number of Board meetings held with all directors in attendance	3
% of attendances of the total votes cast during the year	91.95%

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

Yes No

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

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

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

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

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

Likewise, under article 19 of Board Regulations, the Audit Committee is responsible for liaising with the external auditors in order to receive information on any issues connected with the auditing procedure, and to maintain with the auditors the communications envisaged in audit legislation and in the technical auditing regulations. The Audit Committee also receives information on a regular basis regarding the audit plan and the results of its execution, and ensures that the auditors' recommendations are taken into consideration by senior management.

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

The Managing Director also attended meetings of the Audit Committee until he was appointed CEO, as did the Finance Director since she was appointed. They were convened to address issues within their remit, to enable the Committee to conduct rigorous monitoring of the preparation of regular public disclosures.

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

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

Yes No

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

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

C.1.34 Section revoked.

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

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

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

Article 19 of the Board of Directors' Regulations authorises the Audit Committee to maintain relations with the external auditors in order to receive detailed individual information on any issues that might jeopardise the auditors' independence and, where applicable, to authorise services other than those prohibited in the terms established by regulations, and to monitor compliance with the regulations in force concerning the provision of additional services other than audit services, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. The Audit Committee was tasked with authorising the external auditor to provide advisory services, supervise and review information in connection with the Company's corporate social responsibility, having ascertained that the provision of such services did not jeopardise its independence.

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

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

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

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

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

In 2017 the Company did not hire the services of investment banks or rating agencies.

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

Yes No

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

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

Yes No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	26	0	26
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	9.59%	0%	4.93%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations: Indicate any 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	5	5

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	31.25%	31.25%

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

C.1.41 Indicate, and where appropriate detail, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Procedures
<p>Board meetings are generally called at least six days in advance of the date on which they are scheduled to be held. The call notice includes the agenda of the Board meeting and the relevant documentation and information concerning the items on the agenda.</p> <p>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.</p> <p>Furthermore, under article 24 of Board Regulations, Directors shall have the powers to obtain information on any aspect of the Company and its group, and shall be granted access to any documents, registers, past records or any other information they may require.</p> <p>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.</p>

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
<p>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 the importance of which could seriously affect the Company's reputation. More specifically, this article establishes that they must disclose any legal, administrative or other types of claims affecting them the importance of which could seriously affect the Company's image.</p> <p>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.</p>

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

Yes No

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

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

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

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

Number of beneficiaries	6
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Type of beneficiary
The Chairman, in connection with his executive duties, the CEO and four (4) senior executives.
Description of the resolution
<p>1.- Executive directors.</p> <p>There are no such clauses which include benefits for executive Directors, except for the Chairman and the CEO.</p> <p>With regard to the Chairman, classified as an Executive Director, at BME's Extraordinary General Shareholders' Meeting held on 5 June 2006 the following resolution was adopted:</p> <p><i>"It is agreed by the General Shareholders' Meeting that, in the event of the Chairman of the Board of Directors being removed from his post, he shall be entitled to receive an amount equivalent to three times his annual fixed compensation established by the Shareholders' Meeting at the time of this event. Payment of this amount implies a non-competition duty binding the Chairman for three years with respect to companies other than the BME Group pursuing identical or similar corporate purposes or activities. In the event the Chairman fails to comply with this obligation, he shall be obliged to return the amount received. The Chairman shall not be paid the amount mentioned above if he voluntarily leaves the post, fails to fulfil his duties or any of the cases needed for Bolsas y Mercados Españoles to be able to take corporate action against him for liability concur." (...)</i></p> <p>The terms of this resolution by the Extraordinary General Shareholders' Meeting have been listed in the provision of services contract between BME and Antonio J. Zoido Martínez, dated 29 June 2007, subsequent to a report by the Appointments and Remuneration Committee and approval by the Board of Directors.</p> <p>The Ordinary General Shareholders' Meeting on 27 April 2017 approved amendment of the Directors' Remuneration Policy for the purposes of including, among other aspects, the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, among which it is established that, in the event of departure, revocation of his competences or powers, or termination of the contract at his own behest on the basis of failure by the Company to meet the obligations undertaken, the CEO shall be entitled: <i>"To receive the greater of the two following amounts: (i) payment of the amount equivalent to two years' fixed and annual variable remuneration existing at the moment of termination of the employment relationship as CEO or (ii) the legal compensation pursuant to the Employment Statute at that time for any dismissal considered unfair.</i></p> <p><i>If termination results from a failure to fulfil his duties as CEO of the Company duly declared by a court and/or any of the cases needed for BME to be able to take corporate action against him for</i></p>

liability concur, neither resumption of the employment relationship nor payment of the aforementioned amount shall occur."

This condition was set out in the "Contract of Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, which was approved unanimously by the Board of Directors, with no involvement by Mr. Hernani Burzako, on 27 April 2017, at the behest of the Appointments and Remuneration Committee.

2.- Senior management.

With respect to senior management, one (1) senior executive has signed a senior management contract entitling the senior executive to receive compensation in the event of dismissal equivalent to twenty-two (22) months of the gross annual salary, unless employment law stipulates higher compensation. In addition, three (3) senior executives are under ordinary employment contracts. Two of the executives are entitled to severance compensation equivalent to forty-five (45) days' salary per year of service, while the third is entitled to two (2) years' gross annual salary.

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

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	Yes	Yes

	YES	NO
Is the General Shareholders' Meeting informed of such clauses?	Yes	

The four (4) contracts of employment for executives of the BME Group that contain indemnity or "golden parachute" clauses were entered into before BME shares were listed on stock exchanges. Three (3) of these contracts were signed by Group companies other than BME itself.

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
MR. ANTONIO J. ZOIDO MARTÍNEZ	CHAIRMAN	Executive
MR. ÁLVARO CUERVO GARCÍA	MEMBER	Independent
MR. IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	MEMBER	Proprietary
MRS. MARGARITA PRAT RODRIGO	MEMBER	Independent

% of executive directors	20.00%
% of proprietary directors	20.00%
% of independent directors	60.00%

% of other external directors	0.00%
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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 comply with efficiency criteria and the Board of Directors' basic guidelines on composition.

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

- The Chairman and Secretary of the Executive Board shall be the same as for the Board of Directors with the substitution regime stated for 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 there are several Deputy Secretaries, the longest standing 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 Executive Committee shall meet at the behest of its Chairman, provided this has been requested by at least two (2) of its members.
- At each meeting of the Board of Directors, the Executive Committee shall report on the issues discussed and resolutions adopted at the meetings it has held since the previous Board meeting, so that the Secretary can send a copy of the minutes of the Committee's meetings to its members.

Responsibilities

The Committee shall have the following responsibilities:

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

and as authorised at the General Shareholders' Meeting and the general policy regarding treasury shares established by the Board of Directors.

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

Notwithstanding the foregoing, at a meeting on 20 July 2016 the Executive Committee agreed to focus its meetings on the analysis of strategic issues or any other issues it sees fit to discuss.

Action taken in 2017

In the course of 2017 the Executive Committee held one (1) meeting, and took the action stipulated in the report approved by the Board of Directors on its competences in 2017, which shall be provided 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

AUDIT COMMITTEE

Name	Position	Category
MRS. MARGARITA PRAT RODRIGO	CHAIRMAN	Independent
MR. ÁLVARO CUERVO GARCÍA	MEMBER	Independent
MR. JUAN MARCH JUAN	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 article 35 of the Articles of Association and article 19 of Board Regulations.

The Audit Committee is working to draw up Audit Committee Regulations in keeping with the recommendations of the "Spanish Securities Market Commission's Technical Guide 3/2017 on the Audit Committees of public-interest entities".

Organisation and operation

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

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

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

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

- The Secretary to the Committee shall be appointed by the Board of Directors from among its members and shall draw up the minutes of the resolutions adopted. The Board may also appoint the Board Secretary or any of the Deputy Secretaries as Secretary to the Committee even if they are not Committee members, as well as a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but may not vote.
- The Audit Committee shall meet whenever it is convened by the Chairman or a meeting is requested by at least two (2) of its members, and at the request of the Board of Directors.
- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting by proxy. When there is a tie in voting, the Chairman, or the person standing in for him, shall have the casting vote.
- In order to perform its tasks the Committee may seek the assistance and collaboration of independent experts and request attendance of its meetings by Company or group executives.
- The Audit Committee must report to the Board of Directors on its activities in the course of each year, and the Secretary shall send the members of the Board of Directors a copy of the minutes of Committee meetings.

Responsibilities

At 31 December 2017, the Audit Committee had 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.
- Supervision of the effectiveness of risk control systems includes supervision of tax risks.
- To be informed of the fiscal policies applied by the Company.
- To analyse information on structural and corporate changes the Company plans to carry out and report on the economic conditions thereof and their accounting impact.

Action taken in 2017

The Audit Committee held eight (8) meetings in 2017, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made 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 the light of his/her knowledge and experience of accounting, audit or both, and report on the number of years the Chairman of this committee has held the post.

Name of the director with experience	MRS. MARGARITA PRAT RODRIGO
Nº of years the Chairman has held this post ⁽¹⁾	3

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

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
MR. MANUEL OLIVENCIA RUIZ (*)	CHAIRMAN	Independent
MR. ÁLVARO CUERVO GARCÍA	MEMBER	Independent
MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN	MEMBER	Proprietary
MR. CARLOS FERNÁNDEZ GONZÁLEZ	MEMBER	Other external

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

% of proprietary directors	25.00%
% of independent directors	50.00%
% of other external directors	25.00%

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

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

Organisation and operation

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

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.

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

Responsibilities

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

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

Action taken in 2017

Throughout 2017, the Appointments and Remuneration Committee held sixteen (16) meetings, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made 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
MR. JOAN HORTALÁ I ARAU	CHAIRMAN	Executive
MR. KAREL LANNOO	MEMBER	Independent
MR. JUAN MARCH JUAN	MEMBER	Proprietary

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

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

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

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

At a meeting on 31 January 2018, the Board of Directors agreed the amend Board Regulations and the Regulations of the Markets and Systems Operating Procedures Committee in relation to the competences attributed to this Committee in terms of interpretation and monitoring of the Internal Code of Conduct.

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 at least once a month, and whenever it is convened by the Chairman, and there shall be quorum when a majority of Committee members are present or represented by proxy.
- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting. When there is a tie in voting, the Chairman shall have the casting vote.
- The Markets and Systems Operating Committee must report to the Board of Directors on its activities, and to this end the Secretary must send the members of the Board of Directors a copy of the minutes of Committee meetings.

Responsibilities

At 31 December 2017 the Markets and Systems Operating Procedures Committee had the following responsibilities, as directed in the Committee's own regulations:

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

Action taken in 2017

Throughout 2017, the Markets and Systems Operating Procedures Committee held ten (10) meetings, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

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

	Number of female directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
Executive or delegate committee	1	20.00%	1	20.00%	1	25.00%	1	25.00%

Audit Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Appointments and Remuneration Committee	0	0.00%	0	0.00%	0	0.00%	1	25.00%
Market and Systems Operating Procedures Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

At 31 December 2017 and 2016 the Company's Executive Committee had 5 members, whereas at 31 December 2015 and 2014 it had 4 members.

C.2.3 Section revoked.

C.2.4 Section revoked.

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

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

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

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

C.2.6 Section revoked.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

Procedure to notify the approval of related-party transactions
<p>Article 7.4.d) of Board Regulations establishes that the Board of Directors, acting in full and through its Committees, shall approve the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto. The transactions that simultaneously meet the following three characteristics are excluded from the aforementioned approval:</p> <ul style="list-style-type: none"> - they are governed by standard form agreements applied on an across-the-board basis to a large number of clients; - they are performed at prices or rates established on a general basis by the person supplying the goods or services; and - the amount does not exceed 1% of the Company's annual revenue. <p>Section I) of article 19.2 of the Board of Directors' Regulations also states that the Audit Committee shall report on the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto.</p> <p>Moreover, given the market/systems activities carried on by the Group companies, article 29 of Board Regulations establishes that transactions, operations or actions undertaken by Directors and significant shareholders and their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.</p>

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 interests between the Company and/or its group and its Directors.

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

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

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

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

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

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

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

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

On 29 November 2017 the Board of Directors approved a new Internal Code of Conduct which came into force on 1 January 2018. Articles 9, 10 and 11 of this Internal Code of Conduct regulates conflicts of interests in terms similar to the Internal Code of Conduct of BME and companies in its Group in force until 31 December 2017.

Rule V of the current Code stipulated that all those subject to the Internal Code must act with due impartiality and in no case place their own interests before those of the Company, and must base their decisions on that which best serves the interests and legally attributed functions of BME.

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

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

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

The existence of any conflicts of interests must be notified within five (5) days of the moment they become known and notification must be given before any decision or measure is taken which may be affected by the existence of the 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 stipulated that if they have any doubts about the existence of a possible conflict of

interests, those affected by the Internal Code of Conduct should consult the Standards of Conduct Committee on the matter before taking any decision or action that could be affected by the possible conflict.

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

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

In this regard, article 29 of the Board of Directors' Regulations stipulates that transactions, operations or actions undertaken by significant shareholders and their related parties on the markets and systems managed by Group companies shall require prior authorisation by the entire Board, unless they form part of the ordinary course of business of the parties involved and are carried out in normal conditions or in recurring market conditions, without prejudice to compliance with any regulations applicable to transactions with related parties.

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

Yes No

Listed subsidiary

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

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

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

Mechanisms to resolve possible conflicts of interests

E RISK CONTROL AND MANAGEMENT SYSTEMS**E.1 Describe the Risk Management System in place at the company, including tax contingencies.**

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

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

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

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

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

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

The Risk Committee regularly reviews the most significant matters relating to the Business Units and Corporate Areas, and receives the results from the activities of BME's control functions (Compliance, IT Security and Internal Audit). The Risk Committee is capable of identifying the existence of risks and proposing the implementation of action plans. These plans are reviewed by BME's control functions.

The BME Group's **risk control system** applicable in 2017 was drawn up in accordance with international standards. Its functioning is governed by the following aspects:

1. BME Group companies that manage securities registration, clearing and settlement systems, Spanish official secondary markets and multilateral trading systems are governed by European Union law and the Securities Market Act and its implementing provisions.
2. In accordance with this legal framework, BME's financial statements and those of most of its Group companies are verified by an external auditor. Likewise, as required by the laws and regulations governing all markets, multilateral trading systems, central counterparties, and registration, clearing and settlement systems, the external auditors must review the internal control systems and assess the appropriateness thereof.
3. A Risk Committee, which reports to the Management Committee, comprising senior managers from the various Corporate Areas in charge of monitoring and analysing the risks arising from the various activities carried on by the companies in the BME Group in the framework of management coordinated through Business Units and Corporate Areas, as well as logical security and physical safety risks. The Heads of Compliance and Internal Audit, as well as the Head of Logical Security, may attend Risk Committee meetings with the right to speak but not to vote.

4. The Company has an Internal Audit Department, as an independent body of the Company's executive line, 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.
5. The Company also has a 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 Group activities and to support the Audit Committee in supervising related regulatory compliance risk.
6. 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 enables it to comply with the new regulatory requirements aimed at improving the transparency of listed companies' reports to the market. These include, inter alia:
 - i. A Procedures Manual for subprocesses containing a description of the operations, identification of the main risks and controls in place to mitigate them, valuation rules and accounting recognition criteria for the activities and transactions that could have a material impact on financial reporting.
 - ii. Corporate Accounting Plan.
 - iii. Annual calendar for financial and accounting information.
 - b. Information to markets:
 - i. Policies on the collection, treatment and disclosure of information to the markets.
 - ii. Procedure for drawing up and sending periodical information to Supervisory Bodies.
 - c. IT Security. This area constantly strives to meet the most demanding standards and the sector's best practices. To this end it has:
 - i. An Information Security Management System ("SGSI") in accordance with ISO/IEC 27001, which includes policies, procedures and organisational structures to ensure that the BME Group's assets are efficiently and suitably protected.
 - ii. A Comprehensive Security Policy for each and every company belonging to the BME Group, in which security applies to protection against any type of risk that could jeopardise the interests of BME, as well as the people, processes, information, facilities etc. under their responsibility as set out in the Logical Security Policy, the Business Continuity Policy and the Physical Safety Policy.
 - iii. A Policy on Handling Sensitive Information in order to establish a criterion for classifying and handling documents according to the level of confidentiality in order to reduce the risk of unauthorised access to sensitive information belonging to the BME 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 Group 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.
7. A Security Committee, reporting to the Finance Director, in charge of defining and applying the BME Group's Security Policy on information security, through the Head of Logical Security, who is responsible for implementing, operating and maintaining the SGSI in accordance with the guidelines issued by the Security Committee, and on IT systems, through the Head of Physical Safety, who is in charge of safeguarding the physical infrastructures.
8. The Company is a member of CECON ("Consorcio Español de Continuidad de Negocio", the Spanish business continuity consortium), together with the leading players in the financial

services industry (regulatory bodies and commercial entities). It was created to contribute to financial stability by improving awareness concerning business continuity and disseminating the best practices applicable. CECON initiatives include the creation of the 'CONTINUAM' Business Continuity Institute. The Company, through BME Inntech, 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.

9. The Company has an Internal Code of Conduct which applies to all members of the Boards of Directors and employees of all Group companies, and establishes their duties in connection with confidentiality and integrity, implemented in relation to insider information with the approval of the Board of Directors of the "Policy for the processing and transfer of insider information", and also allows Group companies to approve special rules of conduct. In these cases, the Internal Code of Conduct shall apply in the absence of such special rules.
10. On 30 September 2010 BME embraced the Code of Best Tax Practices, approved by the Large Businesses Forum on 20 July 2010 and, following up the recommendations of the Code, approved policies and courses of action in relation to tax, which were updated by the Board of Directors at a meeting on 30 July 2015, after the Company's tax strategy had been defined. In 2016 the other Group companies joined the aforementioned Code of Best Tax Practices, and approved their respective tax policies.
11. At the behest of the Audit Committee, the Board of Directors established a Criminal Risk Prevention System for the BME Group which, among other issues, introduces a Code of Conduct with the main ethical principles and standards of conduct governing the actions of directors, legal representatives, management and employees of BME Group companies, and an Internal Whistleblowing Channel, used by BME employees and management to report any facts which may lead to indications of breaches by other employees or managers of Group policies or procedures or the Code of Conduct, or other actions that could constitute indications of a possible criminal offence.
12. Liquidity management is homogeneous throughout the BME Group, in accordance with the criteria established by the Company's Board of Directors, following a report by the Audit Committee. However, within the scope of these criteria, Group companies may prioritise investment in assets offering higher liquidity as opposed to returns in order to comply with the specific regulations applicable. In this respect, the criteria for investing the Group's liquidity set out the criteria for investing the minimum own funds of BME Clearing, S.A.U. to cover the types defined in Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012, on OTC derivatives, central counterparties and trade repositories, and its implementing provisions.
This specifies the criteria pursuant to which the Company should purchase assets, the term of such operations and authorisation levels. The main objective is to prioritise security and minimise liquidity risk, and this rules out the possibility of carrying out speculative operations.
13. The Company also has a Communication Procedure in place regarding deficiencies in risk control and management systems which has been approved by the Audit Committee, whereby personnel from the Company and the Group's companies may anonymously report any irregularities in the aforementioned systems.

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

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

Board of Directors

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

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

The Board of Directors is assisted in its functions by the Audit Committee.

Audit Committee

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

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

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

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

Markets and Systems Operating Procedures Committee

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

- To analyse and monitor the procedures and regulations set forth by group companies for the correct operation of the markets and systems managed thereby.
- To be cognisant of the application of the Internal Code of Conduct, to which end it had the assistance of the Standards of Conduct Committee up to 31 December 2017. As of 2018, the Markets and Systems Operating Procedures Committee shall be assisted by the General Secretary and the Secretary of the Board of Directors and also the Compliance Department.

Management Committee

The Management Committee, composed of the Chairman, the CEO and the heads of Business Units and Corporate Areas, is the body which carries out the strategic plan approved by the Board of Directors, examines proposals concerning new activities and business opportunities, and carries through the risk control and management policy defined by the Board of Directors.

Risk Committee

In 2017 the Risk Committee, which reports to the Management Committee, took charge of 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 responsible for implementing the risk management and control policy laid down by the Board of Directors and overseen by the Management Committee. Specifically, the Risk Committee is in charge of:

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

Security Committee

The Security Committee 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 entire 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 arising from inadequate or failed internal processes, people and systems, or from external events. Operational risks are classified in terms of their applicability to the BME Group overall, or exclusive identification for one of the business units or corporate areas.

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

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

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

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

Credit or counterparty risk: Risk arising in the event a debtor fails to meet its payment commitments, or its credit rating is impaired. This includes, among other scenarios, risk of non-payment of bills or charges.

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

Key business risks: risks arising from the specific activities carried on by BME Group companies. The following are the main business risks:

- Risks of inadequate functioning of markets: Possibility of errors arising in trading or supervision processes to prevent adequate overall functioning of the system.
- Risks in relation to the Securities Settlement System (Iberclear):
 - Risk of errors in settlement processes: These risks may relate to delays in reception of

information from the issuer or payment agent and calculation of prices leading to errors in the multiple settlement or the amount of cash to be charged or credited.

- Risk of errors in reconciliation processes: This is the risk of data mismatches between ARCO and T2S concerning positions or accounts.
- Counterparty risk associated with BME Clearing: In its role as the Central Counterparty, the risk undertaken by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk and controlling the collateral called in from and paid by clearing members with respect to that risk.
- Risks in relation to the dissemination of information: These risks chiefly related to non-availability of systems over a longer period than expected, compromising dissemination of information from trading systems.

E.4 State whether the company has a risk tolerance level, including with respect to tax contingencies.

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

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

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

The 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 coordinated management through the business units and corporate areas.

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 Management Committee. In particular, implementation and monitoring of the risk assessment model adopted by the Management Committee. It must also take account of the level of risk tolerance.

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

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

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

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

The incidents related to this risk that have occurred have been managed by prioritising recovery of

service, with sufficient internal and external reporting.

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

None of the other main risks materialised to any significant extent (see section E.6).

Finally, there was no significant impact on the company's results or its capacity to generate value, and response systems performed satisfactorily.

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

IT risk: This is the risk of faults in the IT and electronic systems used by the Group, either internally or in relation to the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information to users. They also include any alterations and/or intrusions that may arise in system security. 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 has IT engineers specialising in each of the systems supporting BME's activities.

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

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

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

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

Risks of inadequate functioning of markets: Possibility of errors arising in trading or supervision processes to prevent adequate overall functioning of the system.

BME has a number of controls to supervise trading processes, including, among others, the following: automatic contrasts and validations of information, automatic checking of securities and prices (including multiple verifications and checks on securities) and monitoring of the proper functioning of systems and applications. The market quality department also has its own controls to contrast with the supervision department, and it sets up matches between the various sources of contrast information.

Risks in relation to the Securities Settlement System (Iberclear):

- *Risk of errors in settlement processes: These risks may relate to errors or delays in reception of information from the issuer or payment agent and calculation of prices leading to errors in*

the multiple settlement or the amount of cash to be charged or credited.

The procedure for reception and inspection of information received by Iberclear has a control list (*checklist*) and a double-checking system by both the legal department and the primary department. Time schedules are also established for the reception of information which, on a regular basis and with sufficient notice, is requested from the companies concerned to ensure it is received in time.

In relation to the possibility of errors arising in calculation of prices, the company has an automatic process which conducts a weekly examination of the prices applied to each of the services.

- *Risk of errors in reconciliation processes: This is the risk of data mismatches between ARCO and T2S concerning positions or accounts.*

Iberclear has a number of automatic reconciliation processes which are monitored by system users, and dynamically reconcile data between the two platforms, detecting any possible discrepancies in sufficient time to ensure the processes operate properly.

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

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

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

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

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

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

Risks in relation to the dissemination of information: These risks chiefly relate to non-availability of systems over a longer period than expected, compromising dissemination of information from trading systems.

BME has a system to monitor activity in the different systems, supervising data transmission and reception processes, monitoring proper access of users, number of messages and latencies of each product. Alarms are also in place to detect any potential errors, in almost real-time mode.

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

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

BME operates a Compliance Department to check that Group companies' processes are compliant

with applicable laws and regulations and to help monitor regulatory changes that might affect the Group's activities. At a meeting on 27 July 2017, the Audit Committee approved the Compliance function's Statute to define the mission and objectives of the Compliance function and establish its area of jurisdiction and scope, its general principles, its organisation, as well as the powers and work methodology of the Compliance Department.

As already mentioned above in section E1 of this report, as BME undertook the Code of Best Tax Practices, the Audit Committee took due note of the tax policies applied by the Company in 2017, which were set out by the then Managing Director and now the CEO, before the financial statements were drawn up. Subsequently, at a meeting on 19 July 2017 the Audit Committee was informed by the Finance Director of the tax policies applied by the Company for the filing of the 2017 income tax return.

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

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

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

The Audit Committee is supported in its role of supervising the IRMS by the BME Group's Internal Audit Department. Thus, the regulations for the BME Group Internal Audit Service state that, among its functions, the Internal Audit department shall: *"... oversee the proper functioning of the internal control and risk management systems, and keep informed the Board of Directors, through its Audit Committee and senior management of BME, 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 undertake, among other responsibilities, supervision of the transparency and veracity of Company information in its relations with shareholders and with the markets in general, identification of the principal risks affecting the Company, including tax risks, and supervision of internal control systems. The BME Group has defined an Integrated Risk Management System (IRMS), into which it incorporated the Internal Control over Financial Reporting (ICFR) system, after this had been approved by the Risk Committee.

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

The Board of Directors, through the Audit Committee, is the body responsible for ensuring the effectiveness of the Company's internal control and the BME Group's risk management systems, including tax risks, which includes supervising the IRMS, including the ICFR, as per article 19.2.e) of the Board of Directors' Regulations. This article, among other issues, stipulates the Audit Committee shall be authorised to *"supervise the effectiveness of the Company's internal control and risk control systems, including tax risks. To this end it shall supervise, at least on an annual basis, the risk control and management systems, in order to ensure that the main risks are identified, managed and properly made known, and shall discuss with the auditors or, where applicable, any experts that may be designated for this task, any significant weaknesses in the internal control system detected in the course of the audit."*

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

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

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

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

The BME Group is a group of companies under coordinated management divided into six Business Units (Equities, Derivatives, Clearing, Fixed Income, Settlement and Registration,

Information & Added-Value Services) and seven Corporate Areas (Human Resources, Technology, Finance, Corporate Communication, International Relations, General Secretary and the Secretary of the Board of Directors and Legal Consultancy).

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

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

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

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

The Company has a Code of Conduct in place for the BME Group and an Internal Code of Conduct, approved by the Board of Directors..

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

In conjunction with the BME Group Code of Conduct, the Internal Code 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 and the Internal Code of Conduct in internal regulations and on the Group's intranet in the Online Human Resources section under "Code of Conduct", where they are requested to acknowledge that they have read them.

The main points covered in the Code, as well as how training is given, are as follows:

- Individuals included.
- Actions included and securities affected.
- General principles of conduct.
- Conflicts of interests.
- Use of information.
- Transactions.
- Special rules regarding insider information.
- Material information.
- Rules on the management of treasury stock.

- Non-compliance.
- Entry into force and transitional provisions.

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

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

“(…)

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

(…)”

- **Whistleblowing channel, to report to the Audit Committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

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

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

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

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

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

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

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

During 2017, as part of the annual training plan for all BME Group employees, various courses were offered. These courses were internal and external, onsite (offered at the company's various work centres) and online (based on an *e-learning/ blended learning* methodology for courses which could be offered in this format). The following areas were covered:

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

Training targets all BME Group employees. In 2017 Group employees received a total of 10,969.50 hours of training, of which 440 hours of training were provided in the Financial and Internal Audit Departments.

F.2 Risk assessment in financial reporting

Report at least on:

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

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

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

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

To do this, it regularly reviews the most significant matters relating to the Business Units and Corporate Areas, and receives the results from the activities of BME's control functions (Compliance, IT Security and Internal Audit). The Risk Committee is capable of identifying the existence of risks and proposing the implementation of action plans. These plans are reviewed by BME's control functions.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), and that it is updated, stating the frequency with which it is updated.**

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

- 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, rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards.

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

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

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

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

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

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

Therefore, in accordance with the provisions of article 7.3.g) of its Regulations, following a report by the Audit Committee pursuant article 19.2j) of this Regulations, with regard to the management guidelines and establishing the basis for the corporate organisation of senior management, the Board is responsible for: *"Approving the creation or acquisition of stakes in exclusively special-purpose vehicles or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a comparable nature the complexity of which could impair the transparency of the group"*.

No complex corporate structures or special-purpose vehicles were identified in 2017.

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

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

- Operating risk (fraud, IT and administrative errors)
- Market risk.
- Liquidity and solvency risk.
- Credit or counterparty risk.
- Industry risks (regulatory changes, the Group's reputation, sector competition, relations with stakeholders, the political, economic and legal environment.
- Business risks (specific to each Group company).

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

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

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

Ultimately it is the Internal Audit Department which, in accordance with the provisions of the *Statute of the BME Group Internal Audit Service*, the most recent version of which was amended by the Audit Committee on 27 July 2017, has the following functions, among others: *"(...) cooperate with the BME Audit Committee, and in companies listed in Appendix II –BME Clearing, S.A.U. and Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear)-, with their respective Boards, in supervision of the effectiveness of the risk management processes and the control mechanisms applicable, 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 judgments, estimates, valuations and projections.**

The preparation of the financial information which is disclosed to the stock market and its subsequent review is entrusted to a suitably defined human and technical team which ensures

that this information is precise, true and comprehensive according to current legislation. The procedures for preparing and reviewing financial information have been defined and documented by the Finance Department. Other departments also assist in ensuring that the necessary level of detail is obtained.

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

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

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

In 2017, through the Audit Committee, according to the provisions of article 7.4.b) of Board Regulations, the functions of the Board included “*approving the financial information that, due to it being a listed company, must periodically be made public*”, the preparation and presentation of which are supervised by the Audit Committee, as per article 19.2 of said Regulations.

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

The Internal Audit Department 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 *Statute of the BME Group's Internal Audit Service*.

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

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

Specifically, policies have been established in relation to:

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

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

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

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

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

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

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

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

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

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

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

include clauses stating that the staff at the contracted company must comply with BME Group regulations.

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

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

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

F.4 Information and communication

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

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

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

To this end, the BME Group has a Procedures manual 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.

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

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

The BME Group has mechanisms for the capture and preparation of financial information based on tools of renowned prestige. All BME Group companies use the same tools, guaranteeing completeness, uniformity and correct functioning, as well as the correct preparation of the required financial information and the applicable disclosures.

These tools are segregated into different interconnected layers and are equipped with applications into which data on the operations which take place each day via the different channels (internet, in-house services etc.) are entered. This information is then processed and prepared before being treated by specific back-office systems and segregated according to market and transaction category. This provides reliable and exact information on accounting

and the generation of results. The results and calculation of data once the operations have been carried out on the market are automatically transferred to management, reporting and financial consolidation tools which have quality controls to ensure they are reconciled.

F.5 Oversight of the system's functioning

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

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

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

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

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

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

Also, in accordance with BME's IRMS Methodology, the Risk Committee receives information regarding any risk events, assessment of these events and action plans relating to ICFR that may have materialised.

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 2017, 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 2017 the Internal Audit Department presented the BME Internal Audit Department's

2018 Activities Plan to the Audit Committee. The Plan focuses on ongoing improvement to the IRMS through suggestions and proposals by the Risk Committee and, mainly, on reviewing those business processes for which ICFR assessment is mandatory under specifically applicable regulations, to assess its functioning and validate its effectiveness.

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

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

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

In this regard, the Audit Committee met on 8 occasions in 2017. The external auditors were called to meetings of the Audit Committee at which the financial information of both BME and its Group companies was reviewed.

F.6 Other relevant information

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F.7 External audit report

State whether:

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

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

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with 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 articles of association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Complies Explain 0

- 2.- **When a parent and a subsidiary are both listed, they should provide detailed disclosures 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 0 Partially complies 0 Explain 0 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 that have arisen since the previous 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 0 Explain 0

- 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 0 Explain 0

- 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 preferential 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 preferential subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies Partially complies 0 Explain 0

- 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 appointments and remuneration committee.
 - c) Audit committee report on related-party transactions.
 - d) Report on corporate social responsibility policy.

Complies Partially complies 0 Explain 0

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

Complies Explain 0

- 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 0 Explain 0

- 9.- The company should disclose its conditions and procedures for accrediting 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 should be applied in a non-discriminatory manner.

Complies Partially complies 0 Explain 0

- 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 concerning the direction of votes.
 - d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies 0 Partially complies 0 Explain 0 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 regard.

Complies 0 Partially complies 0 Explain 0 Not applicable

- 12.- The board of directors should perform its duties with unity of purpose and independent judgment, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, 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 0 Explain 0

- 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 0

- 14.- The board 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 appointments committee's explanatory report, to be published when the general meeting is convened to 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 appointments 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 0 Explain 0

- 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 0 Explain 0

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 0 Explain

In 2017, the resignation of Mr. Ramiro Mato García-Ansorena, qualified as proprietary Director since he was appointed to represent the major shareholder BNP PARIBAS, boosted the independence of the Board of Directors.

BME considered that with this increased independence, which was still in place at 31 December 2017, the interests of non-controlling shareholders were perhaps better represented on the Board of Directors, and that the reduction of the percentage of proprietary Directors out of the total number of Board members to 22.22% boosted the level of compliance with this recommendation, since it was gradually moving closer to the equity represented by them, 12.06%.

Additionally, at 31 December 2017 the characteristics of the Board indicating proper representation of the interests of non-controlling shareholders were as follows:

- The considerable number of independent Directors, accounting for 50% of the Board, thereby attaining the degree of independence which Recommendation 17 of the Good Governance Code of Listed Companies considers appropriate for large cap companies, and 66.66% of external Directors.
- A Director qualifying as "other external", bringing the percentage of "non-proprietary" external Directors to 58.33% of total Board members and 75% of external Directors.
- The non-existence on the Board of any major shareholders with disproportionate representation, since a single significant shareholder was represented by two members as the holder of the largest percentage of the Company's equity, 12.06%, and it cannot be understood that this representation gives it a position of control or a majority on the Board.

Following the death of Mr. Manuel Olivencia Ruiz in 2018, the level of independence of the Board of Directors was reduced to 45.45% of the total number of Board members, and 62.5% of external Directors.

BME considers that, despite this reduction of the level of independence, the composition of the Board of Directors at the date of approval of this Report ensures that independent Directors have sufficient weight in this body and properly represent the interests of non-controlling shareholders.

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

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

Complies Explain 0

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 shares.

Complies Partially complies 0 Explain 0

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

Complies 0 Partially complies 0 Explain 0 Not applicable

20.- Proprietary directors should resign when the shareholders they represent dispose of their entire ownership interest. They should also resign if the shareholder reduces its stake to a level which requires a reduction in the number of proprietary directors.

Complies 0 Partially complies 0 Explain 0 Not applicable

21.- The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the articles of association, except where they find just cause, based on a proposal by the appointments committee.

In particular, just cause shall 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 0

- 22.- Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation'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.**

When 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 the 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 0 Explain 0

- 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 0 Partially complies 0 Explain 0 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 reasons should be explained in the annual corporate governance report.**

Complies Partially complies 0 Explain 0 Not applicable 0

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

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

Complies Partially complies 0 Explain 0

- 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 0 Explain 0

27.- Directors' 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 0 Explain 0

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 minutes book if the person expressing them so requests.

Complies 0 Partially complies 0 Explain 0 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 0 Explain 0

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 0 Not applicable 0

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 shall require the express prior consent, duly minuted, of the majority of directors present.

Complies Partially complies 0 Explain 0

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 0 Explain 0

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 articles of association, 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 CEO; 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 0 Explain 0

- 34.- When a lead independent director has been appointed, the articles of association or board 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 concerning the company's corporate governance; and coordinate the chairman's succession plan.**

Complies 0 Partially complies Explain 0 Not applicable 0

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

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

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

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

All of the above is irrespective of whether, when considered appropriate, the Lead 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 recommendations of the Good Governance Code applicable to the company.**

Complies Explain 0

- 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 be based on the reports they send to the board of directors, while that of the board itself should be based on the report by the appointments 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 appointments 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 0 Partially complies Explain 0

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

Additionally, in 2015 BME implemented this recommendation ahead of time by engaging an independent expert to assess the structure, composition and functioning of the Board of Directors and its Committees.

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

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

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

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

Following the proposal or report by the Appointments and Remuneration Committee, the Board of Directors, in the justifying report that must be approved in accordance with that established in article 529 *decies*, section 5 of the Companies Act, and article 22, section 1 of Board Regulations, also assesses 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 0 Explain 0 Not applicable 0

- 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 0 Explain 0 Not applicable 0

- 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. A majority of committee places should be held by independent directors.**

Complies Partially complies 0 Explain 0

- 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 0 Partially complies Explain 0

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

The purpose, authority and responsibility of the Internal Audit function in the Company is defined in the "Regulations for the BME Group Internal Audit", which 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 considers that what is established in the aforementioned regulation with regard to the authority of the Internal Audit Department is a sufficient guarantee of the independence with which it can act, and that the fact that this Department reports functionally to the Chairman of the Audit Committee does not grant it a higher degree of autonomy to carry out its duties.

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

Complies Partially complies 0 Explain 0 Not applicable 0

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 boundaries of the scope of consolidation, and the proper 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 reports on its activities; and verify that senior management is 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 occur.
- 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 0 Explain 0

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 0 Explain 0

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 swap ratio proposed.

Complies Partially complies 0 Explain 0 Not applicable 0

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 0 Explain 0

46.- Companies should establish a risk control and management function entrusted to one of the company's internal departments 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 accordance with the policy drawn up by the board of directors.

Complies 0 Partially complies 0 Explain

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

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

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

In this regard, BME has implemented a risk control system in accordance with international standards and adopted the COSO II Report as the methodological reference framework, with which the Company's risks are managed in an efficient and prudent manner. To define this risk control system, which is detailed in section E of this Report, the strong specialisation of activities performed in the Group has been considered, which has made it advisable that, given the different nature of the risks, the decentralised management of the business risks, which are managed by each Business Unit, coexists with the centralised management of corporate risks

(strategic, financial, regulatory, technological, and human resources), risks that are all coordinated by the Risk Committee, reporting to the Management Committee.

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 within the Group.

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

- 47.- Members of the appointments and remuneration committee or of the appointments committee and remuneration committee, if these are separate committees, 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 0 Partially complies Explain 0

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

At 31 December 2017 the Appointments and Remuneration Committee was composed of four (4) members, of which two (2) qualified as independent external Directors, one (1) as "other external Director" and one (1) as external proprietary Director. This composition is maintained in 2018 following the death of Mr. Manuel Olivencia Ruiz and the appointment of a new member qualifying as an independent Director.

This composition of the Appointments and Remuneration Committee meets the requirements of current regulations, and independent Directors do not constitute a majority.

In relation to the appointment of Mr. Santos Martínez-Conde y Gutiérrez-Barquín as a member of the Appointments and Remuneration Committee, consideration was given to his wide knowledge and professional experience as the CEO of a listed company and member of the Board at the a number of companies, aspects which were seen as beneficial for the proper exercise of the functions with which this Appointments and Remuneration Committee is tasked, and it was also considered that, despite the reduction in the percentage of independent directors which this appointment entailed, from 66.66% to 50%, this would not jeopardise the criteria of independence which must take priority in analysis and discussion of issues within its remit.

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

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

Complies 0 Explain 0 Not applicable

- 49.- The appointments 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 appointments committee to propose candidates that it might consider suitable.

Complies Partially complies 0 Explain 0

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 0 Explain 0

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 0 Explain 0

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 reports 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 0 Partially complies Explain 0 Not applicable 0

Article 33 of the Articles of Association establishes the Board's Markets and Systems Operating Procedures Committee, to which article 37 of the Articles of Association assigns the responsibility of monitoring the matters relating to the efficiency and correct operation of the markets and systems managed by the BME Group; the application to BME, the companies of its

Group and its main shareholders of the normal market conditions and the principle of equal treatment in its transactions in those markets and systems managed by BME; and the implementation of the Internal Code of Conduct.

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

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

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

53.- 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 appointments 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 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, for 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 0

Partially complies

Explain 0

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

Supervision of the monitoring of the internal codes of conduct, in particular of the Internal Code of Conduct, has been assigned to the Markets and Systems Operating Procedures Committee, since it is considered that compliance 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.

Notwithstanding the foregoing, the new Internal Code of Conduct of BME and Group companies, which came into force on 1 January 2018, attributed the Audit Committee, with a major of independent members, including its Chairman, competences to process and, where applicable, impose penalties for non-compliance with the Internal Code of Conduct by members of the Board of Directors and persons with managerial responsibilities.

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

- 54.- The corporate social responsibility policy should state the principles or commitments the company shall 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) Specific practices in matters concerning: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**
 - 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 0

Partially complies 0

Explain

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

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

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

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

Complies Partially complies 0 Explain 0

- 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 judgment of non-executive directors.

Complies Explain 0

- 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 the shares until the end of their term. This condition, however, shall not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies Partially complies 0 Explain 0

- 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 shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies 0 Partially complies 0 Explain 0 Not applicable 0

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

Complies Partially complies 0 Explain 0 Not applicable 0

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

Complies Partially complies 0 Explain 0 Not applicable 0

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

Complies Partially complies 0 Explain 0 Not applicable 0

- 62.- **Following the award of shares, share options or other rights on shares arising 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 shall not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies 0 Partially complies 0 Explain Not applicable 0

The Directors' Remuneration Policy includes, among other items in relation to the system of remuneration for executive Directors, medium-term and long-term variable remuneration the purpose of which is to boost their commitment to Company shareholders. This is paid in the medium/long-term Variable Remuneration Plans described in section A.3 of this report.

These medium/long-term Variable Remuneration Plans entail the allocation of theoretical units in a financial year, and stipulate that any shares to be received if the targets set are achieved shall be awarded by the Company when the three-year measurement period has elapsed.

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

- 63.- **Contractual 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 0 Partially complies Explain 0 Not applicable 0

The Directors' Remuneration Policy approved by the Ordinary General Meeting held on 27 April 2017 includes, among the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, a recovery or "claw-back" clause whereby, in certain circumstances, within a period of two years following payment, BME may demand that the CEO return the amounts paid as annual variable remuneration and shares received pursuant to the medium/long-term remuneration plans.

This recovery or "claw-back" clause was included in the "Contract for Director with executive functions" signed by the Company and the CEO, following unanimous approval by the Board of Directors, with no involvement by the CEO, pursuant to the provisions of article 249 of the Companies Act.

The contractual conditions for the Chairman, including the conditions of remuneration, were established prior to approval of the Good Governance Code of Listed Companies, and do not include clauses for recovery or "claw-back".

Regardless of the foregoing, as stated in the explanation provided for the above

recommendation and described in the Directors' Remuneration Policy approved by the Ordinary General Meeting on 27 April 2017, the variable remuneration of Directors qualifying as executives, among whom the Chairman, has a considerable medium/long-term component linked to the delivery of shares.

This remuneration materialises in successive Remuneration Plans with a deferred component to demonstrate effective long-term compliance with the objectives set, and it is unnecessary to establish any clauses to claim repayments.

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 0

Partially complies

Explain 0

Not applicable 0

The conditions for the departure of the Chairman were established through a resolution by the 2006 Ordinary General Shareholders' Meeting, prior to the approval of these recommendations in the Good Governance Code of Listed Companies.

The Directors' Remuneration Policy approved by the Ordinary General Meeting on 27 April 2017 includes, among the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, the severance pay to be received by the CEO, which is limited to the greater of the following two amounts: (i) an amount equivalent to two years' fixed and annual variable remuneration existing at the moment of termination of the employment relationship as CEO or (ii) the legal compensation pursuant to the Employment Statute at that time for any dismissal considered unfair.

This clause was included in the "Contract for Director with executive functions" signed by the Company and the CEO, following unanimous approval by the Board of Directors, with no involvement by Mr. Javier Hernani Burzako, pursuant to the provisions of article 249 of the Companies Act.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material corporate governance aspect of your company or group company that has not been addressed in the other sections of this report and which is necessary to provide a more comprehensive and founded view of the corporate governance structure and practices at your company or its group, explain briefly.
2. In this section, you may include any other significant information, clarifications or qualifications related to the above sections of this report that have not already been addressed.

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

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

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

In 2017, in order to comply with the commitments undertaken by the Company through its adhesion to the Code of Best Tax Practices to be applied by the Company approved by the Board of Directors at its meeting on 30 July 2015, at a meeting on 27 February 2017 the Audit Committee was informed and took due note of the fiscal policies applied by the Company, before preparing the financial statements.

At a meeting on 19 July 2017 the Audit Committee was informed of the fiscal policies applied by the Company before filing the income tax return.

This annual corporate governance report was approved by the company's Board of Directors at a meeting on 27 February 2018.

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

Yes No