

**REPORT PRESENTED BY THE APPOINTMENTS AND REMUNERATION COMMITTEE TO THE BOARD OF DIRECTORS OF BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A. IN COMPLIANCE WITH ARTICLE 529.NOVODECIES OF THE COMPANIES ACT**

---

This report has been prepared by the Appointments and Remuneration Committee in accordance with article 529.novodecies of the Companies Act and constitutes the explanatory report of the Board of Directors' proposal to amend the Directors' Remuneration Policy for 2016, 2017 and 2018, approved by the Ordinary General Shareholders' Meeting held on 28 April 2016 (hereinafter "the current Remuneration Policy" or "the current Policy").

**I. Applicable legislation.**

Article 529.novodecies of the Companies Act establishes that the Directors' Remuneration Policy shall be approved by the shareholders at the General Shareholders' Meeting at least every three years as a separate point on the agenda.

Section 2 of this article requires that the Board of Directors proposal on the Directors' Remuneration Policy be reasoned and accompanied by a specific report from the Appointments and Remuneration Committee. Both documents shall be made available to shareholders on the Company's website from the time the General Shareholders' Meeting is called, and they may also request to have them delivered or posted free of charge, mention shall be made of this right in the call notice of the Meeting.

In addition, Section 3 of this article states that: *"the remuneration policy, once approved, shall remain in force for three years following the year in which it was approved by the General Shareholders' Meeting. Any amendment or substitution of it during this period shall require the prior approval of the General Shareholders' Meeting, pursuant to the procedure established for its approval"*.

By virtue of the foregoing article, any proposal by the Board of Directors to amend or substitute the Remuneration Policy must be reasoned and accompanied by a specific report from the Appointments and Remuneration Committee, documents which will be published on the Company's website from the time the General Shareholders' Meeting is called, and which shareholders may also request to have delivered or posted free of charge, express mention of this right will be made in the call notice of the General Shareholders' Meeting.

**II. Evidence supporting the proposed amendment to the Directors' Remuneration Policy for the years 2016, 2017 and 2018, approved by the Ordinary General Shareholders' Meeting held on 28 April 2016.**

Since the entry into force of Law 31/2014, of 3 December, amending the Companies Act to improve corporate governance, BME has submitted a Directors' Remuneration Policy for the approval of the General Shareholders' Meeting on twice: what included in the 2015 Annual Report on Directors' Remuneration and the Directors' Remuneration Policy for 2016, 2017 and 2018, which is currently in force.

The continued evolution of the organisation of the governance of companies demands, among other things, a greater degree of dedication by members of the Board of Directors and, especially, of the Directors who hold positions within this body. The growing complexity of the structures of Directors' remuneration and their constant adaptation make it necessary for the Appointments and Remuneration Committee to quite frequently revise their remuneration system for Directors and propose improvements and amendments.

The need to bring the remuneration of the Directors acting as such in line with their level of dedication and responsibility in 2017, the beginning of a process of modification of the organisation of the governance structure and the intention to achieve a remuneration system for Directors with executive functions more suited to the long-term interests of the Company, has led the Appointments and Remuneration Committee to propose an amendment to the Board of Directors of the Remuneration Policy approved by the General Shareholders' Meeting less than one year ago, on 28 April 2016.

Specifically, the amendment to the Remuneration Policy submitted for approval by the General Shareholders' Meeting results from (i) the need to remunerate the Directors for the dedication and responsibility that the performance of their duties requires, (ii) the beginning in 2017 of a gradual and progressive process of transformation in the organisation of the Company's highest executive functions, and (iii) improvement of the structure of the variable component of the short-term remuneration of Directors with executive functions in the Company.

(i) Fixed remuneration of Directors acting as such.

In addition to the legal responsibilities of the Lead Director, the Board of Directors' Regulations also requires them to chair the Board of Directors in the absence of the Chairman and Deputy Chairmen, give voice to the concerns of non-executive directors and to coordinate the Chairman succession planning.

The performance of these duties attributed by internal regulations, in addition to involving a greater amount of responsibility, require a high degree of availability and dedication from the Lead Director, as the Appointments and Remuneration Committee itself has been able to verify.

This increase in responsibility and effective dedication has led the Appointments and Remuneration Committee to propose, without the involvement of its Chairman, the establishment of a fixed remuneration for the Lead Director, additional to the fixed remuneration received per Director, the amount of which in any case continues to comply with the criteria of moderation and prudence that characterise BME's remuneration policy.

In this regard, it should be noted that the inclusion of this remunerative concept in the components of the remuneration system applicable to the Directors acting as such, makes it unnecessary to propose an increase in the maximum amount of the annual remuneration of all members of the Board of Directors acting as such, approved by the ordinary General Shareholders' Meeting held on 28 April 2016.

As a result of this amendment, the Appointments and Remuneration Committee has also considered it appropriate to clarify that those Directors who are appointed during the course of the year shall have the right to receive the proportional part of the fixed remuneration received by the Directors acting as such, that corresponds to them, according to the date of their appointment.

Included within this clarification, is the logical interpretation that this remunerative concept will also reward the dedication and responsibility of the Directors, even when, as a consequence of their appointment date, they have not had the opportunity to attend the required minimum number of Board of Directors meetings.

(ii) Transformation in the organisation of the Company's highest executive functions.

In accordance with articles 529.septdecies and 529.octodecies of the Companies Act, 40 of the Articles of Association and 30 of the Board of Directors Regulations, the Directors' Remuneration Policy distinguishes between the amount of remuneration that Directors, acting as such, receive, and their remuneration in connection with carrying out executive functions at the Company.

Taking into account that at the time the Remuneration Policy was approved, the Chairman of the Board of Directors was the only Director in the Company with executive functions entrusted to them, section 5 of this Policy included the components comprising his remuneration system, as the heading of the article itself indicates "*Components of the remuneration system applicable to the Chairman*", and which consisted of (i) fixed remuneration, (ii) short-term variable remuneration and (iii) medium- and long-term variable remuneration, components to which must be added the rights accumulated in the savings plan to which he is the holder and to which BME has not made any contributions since 2011.

Since the approval of the Remuneration Policy, and after pertinent reflection, this year has seen the start of a gradual and progressive process of transformation in the organisation of the Company's highest executive functions towards a model where a Chairman, with executive functions, will exist alongside a Chief Executive Officer (CEO).

Therefore, it is planned to include, among the agenda items of the next Ordinary General Shareholders' Meeting, the re-election of Antonio J. Zoido Martínez, to continue as Chairman of the Board of Directors and CEO of the Company and the appointment of the current General Manager, Javier Hernani Burzako, as a Director. Subsequent to approval of this item at the Ordinary General Shareholders' Meeting, it is planned to appoint Javier Hernani Burzako as CEO and delegate to him all the legal and statutory powers necessary to enable him to carry out his duties in charge of the day-to-day management of the Company.

If the aforementioned resolutions are adopted at the Ordinary General Shareholders' Meeting, the Company will have both a Chairman that performs executive functions and a CEO.

This new structure of the Company's highest executive functions is not reflected in the current Remuneration Policy, which, as indicated above, includes only the components of the Chairman's remuneration, as at the time of its approval he was the only Director with executive functions in the Company.

In this regard, even when the Remuneration Policy includes a section relating to "*Addition of new Executive Directors*", which establishes that the remuneration system described for the Chairman shall be applied to any Director that is admitted to the Board of Directors to perform executive functions, the particular circumstances regarding the anticipated appointment of Javier Hernani Burzako as CEO should be borne in mind.

Mr. Hernani Burzako is currently the Company's General Manager and as such, in relation to the contract he holds with it, receives a set of remunerative components that are not included in the Chairman's remuneration system.

Considering that the Board of Directors supports the improvement in the corporate governance structure that would result from appointing a Chief Executive Officer, and believes that it would be in the Company's interests for the General Manager to occupy the post of CEO, the Appointments and Remuneration Committee considers it necessary that, if appropriate, Mr. Hernani Burzako should keep all the components that comprise his current remuneration, so that his appointment does not have a detrimental effect on his remunerative terms.

In addition, it is also necessary to amend the section 6 of the Remuneration Policy, relating to "*Main terms of the Chairman's contract*", in order to cover the contractual terms that shall apply, if appropriate, to the Chief Executive Officer, for the reason outlined earlier, and include the basic terms of the contract that the CEO currently has with the Company.

At the same time, the Appointments and Remuneration Committee considers it necessary that the terms of the Chief Executive Officer's contract follow best corporate governance practices in relation to termination benefits and variable components of remuneration in certain circumstances.

The amendment of this section does not affect the Chairman's current contractual terms.

(iii) Improvement of the structure of the variable component of the current remuneration of Directors with executive functions in the Company.

The system for calculating the Chairman's annual variable remuneration has been used for the first time in 2017 to determine the Chairman's 2016 variable remuneration. This system requires a number of quantitative (specifically the annual performance of consolidated EBITDA) and qualitative targets to be met, in line with the recommendations regarding Director remuneration contained in the Good Governance Code of listed companies.

As a result of this first practical application of the new system, the Appointments and Remuneration Committee has analysed and considers it beneficial for the Company and its shareholders to adopt additional measures to strengthen the relationship between short-term variable remuneration which, in the case of BME, is annual variable remuneration, and the Company's long-term value creation and sustainability.

In order to meet this objective, it has been considered appropriate to include that, where there is a negative evolution of consolidated EBITDA, Directors who perform executive functions will not have the right to receive the annual variable remuneration, and to amend the criteria that will serve as the basis for determining and calculating annual variable remuneration in cash corresponding to the year following that in which the loss of the right to this remuneration occurred.

In this regard, it is considered that, in those cases where consolidated EBITDA is more than 20 percent lower than that of the previous year, the Executive Directors will not receive the annual variable remuneration.

Period of validity of the amendment to the Remuneration Policy

If the amendments to the Directors' Remuneration Policy corresponding to the years 2016, 2017 and 2018, are approved by the Ordinary General Shareholders' Meeting, in the terms and conditions established by this meeting, it will be applied and its period of validity will extend over the years 2017 and 2018, in accordance with the current Directors' Remuneration Policy.

### **III. Proposed amendments to the Directors' Remuneration Policy.**

The proposed amendments to the Remuneration Policy affect both the components of the remuneration system applicable to Directors acting as such, and the components of remuneration and the main terms of the Executive Directors' contracts.

#### **III.1.- Amendments affecting the components of the remuneration system applicable to Directors acting as such.**

The amendment proposed is that of the creation of a new component, an annual fixed remuneration of EUR 20,000 that will be received by the Lead Director to compensate the special dedication and responsibility that is required to perform the functions of this post.

Similarly, reference will be included that the corresponding proportional part of the fixed remuneration shall be received by Directors in accordance with the date of their appointment.

#### **III.2 Amendments affecting the components of remuneration and the contractual terms of the Executive Directors.**

The amendments proposed for Executive Directors mainly consist of the inclusion of the remuneration components and the main terms of the CEO's contract, along with an adjustment to the system for calculating the annual variable remuneration.

The components that would comprise the remuneration system for the CEO, if approved by the Ordinary General Shareholders' Meeting, are summarised below:

<b>Component</b>	<b>Key aspects</b>
<b>Fixed remuneration</b>	Determined based on the level of responsibility in the Company and the position, ensuring that it is competitive relative to other companies similar to BME.
<b>Short-term variable remuneration</b>	Under the same terms and conditions as established for the Chairman.
<b>Medium- and long-term variable remuneration</b>	Aims to strengthen the medium- and long-term commitment to the Company's shareholders. The system is instrumented through the grant of plans with overlapping cycles. Each cycle lasts three years and is subject to the same terms and conditions as established for the Chairman.
<b>Welfare schemes</b>	Aims to complete the remunerative system for the CEO with a welfare scheme.
<b>Remuneration in kind</b>	Remuneration in kind includes the provision of life and health insurance policies.

This remuneration system differs from that of the Chairman due to the addition of two new remuneration components: welfare schemes and remuneration in kind.

The following is of particular note in relation to the main terms of the CEO's contract:

- regarding the variable components of remuneration, the inclusion of a recovery or "clawback" clause, through which the Company, under certain circumstances, would be able to reclaim these variable components; and,

- regarding the consequences of the termination of his contract, the possibility is established that the CEO may (i) receive the greater of the payment of the amount equivalent to two years of the fixed and annual variable remuneration existing at the moment of termination of the employment relationship or the legal compensation pursuant to the Employment Statute at that time for any dismissal considered unfair; or (ii) resume his suspended employment relationship, calculating the length of time of service as CEO as if it had been an ordinary employment relationship for relevant legal purposes.

If termination results from a failure to fulfil his duties and/or any of the cases needed for BME to be able to take corporate action against him for liability concur, neither the resumption of the employment relationship nor the payment of the aforementioned amount will occur.

These amendments do not affect the terms of the Chairman's remuneration or contract.

In addition, it is intended to include a limitation on the right to receive the annual variable remuneration, for both the Chairman and the CEO, if consolidated EBITDA falls by more than 20 percent compared to the immediately prior year, and to establish distinct criteria for the calculation of the annual variable remuneration in the year following that in which the Directors who perform executive functions have lost the right to receive this annual variable remuneration.

As indicated in the previous section, the current amendment to the Remuneration Policy is of a partial nature, and therefore it will not affect the period of validity or any other section thereof.

#### **IV. General principles on which the amendment of the Directors' Remuneration Policy is based.**

The Remuneration Policy states in the general principles and fundamental bases of the remuneration of Directors acting as such, that their remuneration should be in accordance with the duties performed, responsibility assumed and the effective dedication to the post, principles that justify the proposal of an additional fixed remuneration for the Lead Director and clarification of the conditions applicable to the payment of the fixed remuneration of the Directors.

At the same time, it also shows that, when compensating the Directors' executive functions, its purpose is to set up competitive remuneration packages that attract and retain highly distinguished professionals, and at the same time establish a stable link and long-term commitment over time between remuneration, the Company's results, shareholders' interests and risks assumed.

On the basis of these fundamental principles, and with the aim of retaining the talent of the Company's executives, in order to ensure that they do not suffer any detrimental effect should they be appointed to a post such as Director, which has a greater level of responsibility due to those functions assigned to it -such as CEO-, the Appointments and Remuneration Committee considers it necessary to raise the amendment of the Remuneration Policy to the Board, in the terms described above.

Specifically, the Appointments and Remuneration Committee considers that the remunerative system for the CEO, which would be included in the Remuneration Policy if the

proposed amendment is approved, follows the criteria established in it in relation to the Directors who carry out executive functions:

- Remuneration is paid for discharging executive functions.
- Their total remuneration presents a balanced and efficient relationship between fixed and variable components.
- Variable remuneration has a medium- and long-term component to encourage strategic behaviour by the CEO, in addition to remuneration based on the delivery of short-term results. This remuneration system links an appropriate proportion of the variable component to (i) medium- and long-term objectives, and (ii) the deferred delivery of shares of the Company.
- This remuneration system is compatible with and linked to the corporate strategy, values and long-term interests of the Company, and is designed to promote the long-term profitability and sustainability of the Company.
- It takes into consideration market trends and is positioned in accordance with the Company's strategic approach, and suffices to attract and retain the best professionals.

In accordance with the foregoing, the remuneration system of the CEO considers a suitable and proportionate combination between fixed and variable remuneration and, within the latter, a balanced and efficient relationship between the remuneration received in cash, or ordinary variable remuneration, and that linked to the delivery of the Company's shares.

Moreover, following best practices in matters of good corporate governance, a significant part of the variable component of the remuneration is deferred over time, being derived from medium- and long-term incentive plans and settled in Company shares, and provision is made so that under certain circumstances, the Company can reclaim these variable components from the CEO.

In any case, the Directors remuneration should be aligned with the general strategy, values and long-term interests of the Company and its shareholders, therefore it seems reasonable that variable remuneration is only received in those cases in which those quantitative targets set by the Remuneration Policy are satisfactorily met.

## **V. Conclusion.**

As a result of the above, the Appointments and Remuneration Committee concludes that the amendment of the Directors' Remuneration Policy -in the terms described in the above section III of this present report, at the proposal of the Committee itself, and to be submitted by the Board of Directors for approval at the Ordinary General Shareholders' Meeting-, is compliant with current regulations, aligned with the principles and fundamental bases of the Directors' Remuneration Policy, best remuneration practices and enables BME to retain highly distinguished professionals.