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**ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED  
COMPANIES**

**IDENTIFYING PARTICULARS OF ISSUER**

DATE OF END OF REFERENCE FINANCIAL YEAR: 12/31/2017

EMPLOYER IDENTIFICATION NO. A-86977790

Corporate Name: MERLIN PROPERTIES, SOCIMI, S.A.

Registered Office: Paseo de la Castellana 257 Madrid

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**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
10/26/2016	469,770,750.00	469,770,750	469,770,750

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

Yes  No

Class	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights
-	-	-	-	-

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

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Principal Financial Group, INC	<b>0</b>	PRINCIPAL REAL ESTATE INVESTORS AND PRINCIPAL GLOBAL INVESTORS	<b>9,707,605</b>	3.005%
Blackrock, INC.	<b>0</b>	INVESTED MANAGERS AND DELEGATED INVESTER MANAGERS (UNDER CONTROL BLACKROCK).	<b>14,766,425</b>	3.143%
Invesco Limited	<b>0</b>	Invesco Advisers, INC., Invesco Asset	<b>4,762,315</b>	1.014%

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		Management, Ltd., Invesco PowerShares Capital Management LLC and Invesco Asset Management Deutschland GmbH		
Banco Santander, S.A.	<b>78,437,100</b>	Cartera Mobiliaria, S.A., SICAV, Luri 6, S.A., Altamira Santander Real Estate, S.A. and Títulos de Renta Fija, S.A.	<b>26,172,125</b>	22.268%

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
PRINCIPAL FINANCIAL GROUP, INC	11/26/2015	Increase above 3% of the capital stock
BLACKROCK INC	05/20/2016	Reduction to less than 3% of the capital stock
BLACKROCK INC	05/15/2016	Increase above 3% of the capital stock
BLACKROCK INC	05/24/2016	Increase above 3% of the capital stock
BLACKROCK INC	05/26/2016	Reduction to less than 3% of the capital stock
BLACKROCK INC	06/28/2016	Reduction to less than 5% of the capital stock
BLACKROCK INC	10/31/2016	Reduction to less than 3%
BLACKROCK INC	11/23/2016	Increase above 3% of the capital stock
STANDARD LIFE INVESTMENTS LIMITED	08/11/2016	Increase above 3% of the capital stock
STANDARD LIFE INVESTMENTS LIMITED	10/31/2016	Reduction to less than 3% of the capital stock
STANDARD LIFE INVESTMENTS LIMITED	12/07/2016	Increase above 3% of the capital stock
INVESCO LIMITED	02/05/2016	Increase above 1% of the capital stock (just in tax heavens)
BANCO SANTANDER, S.A.	10/26/2016	Increase above 25% of the capital stock

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BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	10/26/2016	Increase above 5% of the capital stock
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	12/01/2017	Reduction to less than 5% of the capital stock
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	12/18/2017	Reduction to less than 3% of the capital stock

A.3 Complete the following tables on members of the board of directors that hold voting rights attached to company shares:

Name or corporate name of director	Number of direct voting rights	Indirect voting rights	% of total voting rights
		Number of voting rights	
Ms. María Luisa Jordá Castro	15,000	---	0.00%
Mr. Alfredo Fernández Agras	165,766	---	0.04%
Mr. Fernando Javier Ortiz Vaamonde	66,578	---	0.01%
Mr. Ismael Clemente Orrego	783,958	0	0.17%
Mr. Francisco Javier García-Carranza Benjumea	5,000	80,000	0.02% <sup>o</sup>
Mr. Miguel Ollero Barrera	772,917	0	0.16%
Mr. Juan María Aguirre Gonzalo	4,000	---	0.00%
Mr. G. Donald Johnston III	50,000	---	0.01%
John Gómez Hall	100,000	---	0.02%
Ms. Francisca Ortega Hernández-Agero	1	0	0.00%

Name or corporate name of indirect holder	Through: Name or corporate name of direct holder	Number voting rights
Mr. Francisco Javier García-Carranza Benjumea	Alder Property, S.L.	80,000

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<b>% total of voting rights held by the board of directors</b>	<b>0.43%</b>
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Complete the following tables on members of the board of directors that hold rights over company shares:

Name or corporate name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
-	-	-	-	-	-

A.4 Give details of any family, commercial, contractual or corporate relationships between owners of significant holdings, insofar as they are known to the company, unless they have scant relevance or arise from the ordinary course of business:

Name or corporate name of related-party	Type of relationship	Brief description
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A.5 Give details of any commercial, contractual or corporate relationships between owners of significant holdings and the company, unless they have scant relevance or arise from the ordinary course of business:

For the avoidance of repetition, reference is made to the contents of sections D.2 to D.5 of this report where the details of the relationships in question are provided.

Name or corporate name of related-party	Type of relationship	Brief description

A.6 Indicate whether the company has been notified of any side agreements affecting it pursuant to articles 530 and 531 of the Capital Companies Law. If so, provide a brief description and list the shareholders bound by the agreement:

Yes  No

Parties to side agreement
Merlin Properties, SOCIMI, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.
Banco Santander, S.A.
Banco Popular Español, S.A.

**% of share capital affected:** 31.57%

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**Brief description of agreement:**

Parties to side agreement: Merlin Properties, SOCIMI, S.A., Metrovacesa, S.A., Testa Inmuebles en Renta, SOCIMI, S.A., Testa Residencial, SOCIMI, S.A., Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Banco Popular Español, S.A.

Description: Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Banco Popular Español, S.A. undertake not to transfer shares or voting rights of Merlin Properties, SOCIMI, S.A. for a period of six (6) months as from the registration of the deed of spin-off of Metrovacesa, S.A., that is, as from October 26, 2016. This agreement, which was in effect for 4 months in 2017, is no longer in effect.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. If so, provide a brief description:

Yes  No

Parties involved in concerted action	% of share capital affected	Brief description of concerted action

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

Not applicable.

A.7 Indicate whether there are any individuals or legal entities that exercise or may exercise control over the company in accordance with article 5 of the Securities Market Law: If so, identify:

Yes  No

Name or corporate name

Remarks

A.8 Complete the following tables on the company's treasury stock:

**At year-end:**

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
2,320,230	---	0.49%

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(\*) **Through:**

Name or corporate name of direct holder	Number of shares held directly
---	---
<b>Total</b>	---

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

Explanation of significant variations
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A.9 Give details of the conditions and term of the current authority conferred by the shareholders' meeting on the board of directors to issue, buy back or transfer treasury stock.

The Annual Shareholders' Meeting, at the meeting held on April 26, 2017, resolved to authorize the derivative acquisition of treasury stock by the Company or companies in its group in compliance with the requirements and restrictions established in the legislation in force from time to time, all on the following terms:

- Forms of acquisition: The acquisitions may be made directly by the Company or indirectly through companies in its group, and they may be formalized, once or several times, by way of a sale and purchase, swap or any other valid legal transaction under law.
- Maximum number of shares to be acquired: The par value of the shares to be acquired, added, if applicable, to that of those already directly or indirectly owned, shall not exceed the maximum percentage legally permitted from time to time.
- Maximum and minimum consideration: The acquisition price per share shall be at least the par value and at most the price quoted on the stock market on the date of acquisition.
- Term of the authorization: The authorization is granted for a term of five years.

In addition, and for the purposes of the provisions of paragraph two of letter a) of article 146.1 of the Capital Companies Law, it was expressly placed on record that express authorization was granted for the acquisition of shares of the Company by any of its subsidiaries, on the same terms as those indicated above. The authorization also included the acquisition of any shares to be delivered directly to the workers or directors of the Company or companies in its group, or as a result of the exercise of the options held by them or for the settlement and payment to the same of the stock bonus plans.

A.9 bis Estimated floating capital:

	%
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Estimated floating capital	69.64%
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A.10 Indicate whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. Indicate, in particular, the existence of any restrictions that may impose obstacles to the takeover of the company by means of share purchases on the market.

Yes

No

Description of restrictions
<p>As indicated in section A.6, the side agreement signed with Merlin Properties, SOCIMI, S.A., Metrovacesa, S.A., Testa Inmuebles en Renta, SOCIMI, S.A., Testa Residencial, SOCIMI, S.A., Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Banco Popular Español, S.A. contained restrictions on the transfer of shares. This agreement, which was in effect for 4 months in 2017, was no longer in effect as of December 31, 2017.</p> <p>While the Bylaws do not regulate any restriction on the transfer of shares, article 8 of the Bylaws contains a series of ancillary obligations giving rise to the following obligations for company shareholders:</p> <p><b>Reporting obligations for shareholders holding significant holdings</b></p> <p>Pursuant to article 8 of the Bylaws, all shareholders who (i) own Company shares in a percentage greater than or equal to 5% of the share capital, or the percentage holding provided for in article 9.2 of the Law governing SOCIMIs, or any legislation superseding it, for the Company to become subject to the special corporate income tax levy (the <i>Significant Holding</i>); or (ii) acquire shares which, together with the shares they already own, mean they have a Significant Holding in the capital of the Company, must notify such circumstance to the Board of Directors.</p> <p>The percentage holding greater than or equal to 5% of capital referred to in the preceding paragraph shall be understood to be (i) automatically modified if there is any change in the figure provided for in article 9.2 of the law governing SOCIMIs, or any legislation that may supersede it, and, accordingly (ii) replaced by the figure contained in the aforementioned legislation from time to time.</p> <p>Equally, all shareholders who have a Significant Holding in the share capital of the Company must notify the Board of Directors of any subsequent acquisition, regardless of the number of shares acquired.</p> <p>The same declaration as those indicated in the preceding paragraphs must be made by any person holding economic rights over Company shares, including in all cases indirect holders of Company shares through financial intermediaries that formally appear as authorized shareholders by virtue of the accounting register but which act on behalf of such holders.</p> <p>Together with the notification provided for in the preceding paragraphs, the affected shareholder or holder of the economic rights must provide the Board Secretary with: (i) a residence certificate, for the purposes of the corresponding personal income tax, issued by the competent authorities in his/her country of residence. In cases where the shareholder is resident in a country with which Spain has signed a tax treaty to avoid double taxation of income, the residence certificate must have the characteristics provided for in the relevant treaty in order to apply its benefits; and (ii) a certificate issued by an individual with sufficient powers evidencing the tax rate payable by the shareholder on the dividend distributed by the Company, together with a declaration that the shareholder is the beneficial owner of</p>



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the dividend.

The obligated shareholder or holder of economic rights must deliver such certificate to the Company within the ten calendar days following the date on which the Shareholders' Meeting or Board of Directors, as the case may be, resolves on the distribution of any dividend or any analogous amount (reserves, etc.).

If the party obliged to notify breaches the notification obligation set out in the preceding paragraphs, the Board of Directors may assume that the dividend is exempt or taxed at a rate lower than that provided for in article 9.2 of the law governing SOCIMIs, or any legislation that may supersede it.

Alternatively, the Board of Directors may request, with a charge to the dividend corresponding to the shareholder, that a legal report be issued by a reputable law firm in the shareholder's country of residence to express an opinion on the taxation of the dividends distributed by the Company.

The expense incurred by the Company shall be payable on the day before the payment of the dividend.

**Reporting obligations for shareholders subject to special regimes:**

Article 8 of the Bylaws establishes that all shareholders who, as investors, are subject under their jurisdiction of origin to any type of special legal regime regarding pension funds or benefit plans, must notify such circumstance to the Board of Directors.

Equally, any shareholders who are in the situation described in the preceding paragraph must notify the Board of Directors of any subsequent acquisition or transfer, regardless of the number of shares acquired or transferred.

The same declaration as those indicated in the preceding paragraphs must be made by any person holding economic rights over Company shares, including in all cases indirect holders of Company shares through financial intermediaries that formally appear as authorized shareholders by virtue of the accounting register but which act on behalf of such holders.

The Company may request, by serving written notice (a ***Request for Information***), that shareholders or any other persons with a known or apparent interest in the Company shares provide the written information requested by the Company and known by the shareholder or other person in relation to the beneficial ownership of the shares in question or the interest therein (accompanied by a formal or notarial statement and/or independent evidence, if so requested by the Company), including (without prejudice to the general nature of the foregoing) any information that the Company deems necessary or appropriate for the purposes of determining whether such shareholders or persons may be subject to the situation described in the first paragraph of this section on reporting obligations for shareholders subject to special regimes.

The Company may make a Request for Information at any time and may send one or more Requests for Information to the same shareholder or person with respect to the same shares or interests in the same shares.

Without prejudice to the obligations regulated in article 8.2, the Company shall supervise any share acquisitions or transfers performed and shall take the measures it deems appropriate to prevent any loss arising for the Company or its shareholders from the application of the legislation in force in the area of pension funds or benefit plans that may affect them in their respective jurisdictions.

The indemnification obligation provided for in article 55 of the Bylaws shall also be considered an ancillary obligation for the purposes of the provisions of article 8.

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A.11 Indicate whether the shareholders' meeting has agreed to take breakthrough measures to prevent a takeover bid by virtue of the provisions of Law 6/2007.

Yes  No

If so, explain the measures adopted and the terms on which the restrictions would be rendered ineffective:

A.12 Indicate whether the company has issued securities that are not traded on a regulated Community market.

Yes  No

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

**B** SHAREHOLDERS' MEETING

B.1 Indicate and describe any differences with respect to the minimum rules established in the Capital Companies Law (LSC) regarding the quorum required for the constitution of the shareholders' meeting.

Yes  No

B.2 Indicate and, as applicable, describe any differences with respect to the rules established in the Capital Companies Law (LSC) for the adoption of corporate resolutions:

Yes  No

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 LSC for the cases described in 194.1 LSC	Other cases requiring a qualified majority
% established by company for the adoption of corporate resolutions	50.01%	50.01%
<b>Describe the differences</b>		
The Law establishes, for cases other than those described in article 194 LSC, that resolutions shall be adopted by a simple majority of the votes cast by the shareholders present, in person or by proxy. The Bylaws establish such majority as the favorable vote of the majority of the shareholders present, in person or by proxy, at the Shareholders' Meeting.		

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B.3 Indicate the rules governing amendments to the company’s bylaws. In particular, indicate the majorities required to amend the bylaws and any rules to protect shareholders’ rights when amending the bylaws.

The procedure for amending the Bylaws and the applicable rules for the protection of shareholders’ rights when amending the Bylaws are governed by the provisions of the Capital Companies Law.

B.4 Indicate the attendance figures for the shareholders’ meetings held in the year to which this report refers and in the previous year:

Date of shareholders’ meeting	Attendance data				Total
	% attending in person	% by proxy	% distance voting		
			Electronic vote	Other	
04/06/2016	4.29%	54.96%	0.00%	0.00%	59.25%
09/15/2016	4.91%	53.06%	0.00%	0.00%	57.97%
04/26/2017	3.19%	71.66%	0.00%	3.74%	78.590%

B.5 Indicate whether there is any bylaw restriction that imposes a minimum requirement on the number of shares necessary to attend the shareholders’ meeting:

Yes  No

Number of shares required to attend the shareholders’ meeting	500.
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B.6 Section eliminated.

B.7 Indicate the address and means of accessing corporate governance content on the company’s website as well as other information on shareholders’ meetings which must be made available to shareholders on the company website.

The corporate governance information of the Company can be found on the Company’s website: <http://www.merlinproperties.com/en/corporate-governance/corporate-governance-normative/>

**MANAGEMENT STRUCTURE OF THE COMPANY**

**C.1 Board of directors**

C.1.1 Maximum and minimum number of directors provided for in the bylaws:

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<b>Maximum number of directors</b>	<b>15</b>
<b>Minimum number of directors</b>	<b>3</b>

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C.1.2 Complete the following table with the members of the board:

<b>Name or corporate name of director</b>	<b>Representative</b>	<b>Category of director</b>	<b>Office on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
Ms. Francisca Ortega Hernández-Agero	---	Nominee	Director	September 15, 2016	September 15, 2016	Vote at the Shareholders' Meeting
Ms. María Luisa Jordá Castro	----	Independent	Director	June 10, 2014	June 10, 2014	Vote at the Shareholders' Meeting
Mr. Alfredo Fernandez Agras	----	Independent	Director	June 6, 2014	June 6, 2014	Vote at the Shareholders' Meeting
Ms. Ana María García Fau	----	Independent	Director	June 6, 2014	June 6, 2014	Vote at the Shareholders' Meeting
Ms. Pilar Cavero Mestre	---	Independent	Director	September 15, 2016	September 15, 2016	Vote at the Shareholders' Meeting
Mr. Fernando Javier Ortiz Vaamonde	----	Independent	Director	June 6, 2014	June 6, 2014	Vote at the Shareholders' Meeting
Mr. Ismael Clemente Orrego	----	Executive	Vice-Chairman and Chief Executive Officer	May 27, 2014	May 27, 2014	Vote at the Shareholders' Meeting
Mr. Javier García-Carranza Benjumea	---	Nominee	Director	September 15, 2016	September 15, 2016	Vote at the Shareholders' Meeting
Mr. Miguel Ollero Barrera	----	Executive	Executive Director	May 27, 2014	May 27, 2014	Vote at the Shareholders' Meeting
Mr. John Gómez Hall	---	Independent	Director	August 31, 2015	August 31, 2015	Appointment by co-option
Mr. Juan María Aguirre Gonzalo	---	Independent	Director	September 15, 2016	September 15, 2016	Vote at the Shareholders' Meeting
Mr. George Donald Johnston III	----	Independent	Director	June 11, 2014	June 11, 2014	Vote at the Shareholders' Meeting

<b>Total number of directors</b>	<b>12</b>
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Indicate any board members who left the board during this reporting period:

Name or corporate name of director	Category of director at the time of leaving	Leaving date
Mr. Rodrigo Echenique Gordillo	Nominee	02/27/2017
Ms. Ana de Pro Gonzalo	Independent	04/26/2017
Mr. Agustín Vidal-Aragón Olives	Nominee	03/10/2017
Mr. José Ferris Monera	Nominee	12/22/2017

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

### **EXECUTIVE DIRECTORS**

Name or corporate name of director	Office per the company's organizational chart
Mr. Ismael Clemente Orrego	Vice Chairman and Chief Executive Officer
Mr. Miguel Ollero Barrera	Corporate General Manager and COO

<b>Total number of executive directors</b>	2
<b>% of total board</b>	16.67%

### **EXTERNAL NOMINEE DIRECTORS**

Name or corporate name of director	Name or corporate name of significant shareholder represented or that proposed appointment
Ms. Francisca Ortega Hernández-Agero	Banco Santander, S.A.
Mr. Javier García-Carranza Benjumea	Banco Santander, S.A.

<b>Total number of nominee directors</b>	2
<b>% of total board</b>	16.67%

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Name or corporate name of director	Profile
	<u>Committee membership:</u> Chairwoman of the Audit and Control Committee.  <u>Current external appointments:</u>

<p>Ms. María Luisa Jordá Castro</p>	<p>Member of the Board of Directors of Orange España, SA since March 2016 and member of the Audit Committee.</p> <p>Independent Director of Grupo Bimbo in Mexico (listed company) and member of the Audit Committee and Corporate Practices since April 2016.</p> <p>She has been a member of the Technical Committee of the Spanish Internal Auditors Institute since September 2017.</p> <p><u>Prior professional experience:</u></p> <p>She has held various executive positions over her 30 year career, belonging to various Management, Investment and Audit Committees. She was Chief Economic and Financial Officer of the Deoleo Group until February 2015, Chief of Internal Auditing at SOS Corporación Alimentaria (now Deoleo, S.A.), Head of Internal Auditing and Corporate Governance at Metrovacesa, Director of Finance and Investment at Corporación Empresarial ONCE, Financial and Economic Director of Grupo Alimentos y Aceites, S.A., Financial and Economic Director of Testa (formerly Prima Inmobiliaria) and Grupo Ayco (formerly Inmobiliaria Alcázar).</p> <p>She was a member of the Board of Directors of Jazztel from November 2009 to March 2016 and a member of its Audit Committee. She was Chairwoman of the Jazztel Audit Committee from October 2011 to July 2015. She was a member of the Board of Directors and member of the Audit and Control Committee of Tubos Reunidos, S.A. from May and June 2015, respectively, to September 2016.</p> <p>In addition, she was a member of the Governance Committee and member of the Audit Committee of Instituto de Consejeros y Administradores (ICA) from June 2013 to December 2016.</p> <p>Degree in Economics and Business Studies from U. Complutense de Madrid and member of the Official Auditors' Register (ROAC).</p> <p>Master's in Finance and Investment from the Instituto de Empresa and CECO (1985-1987) and Master's in Digital Business from the Valley Business School (2016-2017).</p>
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<p>Mr. Alfredo Fernández Agras</p>	<p><u>Current external appointments:</u></p> <p>Chairman of the Board of Directors of Everwood Capital SGEIC, S.A. and director / board member at various managed entities.</p> <p>Nominee Director, Chairman of the Board of Directors, Co-Chairman of the Group, Deputy Chairman of the Delegate Committee and member of the Appointments, Compensation and Corporate Governance Committee of NH Hotel Group, S.A.</p> <p>Chairman of the Board of Directors of Catral Garden &amp; Home Depot.</p> <p>Works private equity, and is a founding partner of Everwood Capital SGEIC, S.A.</p> <p><u>Prior professional experience:</u></p> <p>Previously, for nearly 20 years he worked at various investment banks and was Managing Director at UBS Investment Bank. He previously worked at Merrill Lynch and Morgan Stanley in London. Mr. Alfredo Fernández has participated in multiple M&amp;A deals in Southern Europe. He also previously worked at Arthur Andersen as a corporate and tax lawyer.</p> <p>Degree in Law and Economics and Business Administration from Universidad Pontificia Comillas, ICADE (E-3).</p>
<p>Ms. Ana María García Fau</p>	<p><u>Committee membership:</u></p> <p>Member of Audit and Control Committee</p> <p><u>Current external appointments:</u></p> <p>Independent director of Eutelsat Communications, S.A., a French company listed on the Paris Stock Exchange (Euronext) that operates in the communication satellites sector. Chairwoman of the Compensation Committee.</p> <p>Independent director of Technicolor, S.A., a French company listed on the Paris Stock Exchange (Euronext) that operates in the media and entertainment technology sector. Chairwoman of the Appointments and Good Governance Committee. Member of the Audit Committee.</p>



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	<p>Independent director of Gestamp Automoción S.A., a listed Spanish company, manufacturer of automotive parts. Member of the Audit Committee.</p> <p>Independent director of Renovalia Energy Group, S.A. and DLA Piper LLP where she is also the Chairwoman of its Audit Committees.</p> <p>Independent director of Globalvia, S.A.</p> <p><u>Prior professional experience:</u> 24 years' experience at such Spanish and international firms as McKinsey &amp; Company, Goldman Sachs, Wolff Olins, Telefónica Group and Yell-hibu (Yell Group). At the Telefónica Group, she had executive responsibilities at TPI-Páginas Amarillas, as CFO and Director of Corporate Development, and was also a member of the Board of Directors of Publiguías-Chile, TPI Perú, Telinver - Argentina and Adquira, among others. At Yell-hibu, she was CEO for Spain and Latin America and the Hispanic market in the US, a member of its international Executive Committee, and Chief Strategy and Business Development Officer. She has been a member of the Professional Board of ESADE and a trustee of various foundations.</p> <p>Degree in Law, Business Studies and Economics from Universidad Pontificia Comillas, ICADE (E-3, finance major), and MBA from Massachusetts Institute of Technology (MIT).</p>
<p>Ms. Pilar Cavero Mestre</p>	<p><u>Committee membership:</u> Appointments and Compensation Committee</p> <p><u>Current external appointments:</u> Honorary Partner of Cuatrecasas.</p> <p>Founding Partner of Labor and Employment Area at Cuatrecasas.</p> <p>Independent Director of Abengoa.</p> <p>Lecturer on course on female board members entitled <i>Consejeras y Consejables</i>. Member of</p>

	<p>the faculty and management of the legal module of the course at IESE.</p> <p>Member of the European Employment Lawyers Association.</p> <p><u>Prior professional experience:</u></p> <p>Extensive experience in the legal profession. From 1980 to 1986 she was legal counsel at the Savings Bank association for Labor Relations. Subsequently, from 1986 to 1990 she practiced labor law at the international firm Fabregat and Bermejo, where she also contributed to growing the business of the firm as a whole.</p> <p>In 1990 she joined the firm Cuatrecasas as a Founding Partner and Head of the Employment and Labor Department of Cuatrecasas, and Co-Founding Partner of Cuatrecasas Madrid. From 1999 to 2008, she was a member of the Board of Directors of Cuatrecasas and of the firm's various organization and management committees.</p> <p>Degree in Law from Universidad Complutense de Madrid. Master's in Industrial Relations and Master's in the Legal Profession from Escuela de Práctica Jurídica. She holds an Associate's Degree in Law from Práctica Jurídica and in Temporary Employment from ESADE.</p> <p>Doctoral candidate. Working on doctoral thesis on Senior Management, Directors and Members of Committees. Legal circle.</p> <p>Harvard Business School – Leading Professional Service Firms (2007)</p> <p>Qualified as a professional adviser by Instituto de Consejeros y Administradores (ICA).</p>
<p>Mr. Fernando Ortiz Vaamonde</p>	<p><u>Committee membership:</u> Appointments and Compensation Committee</p> <p><u>Current external appointments:</u> Founding Partner and Managing Director of ProA Capital de Inversiones S.G.E.I.C., one of the largest private equity funds in Spain, with more than €700 million under management. Through ProA, he is a member of the Boards of Directors of Saba, Eugin, Ibermática, Avizor, Grupo Vips and Moyca.</p> <p><u>Prior professional experience:</u> Mr. Fernando Ortiz began his professional career in 1992 as a tax and corporate lawyer at Arthur</p>

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	<p>Andersen Asesores Fiscales y Legales, now Garrigues, where he spent five years. He went on to become the Director of Corporate Finance and M&amp;A at ING Barings.</p> <p>In 1999 he joined BBVA as head of the bank’s own private equity fund, initially specialized in new technologies. Subsequently, was a partner of N+1 and a member of its Management Committee, where he was responsible for the origination of investment opportunities, and their management and execution, for the funds of N+1 and Dinamia.</p> <p>In 2007 he founded ProA Capital, a firm he currently manages. Through ProA he has invested over €700 million of capital in over a dozen companies, including such firms as Palacios, Eugin, Ambuibérica, Saba, Ibermática, Hospital de Llevant, Rotor, Suanfarma, Avizor, Grupo Vips, Fruselva and Moyca.</p>
<p>Mr. John Gómez Hall</p>	<p><u>Current external appointments:</u>  Senior Advisor to TPG Capital.  Board member of Servihabitat.</p> <p><u>Prior professional experience:</u></p> <p>Mr. Gómez-Hall has over 50 years’ experience in the Spanish real estate market, having held execution positions at several of the top real estate firms in Spain. He was CEO of Hines España, a subsidiary of Hines. Prior to that, Mr. Gómez-Hall was the CEO and founder of Prima Inmobiliaria, listed since 1998. The company developed and acquired an asset portfolio of more than 300,000 m<sup>2</sup> of gross leasable area, in various kinds of assets, predominantly offices. The company was acquired by Vallehermoso in 2001 and changed its name to Testa Inmuebles en Rent, S.A.</p> <p>Mr. Gómez-Hall is a member of the Royal Institute of British Architects and F.R.I.C.S.</p>

<p>Mr. Juan María Aguirre</p>	<p><u>Committee membership:</u> Audit and Control Committee</p> <p><u>Committee external appointments:</u> He is a director of CRB Inverbio, several SICAVS, Maltisa, Quantop and Gardama, EOM Perú, CGU Colombia and Mantbraca Aruba.</p> <p>He is an independent director of SACYR, S.A., where he is also chairman of the Audit Committee and member of the Executive Committee.</p> <p><u>Prior professional experience:</u> Mr. Juan María Aguirre Gonzalo has spent much of his professional career in the field of finance, having held senior positions in the Department of Risk, Administration and Planning at Banco de Progreso, S.A. (1985/1988), and subsequently as a Finance Officer at the finance and leasing firm of Mercedes-Benz (1989/1990). In 1990 he joined Torreal, S.A. as a director and General Manager. During his time at Torreal and until his departure in 2005, he was responsible for the financial and real estate investments of the Torreal Group and sat on the boards of directors of Torreal's subsidiaries.</p> <p>Since 2006, he has been a shareholder and General Manager of Quantica Asesores, S.A., a firm that provides financial advice to family and institutional groups, as well as a director of Testa Inmuebles en Renta, SOCIMI, S.A. and BBVA Elcano SCR.</p> <p>Mr. Juan María Aguirre Gonzalo holds a degree in Economics and Business Administration from Universidad Pontificia de Comillas (ICADE), and a Master's in Financial Management from Instituto de Empresa.</p>
<p>Mr. G. Donald Johnston III</p>	<p><u>Committee membership:</u> Appointments and Compensation Committee.</p> <p><u>Current external appointments:</u> Chairman of Yankee Kingdom Advisory. Independent Non-Executive Director of Acerinox and member of its Audit and Control Committee, and of the Executive Committee. Member of the Advisory Board of Broseta. Independent Director of Banco de Sabadell, S.A. and of the Compensation Committee.</p>

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	<p><u>Prior professional experience:</u> CEO of the European M&amp;A Group at Deutsche Bank from 1999 to 2005. Chairman of the same group from 2005 to 2010. Member of the European Management Committee and the Operating Committee for Deutsche Bank's Corporate Finance Division. Member of the Board of Directors of Bankers Trust International and member of its Management Committee. He joined Bankers Trust as Head of European M&amp;A in 1992 and became co-head of Investment Banking in Europe while continuing to run BT Wolfensohn. He spent 11 years at Salomon Brothers where he was head of the Investment Banking Division for Spain, Austria, Italy and Portugal.</p>
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<b>Total number of independent directors</b>	8
<b>% of total board</b>	66.67%

Indicate whether any independent director receives from the company, or its group, any amount or payment other than standard director compensation, or holds or has held, in the last year, a business relationship with the company or any group company, whether in their own name or as a significant shareholder, director or senior executive of an entity which holds or held said relationship.

No.

If so, include a reasoned statement from the board detailing the reasons why the director may perform their functions as an external director.

Name or corporate name of director	Description of the relationship	Reasoned statement
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### **OTHER NON-EXECUTIVE DIRECTORS**

List the other non-executive directors and state the reasons why they cannot be considered nominee or independent directors, detailing their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is held
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<b>Total number of other non-executive directors</b>	---
<b>% of total board</b>	---

Indicate any changes in the period as regards the category of each director:

<b>Name or corporate name of director</b>	<b>Date of change</b>	<b>Previous category</b>	<b>Current category</b>
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C.1.4 Complete the following table indicating the number of female directors at the end of the last 4 years and their category:

	<b>Number of female directors</b>				<b>% of total directors of each category</b>			
	<b>Year t</b>	<b>Year t-1</b>	<b>Year t-2</b>	<b>Year t-3</b>	<b>Year t</b>	<b>Year t-1</b>	<b>Year t-2</b>	<b>Year t-3</b>
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Nominee</b>	1	1	0	0	50%	25%	0.00%	0.00%
<b>Independent</b>	3	4	3	2	37.5%	44.00%	42,86%	40%
<b>Other non-executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	4	5	3	2	33.33%	33.33%	30%	22,22%

C.1.5 Explain any measures adopted to try to include a sufficient number of women on the board to guarantee an even balance of men and women.

<b>Explanation of the measures</b>
<p>The Appointments and Compensation Committee follows an entirely objective criterion for selecting candidates for the Board of Directors, taking into consideration their professional qualities, irrespective of gender. It also ensures that the procedures for selecting board members favor diversity of gender, experience and knowledge, and do not suffer from any implicit bias that could entail any form of discrimination and, in particular, that they facilitate the selection of female directors. In any event, since 33.33% of Board members are already women and since these appointments took place from 2014 to 2017, it is not considered necessary to take any special measures in this regard.</p> <p>As regards the diversity policy applied to the Board of Directors, when the Appointments and Compensation Committee proposes or reports on candidates to be appointed or re-appointed as board members, it considers aspects such as the candidates' professional training and experience, their age and, as noted above, their gender. This is borne out by the fact that the Board of Directors of the Company has a heterogeneous mix of members when it comes to training, experience and age, and the number of women on the board exceeds the target set in the Code of Good Governance for Listed Companies for fiscal year 2020.</p>

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C.1.6 Explain any measures taken by the appointments committee to ensure that selection processes are not subject to implicit bias that would hinder the selection of female directors, and to ensure that the company makes a conscious effort to search for and include women with the required profile among the potential candidates:

<b>Explanation of the measures</b>
In accordance with article 15.5 of the Board Regulations, the Board of Directors and the Appointments and Compensation Committee, within the scope of their powers, shall ensure that the candidates chosen are reputable, competent and experienced individuals and shall exercise rigor in relation to those candidates called to fill the offices of independent director provided for in article 5 of the Board Regulations.
In the decisions adopted, there has been no bias with respect to the selection of female board members, as there have been proposed appointments of female directors, where applicable, when there have been female candidates who met the professional profile sought.

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

<b>Explanation of the measures</b>
Given that the company has already met the 2020 target, it was not considered necessary to take additional measures

C.1.6.bis Explain the conclusions of the appointments committee with respect to compliance with the director selection policy. In particular, explain how this policy promotes the objective of having female directors represent at least 30% of the total members of the board of directors by 2020.

In each proposal or report on the appointment and re-appointment of board members, the Appointments and Compensation Committee has abided by the director selection policy. As regards the promotion of the number of female directors, given that the company has already met the 2020 target, it was not considered necessary to take additional measures.

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

The shareholder Banco Santander, S.A. is represented by (i) Francisco Javier García-Carranza Benjumea and (ii) Francisca Ortega Hernández-Agero.

C.1.8 Explain, if applicable, the reasons why nominee directors have been appointed at the request of shareholders holding less than 3% of the share capital:

<b>Name or corporate name of shareholder</b>	<b>Reason</b>

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Give details of any rejections of formal requests for board representation from shareholders whose shareholding is equal to or greater than that of other shareholders who have successfully requested the appointment of nominee directors. As applicable, explain why these requests have not been entertained:

Yes

No

Name or corporate name of shareholder	Explanation
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C.1.9 Indicate whether any director has resigned from office before the end of their term of office, whether that director has given the board their reasons and by what means and, if tendered in writing, detail below at least the reasons given by that director:

**Name of director:**

MR. AGUSTÍN VIDAL-ARAGÓN OLIVES

**Reasons for resignation:**

Tendered in writing, in order to dedicate his time to other professional projects.

**Name of director:**

MR. RODRIGO ECHENIQUE GORDILLO

**Reasons for resignation:**

Tendered in writing, in order to dedicate his time to other professional projects.

**Name of director:**

MS. ANA DE PRO GONZALO

**Reasons for resignation:**

Expiration of appointment.

**Name of director:**

MR. JOSÉ FERRIS MONERA

**Reasons for resignation:**

Tendered by e-mail, because the company that had proposed his appointment (Banco Bilbao Vizcaya Argentaria, S.A.) had reduced its holding in the capital of the company.



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

**Name or corporate name of director:**

Ismael Clemente Orrego

**Brief description:**

All powers that can be delegated pursuant to the law and the Bylaws.

C.1.11 Identify, as appropriate, which members of the board hold office as directors or executives at other companies forming part of the listed company's group:

<b>Name or corporate name of director</b>	<b>Corporate name of group entity</b>	<b>Office</b>	<b>Do they have executive functions?</b>
Mr. Ismael Clemente Orrego	VFX Logistica, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	MPCVI Compra e Venda Imobiliária, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	MP Torre A, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	MP Monumental, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	Merlin Parques Logísticos, S.A.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Parc Logistic De La Zona Franca, S.A.	Director's representative	Yes
Mr. Ismael Clemente Orrego	Obraser, S.A.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Metroparque, S.A.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Paseo Comercial Carlos III, S.A.	Director's representative	Yes
Mr. Ismael Clemente Orrego	Tree Inversiones Inmobiliarias Socimi, S.A.U.	Joint Director	Yes

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Mr. Ismael Clemente Orrego	Holding Jaureguizar 2002, S.A.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Acoghe, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Metropolitana Castellana, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Sadorma 2003, S.L.U.	Director's representative	Yes
Mr. Ismael Clemente Orrego	Varitelia Distribuciones S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Merlin Logística II, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Merlin Oficinas, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Merlin Logística, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Merlin Retail, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Merlin Properties Adequa, S.L.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	La Vital Centro Comercial y De Ocio S.L.	Joint Director	Yes
Mr. Miguel Ollero Barrera	VFX Logistica, S.A.	Director	Yes
Mr. Miguel Ollero Barrera	MPCVI Compra e Venda Imobiliária, S.A.	Director	Yes
Mr. Miguel Ollero Barrera	MP Torre A, S.A.	Director	Yes

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Mr. Miguel Ollero Barrera	MP Monumental, S.A.	Director	Yes
Mr. Miguel Ollero Barrera	Merlin Parques Logísticos, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Obraser, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Metroparque, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Tree Inversiones Inmobiliarias Socimi, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Holding Jaureguizar 2002, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Acoghe, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Metropolitana Castellana, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Varitelia Distribuciones, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Merlin Logística II, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Merlin Oficinas, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Merlin Logística, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Merlin Retail, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Merlin Properties Adequa, S.L.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	La Vital Centro Comercial y De Ocio, S.L.	Joint Director	Yes
Mr. Ismael Clemente Orrego	Promosete – Inversiones Inmobiliarias, S.A.	Director	Yes
Mr. Miguel Ollero Barrera	Promosete – Inversiones Inmobiliarias, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	Praça de Marques - Servicios Auxiliares, S.A.	Director	Yes

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Mr. Miguel Ollero Barrera	Praça de Marques - Servicios Auxiliares, S.A.	Director	Yes
Mr. Ismael Clemente Orrego	Sevisur Logistica, S.A.U.	Joint Director	Yes
Mr. Miguel Ollero Barrera	Sevisur Logistica, S.A.U.	Joint Director	Yes
Mr. Ismael Clemente Orrego	MPEP – Properties Escritórios Portugal, S.A.	Director	Yes
Mr. Miguel Ollero Barrera	MPEP – Properties Escritórios Portugal, S.A.	Director	Yes

C.1.12 Give details of any company directors who are members of the boards of directors of other non-group entities that are listed on official securities markets, insofar as these have been disclosed to the company:

<b>Name or corporate name of director</b>	<b>Name of listed entity</b>	<b>Office</b>
Ms. María Luisa Jordá Castro	Grupo Bimbo, a company listed on the Mexican stock exchange	Member of the Board of Directors
Mr. Alfredo Fernández Agras	NH Hotel Group, S.A.	Chairman of the Board of Directors
Ms. Ana María García Fau	Eutelsat Communications, S.A.	Member of the Board of Directors
Ms. Ana María García Fau	Technicolor, S.A. (Listed in Paris)	Member of the Board of Directors
Ms. Pilar Cavero Mestre	Abengoa, S.A.	Member of the Board of Directors
Mr. Juan María Aguirre Gonzalo	Gardama SICAV	Member of the Board of Directors
Mr. Juan María Aguirre Gonzalo	Maltisa SICAV	Chairman of the Board of Directors
Mr. Juan María Aguirre Gonzalo	Quantop SICAV	Member of the Board of Directors
Mr. Juan María Aguirre Gonzalo	Sacyr, S.A.	Member of the Board of Directors
Mr. G. Donald Johnston III	Acerinox, S.A.	Member of the Board of Directors
Mr. G. Donald Johnston III	Banco de Sabadell, S.A.	Member of the Board of Directors
Ms. Ana María García Fau	Gestamp Automoción, S.A.	Member of the Board of Directors
Mr. Javier García-Carranza Benjumea	Santander Capital Desarrollo, SGEIC	Member of the Board of Directors

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C.1.13 Indicate and, as appropriate, explain whether the board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes  No

<b>Explanation of the rules</b>
Article 15.7 of the Board Regulations establishes that the directors of the Company may sit on a maximum of four boards of directors of other listed companies, with a view to ensuring that the director performs all of his/her functions in keeping with the corporate interest, which is understood to mean maximizing the economic value of the Company on a sustained basis.

C.1.14 Section eliminated.

C.1.15 List the overall compensation of the board of directors:

<b>Board compensation (thousands of euros)</b>	<b>6,078</b>
<b>Amount of pension rights accumulated by current directors (thousands of euros)</b>	<b>0</b>
<b>Amount of pension rights accumulated by former directors (thousands of euros)</b>	<b>0</b>

C.1.16 Indicate the members of senior management who are not, in turn, executive directors, and indicate the total compensation paid to them during the year:

<b>Name or corporate name</b>	<b>Office(s)</b>
Mr. David Michael Brush	Chief Investment Officer
Mr. Fernando Lacadena Azpeitia	Finance Officer
Mr. Javier Zarrabeitia Unzueta	Officer
Mr. Luis Lázaro	Officer
Mr. Jesús Vicente Asenjo	Officer
Mr. Jon Ander Navarro Mendizabal	Internal Audit Officer

<b>Total compensation received by senior management (thousands of euros)</b>	<b>5,412</b>
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C.1.17 Indicate, as appropriate, which board members are also members of the boards of directors of companies owned by significant shareholders and/or group entities:

<b>Name or corporate name of director</b>	<b>Name or corporate name of significant shareholder</b>	<b>Office</b>
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Mr. Javier García-Carranza Benjumea	Metrovacesa Promoción y Arrendamiento SA	Director
Mr. Javier García-Carranza Benjumea	Altamira Real Estate	Director
Mr. Javier García-Carranza Benjumea	Santander Capital Desarrollo, SGEIC	Director

Give details of any relevant relationships, other than those included under the previous heading, linking members of the board with significant shareholders and/or entities in their group:

Name or corporate name of director	Name or corporate name of significant shareholder	Description of relationship
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C.1.18 Indicate whether any amendments have been made to the board regulations during the year:

Yes  No

Description of amendments
<p>On February 27, 2017, the Board of Directors, at the proposal of the Appointments and Compensation Committee, resolved to amend certain articles of the Board Regulations, solely for the purpose of adapting the wording of the provisions contained in the Regulations, relating to the period for appointing members of the different committees, to the bylaw provisions approved by the shareholders' meeting held on April 6, 2016, which are published on the Company's website.</p> <p>Articles 40 (The Audit and Control Committee) and 41 (The Appointments and Compensation Committee) were amended to bring the wordings of these articles into line with the bylaw provisions on the term of the offices of these committees.</p>

C.1.19 Indicate the procedures for selection, appointment, re-appointment, evaluation and removal of directors. List the competent bodies, procedures to be followed and criteria to be used for each of these procedures.

Selection of directors
<p>The Board shall ensure, with respect to the composition of the Board, that non-executive directors represent a majority over executive directors and that the number of executive directors is the minimum necessary. It shall also ensure that the procedures for selecting Board members favor diversity of gender, experience and knowledge, and do not suffer from any implicit bias that could entail any form of discrimination and, in particular, that they facilitate the selection of female directors. The Board and the Appointments and Compensation Committee shall ensure that the candidates chosen are reputable,</p>

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competent and experienced individuals and shall exercise rigor in relation to those candidates called to fill the offices of independent director provided for in article 5 of the Board Regulations.

**Appointment of directors**

The Shareholders' Meeting or, if applicable, the Board of Directors itself shall be authorized to appoint the members of the Board of Directors subject to the current legal provisions and to the Bylaws.

Proposed director appointments submitted for consideration to the Shareholders' Meeting by the Board of Directors and resolutions concerning appointments adopted by the Board by virtue of the powers of co-option legally conferred on it must be preceded by the relevant proposal by the Appointments and Compensation Committee, in the case of independent directors, and a report in the case of all other directors.

The members of the Board of Directors shall be subject, to the extent applicable to them, to Law 53/1984, of December 26, 1984, on Incompatibilities of Personnel in the Service of the Public Authorities, Law 3/2015, of March 30, 2015, regulating the discharge of senior Government office, and other legislation on incompatibility.

Directors shall hold office for the period provided for in the Bylaws (2 years) and may be re-appointed on one or more occasions for periods of equal duration, save with respect to independent directors, who may only be re-appointed for a further two (2) terms in addition to their initial term.

Directors appointed by co-option shall discharge their office until the next Shareholders' Meeting has been held or once the statutory period has elapsed for holding the Shareholders' Meeting that is to resolve on the approval of the previous year's financial statements.

**Re-appointment of directors**

Before proposing the re-appointment of directors to the Shareholders' Meeting, the Board shall evaluate the quality of the work and the dedication to office of the proposed directors during the preceding term of office, with the abstention of the parties concerned. The proposed re-appointment of any non-independent director must also be preceded by a report by the Appointments and Compensation Committee.

**Evaluation of directors**

The Board is responsible for the periodic evaluation of the performance of the Chairman of the Board of Directors, the functioning of the Board and of its Committees, and the performance of the directors and senior executives of the Company, following a report by the Appointments and Compensation Committee.

For fiscal year 2017, and following the recommendations of the Code of Good Governance for Listed Companies, the Company had the assistance of a renowned external independent consultant (Egon Zehnder), which evaluated the performance of the Board of Directors, its members and committees in 2017. As part of its work, the external consultant gathered the opinions of the directors on matters specific to the activity of the body to which they belonged, held personal interviews with them and issued a report on its findings. The Board of Directors has taken note of the conclusions contained in the report and has approved an action plan aimed at implementing the measures and recommendations set out in it.

**Removal of directors**

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Directors shall be removed from office, following the end of the term for which they were appointed, once the next Shareholders' Meeting has been held or once the statutory period has elapsed for holding the Shareholders' Meeting that is to resolve on the approval of the previous year's financial statements, when so decided by the Shareholders' Meeting in exercise of the powers conferred on it by the law and the Bylaws, and when they resign.

The Board of Directors shall not propose the removal of any independent director prior to the end of the Bylaw term for which they were appointed, unless the Board deems there is just cause, following a report by the Appointments and Compensation Committee. The removal of independent directors may be proposed as a result of takeover bids, mergers and other similar corporate transactions that entail a change in the Company's capital structure, when such changes in the Board structure are brought about by the criteria of proportionality. In particular, just cause shall be deemed to exist when a director has breached the duties inherent in his/her office or becomes unexpectedly subject to any of the impediments described in the definition of independent director established by the legislation in force or, failing that, in the good corporate governance recommendations applicable to the Company from time to time.

Directors must place their office at the disposal of the Board and tender their resignation, if the Board deems it appropriate, in the cases set out in article 18.3 of the Board Regulations.

Where, due to resignation or any other reason, a director ceases to hold office before the end of his/her term of office, he/she must explain the reasons why in a letter sent to all members of the Board.

C.1.20 Explain to what extent the annual evaluation of the board has prompted significant changes in its internal organization and the procedures applicable to its activities:

<b>Description of amendments</b>
The evaluation of the Board of Directors was found to be satisfactory, and it was not necessary to apply any significant measures whatsoever.

C.1.20.bis Describe the evaluation process and the areas evaluated by the board with the assistance, as applicable, of an external consultant, with respect to the diversity of its composition and competencies, the functioning and composition of its committees, the performance of the board chairman and of the chief executive, and the performance and contribution of each director.

The evaluation process has been conducted in prior years using an individual, personal questionnaire sent to all directors, asking them to provide comments on the composition, competencies and functioning of the Board and its Committees, as well as on the Chairman and Chief Executive of the Company.

In addition, the various committees have been issuing annual reports on their activities, as well as reports on the evaluation and fulfilment of their obligations in accordance with the law and the Bylaws, and with good governance recommendations, and the Appointments and Compensation Committee issues a specific report on the evaluation of the Board (based on the abovementioned questionnaires).



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On the basis of all of the above (questionnaires, activity and evaluation reports by each of the Committees, and report by the Appointments and Compensation Committee evaluating the Board), the plenary session of the Board of Directors carried out the evaluation of the Board, the Board Chairman and the Board Committees, issuing the relevant evaluation report.

For fiscal year 2017, and following the recommendations of the Code of Good Governance for Listed Companies, the Company had the assistance of a renowned external independent consultant (Egon Zehnder), which evaluated the performance of the Board of Directors, its members and committees in 2017. As part of its work, the external consultant gathered the opinions of the directors on matters specific to the activity of the body to which they belonged, held personal interviews with them and issued a report on its findings. The Board of Directors has taken note of the conclusions contained in the report and has approved an action plan aimed at implementing the measures and recommendations set out in it.

In terms of the most significant strengths of the Board of Directors highlighted by EGON Zehnder, the following may be noted:

- Composition of the Board is suitable and balanced in terms of knowledge, experience and diversity.
- High level of commitment, pride of membership and dedication by the Directors.
- The Chairman's contribution to the structuring and contribution of the Board is valued positively.
- High confidence in the CEO and in the management team, thanks to its business success.
- There is an open environment of discussion and debate.
- The agendas are suitable and generally cover the main matters falling within the Board's remit.
- The role of the Office of Board Secretary is valued positively.
- The number and structure of the existing Committees is considered suitable.

C.1.20.ter List any business relationships held by the consultant or any company in its group with the company or any group company.

Not applicable.

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

In accordance with article 18.3 of the Board Regulations, directors must place their office at the disposal of the Board and tender their resignation, if the Board deems it appropriate, in the following cases:

- (i) when they cease to hold the executive positions to which their appointment as a director is linked, as the case may be;
- (ii) when they are subject to any of the grounds for incompatibility or prohibition provided for by law;

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- |        |   |
|--------|---|
| (iii)  | when they are severely reprimanded by the Board for having breached their obligations as directors;   |
| (iv)   | when they are prosecuted for an alleged offense or are subject to a disciplinary proceeding for a serious or very serious breach by supervisory authorities;  |
| (v)    | when their remaining on the Board could jeopardize or adversely affect the interests of the Company or where the reasons for which they were appointed no longer exist. In particular, in the case of non-executive nominee directors, when the shareholder they represent sells its entire holding or significantly reduces it. They must also resign, in the relevant number, when such shareholder lowers its holding to a level that requires a reduction in the number of non-executive nominee directors; |
| (vi)   | when they are members of more than four boards of directors of other listed companies (other than Merlin);  |
| (vii)  | when there are significant changes in their professional situation or in the conditions by virtue of which they were appointed as director; and   |
| (viii) | when, due to facts attributable to the Board, their remaining on the Board causes a serious detriment to the net worth or corporate reputation, in the opinion of the Board.  |

C.1.22 Section eliminated.

C.1.23 Are qualified majorities, other than statutory majorities, required for any type of decision?:

Yes  No

If yes, describe the differences.

Description of differences
---

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

Yes  No

Description of requirements
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C.1.25 Indicate whether the chairman has the casting vote:

Yes  No

Matters on which there is a casting vote
In the event of a tie, the Chairman shall have the casting vote.

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C.1.26 Indicate whether the bylaws or board regulations set an age limit for directors:

Yes  No

Age limit for chairman

Age limit for managing director  Age limit for director

C.1.27 Indicate whether the bylaws or board regulations establish a limited term of office for independent directors, other than as established in the law:

Yes  No

Maximum number of years in office	6
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C.1.28 Indicate whether the bylaws or board regulations establish specific rules for the appointment of proxies on the board, the procedure for doing so and, in particular, the maximum number of proxies a director may hold, as well as whether any restriction has been established as regards the categories of director that may be appointed as proxies, further to the limits imposed by law. If so, provide a brief description.

In accordance with article 41 of the Bylaws and, in particular, article 14 of the Board Regulations, directors must attend Board meetings and, where they cannot do so in person, must endeavor to grant a proxy in writing, specifically for each meeting, to another member of the Board, including the relevant voting instructions and notifying the Chairman of the Board. Non-executive directors may only grant a proxy to another non-executive director. Proxies may be conferred by any postal or electronic means or by fax, provided that the identity of the director and the direction of the voting instructions can be guaranteed.
--

C.1.29 Indicate the number of board meetings held during the year. Also indicate, as appropriate, how often the board met without the chairman's attendance. Proxies appointed with specific instructions should be taken into account when indicating attendance figures.

Number of board meetings	14
Number of board meetings held without the chairman's attendance	2

If the chairman is an executive director, indicate the number of meetings held without the presence of an executive director, in person or by proxy, and under the chairmanship of the lead director.

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

<b>Number of meetings of the executive or delegate committee</b>	---
<b>Number of meetings of the audit committee</b>	<b>13</b>
<b>Number of meetings of the appointments and compensation committee</b>	<b>10</b>
<b>Number of meetings of the appointments committee</b>	
<b>Number of meetings of the compensation committee</b>	
<b>Number of meetings of the ____ committee</b>	

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Proxies appointed with specific instructions should be taken into account when indicating attendance figures:

<b>Number of meetings held with all directors in attendance</b>	6
<b>% attendance with respect to the total votes cast during the year</b>	90.66%

C.1.31 Indicate whether the separate and consolidated financial statements submitted to the board for approval have been previously certified:

Yes  No

Identify, as appropriate, the person(s) who certified the company's separate and consolidated financial statements for their approval by the board:

<b>Name</b>	<b>Office</b>
Ismael Clemente Orrego	Chief Executive Officer
Miguel Ollero Barrera	Corporate General Manager and COO

C.1.32 Explain any mechanisms established by the board of directors to prevent the separate and consolidated financial statements prepared by it from being presented to the shareholders' meeting with a qualified auditors' report:

<p>Article 40 of the Board Regulations, which regulates the functioning of the Audit and Control Committee, establishes, among others, the following functions:</p> <ul style="list-style-type: none"><li>- To supervise the process for preparation and presentation of the financial statements of the Company and the periodic financial information that the Company must provide to the markets and to its supervisory bodies in accordance with the legislation in force, supervising the process for the preparation and publication thereof, reporting in this regard to the board of directors prior to its approval, as well as to monitor compliance with the legal requirements</li></ul>
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in this area and the correct application of generally accepted accounting principles, and to report on proposed modifications to the accounting principles and standards suggested by management.

- To review, analyze and discuss the financial statements and other relevant financial information with senior management and the internal and external auditors in order to confirm that the information is reliable, understandable and relevant and that accounting standards consistent with the previous year-end have been followed.
- To supervise compliance with regulatory requirements, the appropriate definition of the consolidated group and the correct application of accounting standards
- To regularly obtain information from the external auditors on the audit plan and its implementation, as well as to safeguard their independence in the performance of their functions;
- To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion on whether the independence of the auditor or audit firm is compromised
- To serve as a communication channel between the board and the auditors, to evaluate the results of each audit and supervise the responses of the management team regarding adjustments proposed by the external auditor and to mediate in the event of any discrepancy between them in relation to the principles and standards applicable in preparing the financial statements.
- To ensure that the external auditors hold a meeting with the board of directors at least once a year to report on the work performed and on the company's risk and accounting position.
- To ensure that the board of directors endeavors to present the financial statements to the shareholders' meeting with no limitations or qualifications in the auditor's report.

In addition, article 37.3 of the Board Regulations establishes that the Board shall endeavor to definitively prepare the financial statements so that there is no room for reservations or qualifications by the auditor. Exceptionally, where any reservations or qualifications exist, both the Chairman of the Audit and Control Committee and the external auditors shall clearly explain the content of such reservations or qualifications to the shareholders. This notwithstanding, where the Board considers that it should maintain its criterion, it shall publicly explain the contents and scope of the discrepancy.

In compliance with these articles, during the year the Audit and Control Committee provides reports to the Board of Directors containing the Company's quarterly, semi-annual and annual financial information before it is approved and submitted to the National Securities Market Commission and to the capital markets. In this respect, the purpose of the reports is to highlight any accounting issues that pose a risk of triggering a qualification in the reports issued by the external auditors and to provide the relevant recommendations to the Board of Directors.

Accordingly, the Audit and Control Committee provided the Board of Directors with the following reports on the Company's financial information for fiscal year 2017:

- Committee report of May 10, 2017, on the financial information and directors' report for the close of the first quarter of 2017.
- Committee report of September 14, 2017, on the abridged interim financial

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statements for the first half of 2017.

- Committee report of November 13, 2017, on the financial information and directors' report for the close of the third quarter of 2017.
- Committee report of February 26, 2018, on the financial statements for fiscal year 2017.

It should be noted that, historically, the auditors' reports on the separate and consolidated financial statements prepared by the Board of Directors have been issued without any qualifications, as can be seen in the information on MERLIN Properties on the website of the Spanish National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)), as well as on the corporate website ([www.merlinproperties.com](http://www.merlinproperties.com)).

C.1.33 Is the board secretary a director?

Yes

No

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
Ms. Mónica Eloisa Martín de Vidales Godino	---

C.1.34 Section eliminated.

C.1.35 Indicate any specific mechanisms established by the company to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.

**A) PROCEDURES FOR PRESERVING AUDITOR INDEPENDENCE**

The Company's Corporate Governance System ensures the establishment of the necessary relations between the Audit and Control Committee and the auditor so that it receives this specific information regarding matters that may entail threats to its independence.

On November 13, 2017, the Audit and Control Committee approved the "**Auditor Engagement Policy and Relations Framework**" which establishes the governing principles and regulates the selection, appointment, re-appointment and removal of the auditor of the separate and consolidated financial statements, the procedure for engaging services additional to the audit of the financial statements, as well as the procedures for evaluating the independence and the criteria for the annual evaluation of the auditor.

With respect to the independence of the auditor, the Policy establishes that:

- The Audit and Control Committee shall endeavor to ensure that the auditor of the Company is independent and that this is made clear in the relations between them. To this end, the Audit and Control Committee must authorize, prior to its formalization, any contract it intends to sign with the auditor (or member of its network) for the provision of services other than audit services to the Company or any of

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the companies of its Group, in order to be able to individually and globally analyze the threats to independence that may arise from such contracts.

- The Audit and Control Committee shall also be immediately informed of any engagement of audit or non-audit services from firms performing audits of companies of the Group, with a level of detail sufficient to allow it to perform a global and effective analysis of the effect that the engagement of such services may have on independence from an individual and global standpoint.

- In accordance with the applicable legislation, the Audit and Control Committee considers that there is a clear threat to the auditor's independence where the fees that fall due from the provision of audit and non-audit services, which the Company and any entity of the Group expect to pay to the auditor or audit firm, or to a member of its network, in each of the last three consecutive years represent more than fifteen percent (15%) of the total annual revenues of the auditor or audit firm and of the aforementioned network.

- In addition, the total fees received for non-audit services may not exceed seventy percent (70%) of the average of the fees paid in the last three years for audit work performed for the Company and for the other entities of the Group.

- The Audit and Control Committee shall receive from the Company's auditor an annual written confirmation of its independence vis-à-vis the Company or entities directly or indirectly related to the Company, as well as detailed and itemized information on the non-audit services provided by the auditor, or by persons or entities related to the auditor, in accordance with the provisions of the applicable audit legislation.

- The Audit and Control Committee shall, prior to the issuance of the auditor's report, issue an annual report stating its opinion on the auditor's independence. This report, which shall be made available to the Shareholders' Meeting, must contain an evaluation of the potential impact on the auditor's independence on each and every one of the additional services, other than the statutory audit, referred to in the preceding paragraph, individually and globally.

- The Audit and Control Committee shall refrain from proposing to the Board of Directors, and the latter shall in turn refrain from submitting to the Shareholders' Meeting, the appointment as auditor of the Company of any audit firm where it knows that such firm is subject to an absence of independence, prohibition or ground of disqualification in accordance with the audit legislation.

- In evaluating the auditor's independence, the Audit and Control Committee shall:

- Take into account the currently applicable legislation on auditor independence.
- Receive information on the hiring by any of the companies of the Group of professionals from any of the audit firms of the Group.
- Ask the auditor for explanations on the internal quality control system that it has in place for independence matters, as well as information on its internal practices regarding the rotation of the audit partner and its personnel.
- Debate with the auditor any circumstance that may pose a threat to its independence and evaluate the efficiency of the safeguard measures adopted, and understand and evaluate the global relations between the Company and its related entities and the auditor and its network, which entail the provision of non-audit services or any other type of relationship.
- Ensure that the auditor's remuneration does not compromise the quality of its work or its independence.

- Analyze any changes that may take place in the auditor's total remuneration.
- Gather internal company information that is material to the auditor's independence, from the financial management team, the internal audit management team and from other assurance functions, such as information provided by the auditor itself.

With respect to fiscal year 2017:

- The Audit and Control Committee received the auditor a total of 4 times to report on various matters relating to the audit process. The auditor did not report on any matter that might jeopardize its independence in any of the four appearances.
- At the Committee meeting of February 24, 2017, the auditor presented its Draft Audit Opinion on the separate and consolidated financial statements for the year ended December 31, 2016, with a favorable opinion, without any qualifications. In addition, in its presentation, the auditor detailed the audit and non-audit work carried out and delivered the independence letter.
- In this respect, the Committee approved the "Report on the Independence of the auditor of MERLIN and of its consolidated Group for fiscal year 2016" for publication on the occasion of the 2016 Shareholders' Meeting, concluding that the auditor performed its audit tasks with independence from the Company or its related entities.
- At the Committee meeting of February 26, 2018, the auditor presented its Draft Audit Opinion on the separate and consolidated financial statements for the year ended December 31, 2017, with a favorable opinion, without any qualifications. In addition, in its presentation, the auditor detailed the audit and non-audit work carried out and delivered the independence letter.
- In this respect, the Committee approved the "Report on the Independence of the auditor of MERLIN and of its consolidated Group for fiscal year 2017" for publication on the occasion of the 2017 Shareholders' Meeting, concluding that the auditor performed its audit tasks with independence from the Company or its related entities.
- In the above-mentioned independence letters, of February 24, 2017 and February 26, 2018, the auditor stated that the necessary internal procedures to safeguard its independence had been correctly established and that no professional from the audit firm had been hired by the Company.

**B) PROCEDURES FOR PRESERVING THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES**

On February 26, 2016, the Board of Directors of the Company approved the "Policy on communication and contacts with Shareholders, Institutional Investors and Proxy Advisers" which, in addition to complying with the transparency and reporting obligations required by the law and the corporate governance system of the Company, states as one of its main objectives that of acting with transparency toward shareholders, investors and other stakeholders, as well as toward proxy advisers.

The guiding principles that govern the Company's relationship with financial analysts, investment banks and rating agencies are:

- a) transparency, truthfulness and immediacy in the disclosure of information, so that all shareholders, investors and other stakeholders receive the information that is published both legally and voluntarily by the Company in a clear and accessible manner in the shortest period of time possible;
- b) parity, applying the same treatment to all shareholders, investors and other stakeholders when it comes to the information to be supplied, eliminating any type of bias that leads to any differentiation between



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them, notwithstanding that the Company may opt for different communication channels, addressing each one of the target groups;

c) suitability and completeness, in the sense of providing all the information that is suitable and enables shareholders, investors and other stakeholders to exercise their rights vis-à-vis the Company and the Group with full knowledge of the situation of the same;

d) recurrence and frequency, in the sense of making publications with a minimum frequency (without prejudice to any other information that the Group may publish voluntarily), thereby enabling shareholders, investors and other stakeholders to have a minimum level of ongoing knowledge of the Group's activity.

e) accessibility, placement at the disposal of shareholders, investors and other stakeholders of effective means of communication that give them access to actions or proposals in relation to the management and activity of the Company while seizing the benefits offered by new technologies;

f) cooperation from shareholders so that reporting practices and relations with the markets are transparent, effective and in keeping with the corporate interest and encourage shareholder involvement in the Company;

h) compliance with the provisions of the law, corporate governance system and cooperation and transparency toward the competent authorities, regulatory bodies and government agencies.

The Company has a specific investor relations department (the "Investor Relations Office") that protects the independence of financial analysts, through their equal, objective and non-discriminatory treatment. This office is responsible for coordinating, analyzing and managing relations and contacts with shareholders, investors and other stakeholders, as well as for responding to the queries of analysts and institutional investors on an ongoing and individual (and in no case discriminatory) basis .

To implement the general principles indicated above, and at all times in strict compliance with securities market regulations, the Company shall publish the relevant information through the following main communication channels:

- Announcements of relevant events to the National Securities Market Commission.
- The Company's channel for recurring communication with shareholders, investors and other stakeholders is its corporate website ([www.merlinproperties.com](http://www.merlinproperties.com)).
- The Board may, through some of its directors and with the cooperation of any senior executives it deems appropriate, organize informative meetings on the running of the Company and of its Group for shareholders residing in the most important financial markets.
- In pursuing the principle of cooperating with the shareholders, the Board shall encourage the informed participation of the shareholders at Shareholders' Meetings and shall adopt such measures as may be appropriate to facilitate the effective exercise by the Shareholders' Meeting of the functions conferred on it by the law and the bylaws.

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

Yes

No

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Outgoing auditor	Incoming auditor
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In the event of any disagreements with the outgoing auditor, explain the substance thereof:

Yes  No

Explanation of disagreements
---

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

Yes  No

	Company	Group	Total
Amount of non-audit work (in thousands euros)	29	12	41
Amount of non-audit work as a % of the total amount billed by the audit firm	6.81%	5.62%	6.41%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. If so, indicate the reasons given by the chairman of the audit committee to explain the content and scope of such reservations or qualifications.

Yes  No

Explanation of reasons
---

C.1.39 Indicate the number of consecutive years in which the current audit firm has been auditing the financial statements of the company and/or its group. Indicate the number of years the current audit firm has been auditing the financial statements as a percentage of the total number of years in which the financial statements have been audited:

	Company	Group

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<b>Number of consecutive years</b>	4	4
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	<b>Company</b>	<b>Group</b>
<b>Number of years audited by current audit firm as a % of the number of years the company's financial statements have been audited</b>	100%	100%

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

**Yes**  **No**

<b>Details of the procedure</b>
<p>In accordance with article 21 of the Board Regulations, with a view to assisting them with their functions, non-executive directors may request the engagement, at the expense of the Company, of legal advisers, accountants, financial or other experts. The engagement must necessarily relate to specific problems of a certain scale and complexity arising in the discharge of their office.</p> <p>The request must be communicated to the Chairman of the Company; however, it may be rejected by the Board, provided that it is evidenced:</p> <ul style="list-style-type: none"> <li>(i) that it is not necessary for the proper performance of the functions entrusted to non-executive directors;</li> <li>(ii) that the cost thereof is not reasonable in view of the significance of the matter and the assets and income of the Company;</li> <li>(iii) that the technical assistance involved may be adequately provided by Company experts and technicians; or</li> <li>(iv) that it could entail a risk with respect to the confidentiality of the information to be handled.</li> </ul>

C.1.41 Indicate and give details of any procedure to ensure directors receive the necessary information to prepare for meetings of the managing bodies sufficiently in advance:

**Yes**  **No**

<b>Details of the procedure</b>
<p>In accordance with:</p> <ul style="list-style-type: none"> <li>(i) article 20 of the Board Regulations, directors are obliged to diligently acquaint themselves with the running of the Company. For such purpose, directors may request information on any aspect of the Company and examine its books, registers, documents and other documentation. The right to information extends to subsidiaries in all cases and to investees, where possible.</li> </ul>

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Requests for information must be addressed to the Chairman of the Board, who shall pass on the request to the appropriate person at the Company.

Where the Chairman deems the information to be confidential, he/she shall inform the director requesting and receiving it of such circumstance, as well as their duty of confidentiality in accordance with the provisions of the Board Regulations.

The Chairman may refuse the information if he/she considers: (i) that it is not necessary for the proper performance of the functions entrusted to the director; or (ii) that the cost thereof is not reasonable in view of the significance of the matter and the assets and income of the Company.

(ii) article 13.2 of the Board Regulations, ordinary Board meetings shall be called by letter, fax, telegram or email or any other means that allows for its receipt by the Board Secretary or acting Board Secretary, at the order of the Chairman. Calls shall be made at least five days in advance. The information deemed necessary shall be sent or made available to the directors along with the call notice, which shall include the meeting agenda at all times, save for just cause.

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

Yes

No

**Explain the rules**

In accordance with article 31.3 of the Board Regulations, directors must inform the Company of any circumstances affecting them and which could adversely affect the credit or reputation of the Company and, in particular, of any criminal proceedings in which they appear as an accused party and of any significant developments in the proceeding. After examining any situation presented to it by a director, the Board may request the director's resignation and such decision must be obeyed by the director.

Furthermore, in accordance with article 18.3 of the Board Regulations, directors must place their office at the disposal of the Board and tender their resignation, if the Board deems it appropriate, in the following cases (among other): (a) when they cease to hold the executive positions to which their appointment as a director is linked, (b) when they are subject to any of the grounds for incompatibility or prohibition provided for by law; (c) when they are severely reprimanded by the Board for having breached their obligations as directors; (d) when they are prosecuted for an alleged offense or when they are subject to a disciplinary proceeding for a serious or very serious breach by supervisory authorities; (e) when their remaining on the Board could jeopardize or adversely affect the interests of the Company or where the reasons for which they were appointed no longer exist. In particular, in the case of non-executive nominee directors, when the shareholder they represent sells its entire holding or significantly reduces it. They must also resign, in the relevant number, when such shareholder lowers its holding to a level that requires a reduction in the number of non-executive nominee directors; (f) when they are members of more than four boards of directors of other listed companies (other than Merlin); (g) when there are significant changes in their professional situation or in the conditions by virtue of which they were appointed as director; and (h) when, due to facts attributable to the director, their remaining on the Board causes a serious detriment to the net worth or corporate reputation, in the opinion of the Board.

C.1.43 Indicate whether any board member has notified the company that they have

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been indicted or tried for any of the offences stated in article 213 of the Capital Companies Law:

Yes  No

Name of director	Criminal proceedings	Remarks
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Indicate whether the board has analyzed the matter. If so, provide a reasoned explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, explain the action taken by the board at the date of this report or that it plans to take.

Yes  No

Decision/action taken	Reasoned explanation
---	---

C.1.44 Give details of any significant agreements entered into by the company that will enter into force, be amended or terminated in the event of a change of control of the company due to a takeover bid, and their effects.

In the event of a change of control:

- Any shares awarded to the management team but not entirely vested under the Management Stock Plan will vest in full on the date of change of control and the lockup period will not apply.
- The executive directors may voluntarily terminate their relationship with the Company within a period of three months after a change of control occurs and they will receive the severance pay described in section C.1.45.
- The Annual Restricted Bonus of the Management Team will accrue in full and will be payable within ten (10) business days after the date of change of control.

For these purposes, a change of control will be deemed to exist in either of the following two situations:

- (a) A new shareholder directly or indirectly acquires more than 30 percent of the share capital of the Company.

A new shareholder has the power to appoint a majority of the members of the managing body.

The Company also has several financing arrangements which regulate the consequences of a change of control at the Company:

- I. Term Loan: If the majority lenders (66.66% of total debt) so request, the debt must be repaid. If, in addition, a downgrade in the rating of the debt occurs, the debt must be repaid.

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- II. Bond: If a downgrade in the rating of the debt occurs, the bondholders may exercise a put option.  
Tree financing: the debt must be repaid if the majority lenders so approve (66.66% of total debt).

C.1.45 Identify in aggregate form and provide details of any agreements between the company and its directors, executives or employees that provide for indemnification, guarantee or “golden parachute” clauses in the event they resign or are subject to unjustified dismissal or if their contractual relationship is terminated as a result of a takeover bid or other type of transaction.

**Number of beneficiaries:** 12

**Type of beneficiary**

Executive directors and  
executives

**Description of the agreement**

In accordance with the terms of the compensation policy approved by the last Shareholders’ Meeting, the contracts in force with the executive directors provide for severance in the event of the termination of their relationship with the Company as a result of:

(i) The removal of the executive director from his or her office without cause. Cause shall be deemed to exist where such removal is due to (a) a serious breach or infringement of the legal duties and obligations incumbent on them, or (b) any act or omission that causes serious damage to the Company, provided, in both cases, that the existence of such ground is declared by a competent court.

(ii) His or her resignation due to a material modification of the working conditions of the executive director that has a notably detrimental effect on his or her professional training, on his or her dignity, or that is decided upon in gross breach of good faith by the Company.

(iii) His or her resignation due to a change of control (where change of control is understood on the terms regulated in tender offer legislation), provided that the termination of the relationship takes place within the three months following the change of control.

Executive directors shall be entitled to receive as severance, provided the payment thereof does not jeopardize the solvency of the Company:

(i) In cases (i) and (ii), an amount equal to the result of multiplying the Fixed Compensation and the Variable Compensation granted to the executive director in the twelve (12) months prior to the termination by two.

(ii) In case (iii), an amount equal to the sum of the Fixed Compensation and the Variable Compensation granted to the executive director in the twelve months prior to the termination.

Of the above amounts, an amount equal to six months’ Fixed Compensation shall be paid as compensation for the postcontractual noncompete undertaking.

With the senior managers compensations have been agreed which will apply for similar situations as those applicable to the Executive directors. However, the agreed compensation is equivalent to the one that will apply to a worker under an ordinary labour relationship, subject to the termination event and limited to certain amounts (which will vary, depending on the event, between 1.5 and 0.5 of the fixed

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remuneration and the variable remuneration granted to the manager within the twelve months prior to the termination). The noncompete compensation is not included in the agreed compensation with the senior managers.

For managers other than executive directors and senior managers, the termination of their relationships is governed by the Workers' Statute and other applicable legislation.

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

	<b>Board of directors</b>	<b>Shareholders' meeting</b>
<b>Body authorizing the clauses</b>	<b>X</b>	

	<b>Yes</b>	<b>No</b>
<b>Is the shareholders' meeting informed of such clauses?</b>	<b>X</b>	

## **C.2 Board Committees**

C.2.1 Give details of all board committees, their members and the proportion of executive, nominee, independent and other non-executive directors sitting on them:

### **AUDIT AND CONTROL COMMITTEE**

<b>Name</b>	<b>Office</b>	<b>Category</b>
Ms. María Luisa Jordá Castro	Chairwoman	Independent
Ms. Ana María García Fau	Member	Independent
Mr. Juan María Aguirre Gonzalo	Member	Independent
Ms. Francisca Ortega Hernández-Agero	Member	Nominee

<b>% of nominee directors</b>	25%
<b>% of independent directors</b>	75%
<b>% of other non-executive directors</b>	---

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and functioning, and summarize the most important steps taken during the year.

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Article 44 of the Bylaws and article 40 of the Board Regulations govern the functions entrusted to the Audit and Control Committee, which will be made up of a minimum of three (3) and a maximum of five (5) members. They must all be non-executive directors and the majority must be independent directors. The members of the Audit and Control Committee will be appointed by the Board at the proposal of the Appointments and Compensation Committee for a maximum term of two (2) years and may be re-appointed on one or more occasions for periods of equal duration.

The majority of the members of the Audit and Control Committee must be independent directors, and will be appointed in the light of their knowledge and experience in accounting, audit or risk management matters. The Committee will appoint a Chairman from among its number who must be an independent director. The Chairman must be replaced every four (4) years, and may be re-appointed once after one (1) year has elapsed since his/her replacement. It may also appoint a Secretary and a Deputy Secretary, who need not be committee members. Where no such appointments are made, the Board Secretary and Deputy Secretary shall act as the Committee Secretary and Deputy Secretary.

Without prejudice to any other tasks that may be assigned to it from time to time by the Board, the Audit Committee will exercise the following basic functions:

- (a) to report to the shareholders' meeting on questions raised in relation to the matters falling under the remit of the audit and control committee and, in particular, on the result of the audit, explaining how the audit has contributed to the integrity of the financial information and the role played by the committee in this process;
- (b) to supervise the process for the preparation and presentation of the required financial information relating to the Company and make recommendations or proposals to the managing body aimed at safeguarding its integrity;
- (c) to supervise compliance with regulatory requirements, the adequate definition of the consolidated group and the correct application of accounting standards;
- (d) to evaluate all aspects of the non-financial risks the Company is exposed to, including operational, environmental, technological, legal, social, political and reputational risks;
- (e) to present to the board, for submission to the shareholders' meeting, the proposed selection, appointment, re-appointment and replacement of the Company's external auditors, as well as the conditions for their hiring, the scope of their professional mandate and, as the case may be, the revocation or renewal of their appointment;
- (f) in addition, to regularly obtain information from the external auditors on the audit plan and its implementation, as well as to safeguard their independence in the performance of their functions;
- (g) to ensure that the external auditors hold a meeting with the board of directors at least once a year to inform it of the work undertaken and the company's risk and accounting position;
- (h) to ensure that the Company and the external auditors adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, other requirements concerning auditor independence;
- (i) to ensure that the Company notifies any change of auditor to the National Securities Market Commission as a material event, accompanied by a statement of any disagreements with the outgoing auditor and the substance of same;



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- (j) to examine, in the event of the resignation of the external auditor, the circumstances motivating such resignation;
- (k) to supervise the effectiveness of the Company's internal controls, internal audit function and risk management systems, and to discuss with the external auditors any significant weaknesses in the internal control system detected in the course of the audit and make recommendations or proposals to the managing body with the corresponding time period for their monitoring;
- (l) to safeguard the independence of the unit assuming the internal audit function, providing support to the Audit and Control Committee in its supervision of the internal control system;
- (m) to propose the selection, appointment, re-election and removal of the head of the internal audit service; to propose the budget for such service; to approve its priorities and work programs; to receive periodic information on its activities and verify that the members of the management team take into account the conclusions and recommendations of its reports;
- (n) to serve as a communication channel between the board and the auditors, to evaluate the results of each audit and supervise the responses of the management team regarding adjustments proposed by the external auditors and mediate in the event of any discrepancy between them in relation to the principals and standards applicable in preparing the financial statements; to examine any circumstances leading to the resignation of the auditor;
- (o) to establish and supervise a mechanism whereby employees can report, confidentially and, if appropriate and feasible, anonymously, any potentially significant irregularities, particularly financial or accounting irregularities, that they detect at the Company;
- (p) to supervise the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders;
- (q) to periodically review the internal control and risk management systems of the Company and, in particular, the correct design of the internal control and financial reporting management system (ICFR) to ensure that the main risks are identified, managed and adequately communicated;
- (r) to approve the internal audit plan for assessment of the ICFR, and any amendments thereof, and receive periodic information on the outcome of its work, as well as the action plan to correct the deficiencies observed;
- (s) to ensure that the remuneration of the external auditors does not compromise the quality of their work or their independence and to receive information from them on any matters that could jeopardize their independence, as well as any other communications provided for in audit legislation and in accounting standards, for its examination by the Audit and Control Committee.

In all cases, it must annually receive from the external auditors a declaration of their independence from the Company or entities directly or indirectly related to the Company, as well as information on the additional services of any kind provided to such entities by the external auditor, or by persons or entities related to it, in accordance with the provisions of audit legislation;

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- (t) to supervise the performance of the audit contract, endeavoring to ensure that the opinion relating to the financial statements and the main content of the audit report is drafted in a clear and precise manner;
- (u) to supervise the process for preparation and presentation of the financial statements of the Company and the periodic financial information that the Company must provide to the markets and to its supervisory bodies in accordance with the legislation in force, supervising the process for the preparation and publication thereof, reporting in this regard to the board of directors prior to its approval, as well as to monitor compliance with the legal requirements in this area and the correct application of generally accepted accounting principles, and to report on proposed modifications to the accounting principles and standards suggested by management.

In particular, to review, analyze and discuss the financial statements and other relevant financial information with senior management and the internal and external auditors in order to confirm that the information is reliable, understandable and relevant and that accounting standards consistent with the previous year-end have been followed.

It shall also strive to ensure that the Board of Directors can present the financial statements to the shareholders' meeting with no limitations or qualifications in the auditor's report;
- (v) to issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion on whether the independence of the auditor or audit firm is compromised. This report must include, in all cases, a reasoned assessment of the provision of each and every one of the additional services referred to above, considered individually and as a whole, other than statutory audit services, and in relation to the rules on independence or to audit legislation;
- (w) to appoint and supervise the services of external appraisers in relation to the valuation of the Company's assets;
- (x) to report to the Board of Directors, prior to the adoption by the board of the relevant decision, on the creation or acquisition of shares in special-purpose vehicles or entities resident in countries or territories that are considered tax havens, and any other transactions or operations of an analogous nature whose complexity could impair the transparency of any group of which the Company is the parent;
- (y) to supervise compliance with legislation on related-party transactions. In particular, to ensure that information on such transactions is notified to the market in compliance with the provisions of Order 3050/2004, of the Ministry of Economy and Finance, of September 15, 2004, and to report on transactions that entail or may entail conflicts of interest, and, in general, on the matters contemplated under article 35 of these regulations;
- (z) to report in advance to the Board of Directors on all matters provided for in the law, the Bylaws and the Board Regulations and, in particular, on:
  - (i) the creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens;
  - (ii) transactions with related parties; and
  - (iii) the economic conditions and accounting impact and, where applicable, exchange ratio, of structural or corporate modifications planned by the Company.
- (aa) any others attributed to it by virtue of the Bylaws, these Regulations, the law and other legislation applicable to the Company.

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The Audit and Control Committee will be called by the Committee Chairman, either at his/her own initiative, or at the request of the Board Chairman or of any Committee member. The call will be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt. In all cases, the Audit and Control Committee will be called and will meet at least once every quarter in order to review the periodic financial information which, in accordance with the legislation in force, the Board must send to the stock market authorities and any information to be approved by the Board and included within its annual public documentation.

The Audit and Control Committee will be deemed to be validly constituted when the majority of its members are present, in person or by proxy. Resolutions will be adopted by a majority of those present, in person or by proxy. In the event of a tie, the Committee Chairman will have the casting vote. Minutes will be taken of the resolutions adopted at each meeting, and details thereof will be reported to the plenary session of the Board, sending or delivering a copy of the minutes to all Board members.

Ordinary meetings of the Audit and Control Committee will be held at the registered office but meetings may also be held at any other venue determined by the Chairman, whether in Spain or abroad.

In addition, provided there are justified reasons to explain the inability to attend by any member, the Chairman may authorize the simultaneous holding of Committee meetings at different venues connected by audiovisual or telephonic means, provided that the identification of the members present and real-time interactivity and intercommunication and, consequently, the integrity of the meeting, is guaranteed.

Committee members not physically present at the meeting venue who use means of communication that allow for the meeting to be held simultaneously and reciprocally with the meeting venue and with other members using means of distance communication, will be considered attendees for all purposes and may cast their vote via the means of communication used.

The Audit and Control Committee will be deemed to be validly constituted when a majority of its members are present, in person or by proxy. However, the Audit and Control Committee will be deemed validly constituted without the need for a call if all of its members are present, in person or by proxy, and unanimously agree to hold a meeting and on the meeting agenda. The Audit and Control Committee may also adopt resolutions in writing and without holding a meeting where no member objects to the procedure, in accordance with the provisions of the law and the Bylaws, and votes may be cast in writing or via email, provided that the identity of the member casting his/her vote can be guaranteed.

The Audit and Control Committee will prepare an annual report on its functioning, highlighting the main incidents that arose, if any, in relation to its inherent functions, and the report will be published on the terms provided for in the legislation applicable from time to time.

Company personnel will be obliged to attend meetings of the Audit and Control Committee and to cooperate and provide access to the information in their possession when so requested by the Committee.

The Committee may also request the presence of the Company's auditors at its meetings. Where deemed necessary for the proper performance of its functions, the Audit and Control Committee may seek advice from external experts, making such circumstance known to the Secretary or Deputy Secretary of the Board, who will be responsible for engaging the relevant services.

In 2017 the Committee's activity at its thirteen meetings was extensive and myriad recommendations were implemented with respect to its powers and functioning in accordance with the National Securities Market Commission's "**Technical Guide 3/2017 on Audit Committees of public-interest entities**".

Notable in this regard was the approval of the "**Auditor Engagement Policy and Relations Framework**" which establishes the governing principles and regulates the selection, appointment, re-appointment and removal of the auditor of the separate and consolidated financial statements, the procedure for engaging services additional to the audit of the financial statements, as well as the procedures for evaluating the independence and the criteria for the annual evaluation of the auditor.

In addition, in November 2017, the Audit Committee approved the "**Related-Party Transaction Procedure**" which regulates the process of performing, approving and reporting related-party transactions, in order to avoid conflicts of interest, guarantee equal treatment to shareholders and avoid conflicts of agency between managers and shareholders.

In December 2017, the Audit Committee approved the **Annual Work Plan** for 2018, which includes, among others, the "**Work Calendar for Fiscal Year 2018**", with the contents established at its meetings, the calendar established for the external auditor's appearances and the training plan for the Committee.

Lastly, as detailed in the **Report on Activities** approved by the Board of Directors on January 30, 2018, in 2017, the Committee continued to supervise the effectiveness of the Group's internal control, as well as its risk management systems. Most notably, the Committee:

- (a) reviewed and reported on the presentation of the separate and consolidated financial statements for the year ended December 31, 2016, as well as on the quarterly and half-yearly financial information required (during fiscal year 2017) of the Company, as a listed company, by the applicable legislation;
- (b) reported on the external audit conducted in relation to the year ended December 31, 2016, as well as on the limited and preliminary reviews conducted by the external auditor in relation to the financial information for the first half year and preliminary to the close required of the Company during fiscal year 2017;
- (c) took note of the related-party transactions, informing the Board of Directors for its approval where appropriate;
- (d) supervised the execution of the internal audit work within the framework of the internal control systems and in accordance with the Annual Committee Planner for 2017 approved at the meeting of February 24, 2017, following up on Company management's compliance with its recommendations;
- (e) supervised the work of the external appraiser services with respect to the half-yearly appraisal of the Company's assets, holding periodic meetings, it not being necessary to appoint new appraisers given that the engagement was still in effect in 2017;
- (f) periodically reviewed the ICFR Manual and the Accounting Policies Manual of the Group;
- (g) took note of and reported favorably on the corporate transactions from the accounting, tax and legal standpoints;
- (h) kept the Risk Map up to date and periodically monitored the main risks of the business;

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|-----|---|
| (i) | informed the Board of Directors of all of the work entrusted to the external auditor (Deloitte) during the year in progress and its analysis regarding compatibility and independence in accordance with the Audit Law;   |
| (j) | reviewed the activities of the various control bodies set up at the Company to supervise and manage criminal risks (Criminal Control Body) and to prevent money laundering and terrorism financing (Internal Control Body);   |
| (k) | reviewed and approved a first draft of the new Audit Committee Regulations, aligned with best transparency and corporate governance practices and in particular with the recommendations of the CNMV's "Technical Guide 3/2017 on Audit Committees of public-interest entities" with a view to its submission to and approval by the Board of Directors in the first quarter of 2018. |

Identify the member of the audit committee who has been appointed having regard to his/her knowledge or experience in accounting and/or audit matters and indicate the number of years the committee chairman has held office.

<b>Name of director with experience</b>	Ms. Francisca Ortega Fernández-Agero
<b>Number of years committee chairman has held office</b>	0

**APPOINTMENTS AND COMPENSATION COMMITTEE**

<b>Name</b>	<b>Office</b>	<b>Category</b>
Mr. G. Donald Johnston III	Chairman	Independent
Mr. Fernando Ortiz Vaamonde	Member	Independent
Mr. Pilar Caveró Mestre	Member	Independent
Mr. Javier García-Carranza Benjumea	Member	Nominee

<b>% of proprietary directors</b>	25%
<b>% of external independent directors</b>	75%
<b>% of other non-executive directors</b>	

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and functioning, and summarize the most important steps taken during the year.

Article 45 of the Bylaws and article 41 of the Board Regulations govern the functions entrusted to the Appointments and Compensation Committee, which will be made up of non-executive directors, the
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majority of whom will be independent directors, in the number determined by the Board, with a minimum of three (3) and a maximum of five (5). Members of the audit and control committee will be appointed for a maximum term of two (2) years and may be re-appointed on one or more occasions for periods of equal duration. The renewal, re-appointment and removal of the directors forming this Committee will be governed by what is agreed by the board.

The Appointments and Compensation Committee will appoint a Chairman from among its number. The Chairman will be an independent director. The Chairman must be replaced every two (2) years, and may be re-appointed for successive periods of equal duration. It may also appoint a Secretary and a Deputy Secretary, who need not be Committee members or directors. Where no such appointments are made, the Board Secretary and Deputy Secretary will act as the Committee Secretary and Deputy Secretary.

Notwithstanding any other functions that may be entrusted to it by the Board, the Appointments and Compensation Committee will have at least the following basic responsibilities:

- (a) to evaluate the competence, knowledge and experience that the members of the Board of Directors must have. For such purpose, it shall define the functions and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties;
- (b) to submit proposals to the Board of Directors for the appointment, re-appointment or removal of independent directors for their designation by co-option or for submission to the Shareholders' Meeting for its decision, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting; to report on proposals for the appointment of the rest of the directors, for their designation by co-option or for submission to the Shareholders' Meeting for its decision, as well as proposals for their re-appointment or removal by the Shareholders' Meeting.
- (c) to report on the appointment of the Chairman, Deputy Chairmen, Secretary and Deputy Secretary of the Board of Directors;
- (d) to report on the proposed appointment of members of the Audit and Control Committee;
- (e) to report to the Board of Directors on the performance of the functions of the Chairman;
- (f) to examine and organize the process for succession of the Chairman of the Board of Directors and of the Managing Director of the Company, if any, and, if appropriate, to make proposals to the Board so that the handover takes place in a planned and orderly fashion;
- (g) to report on proposals for appointment and removal of members of the management team and the basic terms of their contracts;
- (h) to establish a target for the representation of the underrepresented gender on the Board and prepare guidelines on how to achieve this target;
- (i) to report to the Board of Directors on matters of gender diversity;
- (j) to coordinate non-financial and diversity reporting processes in accordance with the applicable legislation and international benchmarks;
- (k) to establish and supervise an annual program for evaluation and ongoing review of qualifications, training and, as the case may be, independence, as well the maintenance of the conditions of good standing, suitability, reliability, competence, availability and commitment to office necessary for the discharge of the office of director and of Committee member, and to propose to the Board of Directors the measures it deems appropriate in such connection,

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with the authority to obtain any information or documentation it deems necessary or appropriate for such purpose;

- (l) to ensure that, in covering new vacancies or appointing new directors, the selection procedures do not suffer from implicit bias that might entail any discrimination and, in particular, do not hinder the selection of female directors;
- (m) to consider any suggestions made by the Chairman, Board members, executives or shareholders of the Company;
- (n) to propose to the Board of Directors the compensation policy for directors and general managers or those persons who perform senior management functions and report directly to the Board, the Executive Committees or the Managing Directors, as well as the individual compensation of executive directors and their other contractual conditions, ensuring the observance thereof;
- (o) to analyze, prepare and review the compensation programs on a periodic basis, considering their suitability and returns, and proposing their modification or update;
- (p) to monitor observance of the compensation policy established by the Company;
- (q) to assist the Board in preparing the report on the directors' compensation policy and submit to the Board any other reports on compensation provided for in these Regulations and in the Company Bylaws;
- (r) to establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, any potentially significant irregularities, in particular financial or accounting irregularities, that they detect at the Company;
- (s) to supervise compliance with internal codes of conduct and rules on corporate governance;
- (t) to periodically evaluate the effectiveness of the Company's corporate governance system in order to ensure it fulfills its mission to promote the corporate interest and takes into account the legitimate interests of the stakeholders;
- (u) to monitor and evaluate the company's interaction with its stakeholder groups;
- (v) to monitor the corporate social responsibility strategy and practices, assessing the degree of compliance, and ensure that the corporate social responsibility policy is geared towards value creation;
- (w) in relation to the Company's corporate governance obligations;
- (x) to periodically review the Company's internal corporate governance regulations and propose to the Board, for approval or submission to the Shareholders' Meeting, as appropriate, any amendments or updates that contribute to their ongoing improvement and development;
- (y) to promote the Company's corporate governance strategy;
- (z) to supervise compliance with the requirements of the law and of the Company's internal corporate governance regulations;

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- (aa) to know, promote, guide and supervise the actions of the Company in corporate social responsibility and sustainability matters and report on same to the Board or, as the case may be, to the Executive Committee;
- (bb) to know, promote, guide and supervise the actions of the Company in corporate reputation matters and report on same to the Board or, as the case may be, to the Executive Committee;
- (cc) to report, prior to its approval, on the Company's annual corporate governance report, obtaining for such purposes the Audit and Control Committee reports relating to the sections of the report pertaining to its functions.
- (dd) any other powers attributed to it by virtue of Bylaws, these Regulations, the law and any other regulations applicable to the Company.

The Appointments and Compensation Committee will meet ordinarily at least once a year. It will also meet when called by the Committee Chairman, who must do so whenever the Board or the Board Chairman request the issue of a report or the adoption of proposals and, in any event, when it is appropriate for the proper pursuit of its functions.

It will be called by the Committee Chairman, either at his/her own initiative, or at the request of the Board Chairman or of any Committee member. The call will be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt.

The Appointments and Compensation Committee will be deemed to be validly constituted when the majority of its members are present, in person or by proxy. However, the Appointments and Compensation Committee will be deemed validly constituted without the need for a call if all of its members are present, in person or by proxy, and unanimously agree to hold a meeting and on the meeting agenda.

Resolutions will be adopted by a majority of those present, in person or by proxy. In the event of a tie, the Committee Chairman will have the casting vote. Ordinary meetings of the Appointments and Compensation Committee will be held at the registered office but meetings may also be held at any other venue determined by the Chairman, whether in Spain or abroad.

In addition, provided there are justified reasons to explain the inability to attend by any member, the Chairman may authorize the simultaneous holding of Committee meetings at different venues connected by audiovisual or telephonic means, provided that the identification of the members present and real-time interactivity and intercommunication and, consequently, the integrity of the meeting, is guaranteed.

Committee members not physically present at the meeting venue who use means of communication that allow for the meeting to be held simultaneously and reciprocally with the meeting venue and with other members using means of distance communication, will be considered attendees for all purposes and may cast their vote via the means of communication used.

The Appointments and Compensation Committee may also adopt resolutions in writing and without holding a meeting where no member objects to the procedure, in accordance with the provisions of the law and the Bylaws, and votes may be cast in writing or via email, provided that the identity of the member casting his/her vote can be guaranteed.

Where deemed necessary for the proper performance of its functions, the Appointments and Compensation Committee may seek advice from external experts, making such circumstance known



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to the Secretary or Deputy Secretary of the Board, who will be responsible for engaging the relevant services.

Minutes shall be taken of the resolutions adopted at each meeting, and details thereof shall be reported to the plenary session of the Board, sending or delivering a copy of the minutes to all Board members.

With respect to the most important steps taken in 2017, it should be noted that the Appointments and Compensation Committee has:

(ee) proposed:

- (i) the reelection of Ms. Ana de Pro as independent director (although this appointment was not finally submitted to the Shareholders' Meeting because the candidate waived it);
- (ii) to amend the Board Regulations to bring them into line with the latest corporate governance recommendations;
- (iii) to amend the Internal Rules of Conduct to bring them into line with Regulation (EU) 596/2014 of the European Parliament;
- (iv) the amount of the annual compensation and STIP of the executive directors and of the compensation of the executive and management team;
- (v) settlement of the Management Stock Plan for fiscal year 2016 and proposed allocation of shares;
- (vi) the compensation of directors, in their capacity as such, in accordance with the new compensation policy;
- (vii) the Annual Report on Directors' Compensation (ARDC) for fiscal year 2016;
- (viii) the appointment of an expert for the external evaluation of the board and its committees;

reported on:

- (i) the proposed amendment of the Board Regulations and the Shareholders' Meeting Regulations;
- (ii) the appointment by co-option and reelection of Mr. José Ferris as nominee director;
- (iii) the appointment of Francisco Javier García-Carranza Benjumea as chairman of the Board of Directors;
- (iv) the functioning of the committee itself for its evaluation by the board and the evaluation of the Board of Directors;
- (v) the amounts of the compensation of the executive directors and management team, as well as the persons to form part of the incentive plans;

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(vi)	the annual report on directors' compensation and the annual corporate governance report;
(vii)	the annual evaluation of the Board and its Chairman;
(viii)	the new proposal for Corporate Social Responsibility;
(ix)	the new Directors' Compensation Policy;
Actively promoted the preparation of a new compensation policy for the Board of Directors.	

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							
	Year 2017		Year 2016		Year 2015		Year 2014	
	Number	%	Number	%	Number	%	Number	%
<b>Audit and Control Committee</b>	3	75.00%	3	75.00%	2	66.6%	2	66.6%
<b>Appointments and Compensation Committee</b>	1	25.00%	2	25.00%	0	0.00%	0	0.00%

C.2.3 Section eliminated.

C.2.4 Section eliminated.

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

<p>The provisions regulating the Committees of the Board of Directors can be found in the Bylaws and in the Board Regulations (article 40 of the Board Regulations for the Audit and Control Committee and article 41 for the Appointments and Compensation Committee). Both texts are available on the Company's website.</p> <p>The following was resolved in 2017:</p> <p>With respect to the Bylaws:</p> <p>(i) Amendment of article 38 (Directors' Compensation) to include a wording that is more precise and in keeping with the Directors' Compensation Policy, in the compensation system for directors, in their capacity as such.</p>
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(ii) Amendment of article 55 (Special Rules on Dividend Distributions) to bring the wording of the bylaws into line with the current legislation on the clearing, settlement and recording of transferable securities represented by book entries.

As regards the Board Regulations, the amendment of articles 40 (The Audit and Control Committee) and 41 (Appointments and Compensation Committee) was to bring the wording of these articles into line with the provisions of the bylaws on the term of the offices of such committees.

C.2.6 Section eliminated.

## **D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

D.1 Explain, as applicable, the procedure for approving related-party or intragroup transactions.

<b>Procedure for reporting the approval of related-party transactions</b>
<p>On November 13, 2017 the Audit and Control Committee approved the “<i>Related-Party Transactions Procedure</i>” regulating the approval and reporting of related-party transactions, notwithstanding the provisions of articles 35 and 40.6 of the Board Regulations on transactions with directors and significant shareholders and on the Audit and Control Committee’s responsibility for supervising compliance with the legislation on related-party transactions, respectively.</p>
<p>This procedure establishes an analysis and approval process for related-party transactions, with a view to ensuring compliance with the legislation in force on related-party transactions, as well as the integrity, reliability, significance, appropriateness and suitable documentary support of the information included in disclosures of related-party transactions.</p>
<p>In this connection, the procedure provides that:</p>
<p>-- The performance by the Company or the companies in its Group of any transaction with directors, managers or shareholders who are considered by law to be significant at any given time or who have proposed the appointment of, or appointed, any of the Company’s directors, or with the respective related parties, shall be subject to authorization by the Board based on a report by the Audit and Control Committee.</p>
<p>-- As an exception to the foregoing, the Shareholders’ Meeting must resolve to authorize related-party transactions in the cases stipulated by law and, in particular, where they refer to a transaction whose value exceeds ten (10) percent of the Company’s assets.</p>
<p>-- The execution of a related-party transaction creates a conflict of interest for the director who carries out the transaction or is related to the person carrying it out and, accordingly and as appropriate, the provisions of article 28 of the Board Regulations will apply.</p>
<p>-- The Board, through the Audit and Control Committee, will ensure that related-party transactions are carried out at arm’s length and in line with the principle of equal treatment of shareholders who are in identical conditions. In the case of transactions to be carried out by Group companies, the scope of the Board’s authorization referred to in the preceding paragraphs will be limited to verifying compliance with the requirements stated therein.</p>

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- In the case of related-party transactions within the ordinary course of business and which are habitual or recurring, prior authorization by the Board of the line of transactions and of their terms, based on a report by the Audit and Control Committee and pursuant to the paragraph j) below, will suffice.
- Where the related-party transaction entails the successive performance of various transactions, of which the second and following merely serve to carry out the first, this procedure will apply only to the first transaction carried out.
- Authorization will not be necessary for transactions that simultaneously fulfill the following three conditions: they are performed under agreements with standard conditions that are applied across the board to a large number of customers; they are performed at prices or rates established in general by whoever acts as provider of the good or service in question; and their amount does not exceed one (1) percent of the Group's consolidated annual revenues.
- The Audit and Control Committee must issue a favorable report to the Board before the related-party transactions are executed. In order to do so, it will have to analyze the new related-party transactions prior to their execution; having regard to the circumstances of each case and the urgency of the transaction, the Audit and Control Committee meeting at which the transaction is to be approved may be held as an ordinary or special session at which committee members are present, or as a special session by written consent without an actual meeting (e.g., by e-mail, telephone or other similar means).
- The Company must report related-party transactions in the annual and six-monthly financial report, as well as in the annual corporate governance report, in the cases and with the scope stipulated by law. The Company must also have the notes to financial statements include information on transactions carried out by the Company or by companies in its Group with directors and with those acting on their behalf, where such transactions do not form part of the ordinary course of the Company's business or are not carried out at arm's length.
- Within the first week of January and of July, directors and managers must serve written notice of transactions carried out by them and by their related parties. In this connection, the Secretary to the Board sends a request for information to directors every six months. The management of Legal Counsel will do the same for managers.
- The notice must include the following contents: nature of the transaction; date on which the transaction originated; payment terms and deadlines; identity of the person carrying out the transaction and relationship, if appropriate, with the director; amount of the transaction; and other aspects such as prices, guarantees provided and received, as well as any other aspect of the transaction that permits its suitable assessment, including, in particular, information enabling verification that it was carried out at arm's length and in line with the principle of equal treatment.
- There is a specimen notice for directors and significant shareholders, requesting, inter alia, information on related-party transactions, and another specimen adapted for managers.
- There are separate registers of related-party transactions for directors (Board Secretary) and for managers (Legal Counsel), which include the transactions reported by such directors and managers and the transactions known internally by MERLIN, which will be brought to the attention of the directors and managers prior to publication.

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--	The information found in the aforesaid registers will be made available to the Audit and Control Committee through the Internal Audit department.
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D.2. Give details of any significant transactions, by virtue of their amount or subject matter, between the company or entities in its group and the company's significant shareholders:

<b>Name or corporate name of significant shareholder</b>	<b>Name or corporate name of the company or group entity</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
BANCO SANTANDER, S.A.	Tree Inversiones Inmobiliarias Socimi, SAU	Contractual	Financing agreements: loans	167,314
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Financing agreements: loans	123,555
BANCO SANTANDER, S.A.	Merlin Properties Socimi, SA	Contractual	Financing agreements: Other	199,750
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlin Properties Socimi, SA	Contractual	Guarantees and sureties	5,405
BANCO SANTANDER, S.A.	Merlin Properties Socimi, SA	Contractual	Guarantees and sureties	4,982
BANCO SANTANDER, S.A.	Centros Comerciales Metropolitanos, SA	Contractual	Contributions to pension plans and life insurance policies	4
BANCO SANTANDER, S.A.	Metroparque, SA	Contractual	Contributions to pension plans and life insurance policies	1
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Contributions to pension plans and life insurance policies	19
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Interest charged	2,904
BANCO SANTANDER, S.A.	MERLIN PROPERTIES SOCIMI, SA	Contractual	Interest paid	103
BANCO SANTANDER, S.A.	Tree Inversiones Inmobiliarias Socimi, SAU	Contractual	Interest charged	3,121
BANCO SANTANDER, S.A.	Merlín Oficinas, SLU	Contractual	Interest charged	1,444

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<b>Name or corporate name of significant shareholder</b>	<b>Name or corporate name of the company or group entity</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Financing agreements: Other	12,205
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Properties Socimi, SA	Contractual	Interest charged	42
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Provision of services	236
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Receipt of services	1,418
BANCO SANTANDER, S.A.	Merlín Properties Socimi, SA	Contractual	Operating lease agreements	770
BANCO SANTANDER, S.A.	Merlín Retail, SLU	Contractual	Operating lease agreements	4
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Properties Socimi, SA	Contractual	Operating lease agreements	274
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Tree Inversiones Inmobiliarias Socimi, SAU	Contractual	Operating lease agreements	93,209
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Retail, SLU	Contractual	Operating lease agreements	9
BANCO SANTANDER, S.A.	Tree Inversiones Inmobiliarias Socimi, SAU	Contractual	Financing agreements: Other	155,200
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Tree Inversiones Inmobiliarias Socimi, SAU	Contractual	Guarantees and sureties	14,673
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Oficinas, SLU	Contractual	Guarantees and sureties	37
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Retail, SLU	Contractual	Guarantees and sureties	1
BANCO SANTANDER, S.A.	Metropolitana Castellana, SL	Contractual	Guarantees and sureties	135
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	MERLIN PROPERTIES SOCIMI, SA	Contractual	Provision of services	159

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Name or corporate name of significant shareholder	Name or corporate name of the company or group entity	Nature of the relationship	Type of transaction	Amount (thousands of euros)
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Merlín Oficinas, SLU	Contractual	Operating lease agreements	236
BANCO SANTANDER, S.A.	Metropolitana Castellana	Contractual	Operating lease agreements	573

D.3 Give details of any significant transactions, by virtue of their amount or subject matter, between the company or entities in its group and the company's directors or executives:

Name or corporate name of director or executive	Name or corporate name of related party	Relationship	Nature of the relationship	Amount (thousands of euros)
Ismael Clemente Orrego	Magic Real Estate, S.L.U.	These directors of the Company are directors and indirect shareholders of the related party.	Operating lease agreements	19
Miguel Ollero Barrera	Magic Real Estate, S.L.U.	These directors of the Company are directors and indirect shareholders of the related party.	Operating lease agreements	19

D.4 Give details of any significant transactions performed by the company with other entities belonging to the same group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms do not fall within the company's ordinary business.

In all cases, list any intragroup transactions performed with entities established in countries or territories considered to be tax havens:

Corporate name of the group entity	Brief description of the transaction	Amount (thousands of euros)
Paseo Comercial Carlos III	Guarantees from MVsyP (land) transitionally under responsibility of MERLIN	2,557
Paseo Comercial Carlos III	Finance costs derived from a loan from MERLIN Properties to Paseo Comercial Carlos III (€68,503.36 thousand of principal; spread euribor + 0.55%)	152

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Paseo Comercial Carlos III	Balance in current account at former Banco Popular, now Banco Santander	114
Paseo Comercial Carlos III	Finance costs from current accounts at former Banco Popular, now Banco Santander	37
Paseo Comercial Carlos III	Financial revenue from current accounts at former Banco Popular, now Banco Santander	2
Paseo Comercial Carlos III	Rental Tres Aguas Shopping Center (lease of space to Banco Santander)	8

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

7,759

D.6 Give details of the mechanisms established to detect, determine and resolve any potential conflicts of interest between the company and/or its group, and its directors, executives or significant shareholders.

**A) CONFLICTS OF INTEREST BETWEEN THE COMPANY AND/OR ITS GROUP AND ITS DIRECTORS**

In accordance with article 28 of the Board Regulations, in order to avoid conflicts of interest, directors are obliged to refrain from

- performing transactions with the Company, save for ordinary transactions, performed on standard terms for clients and of minor significance, deemed to be transactions the data from which is not necessary to give a fair view of the net worth, financial situation or results of the Company;
- using the name of the Company or referring to their status as director in order to exert undue influence in the performance of private transactions;
- using the corporate assets, including the confidential information of the Company, for private purposes; taking advantage of the Company's business opportunities;
- obtaining advantages or remuneration from third parties other than the Company and its group associated with the discharge of their office, unless they are mere courtesies; and
- pursuing activities for their own account or for the account of others that entail effective competition, real or potential, with the Company or in any other way place them in a situation of permanent conflict of interest with the Company.

The above provisions will also apply if the beneficiary of the prohibited acts or activities is a person related to the director.

In any event, directors must notify any direct or indirect conflict of interest that they or persons related to them may have with the corporate interest to the other directors and, as the case may be, to the Board of Directors.



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For these purposes, directors and the persons determined in the applicable legislation from time to time will be considered related parties.

**B) CONFLICTS OF INTEREST BETWEEN THE COMPANY AND ITS MANAGERS OR EMPLOYEES**

Pursuant to the provisions of its bylaws, the Company expects its own conduct and that of the persons related to it to comply with and to be kept in line with not only the legislation in force and the Company's corporate governance system, but also the generally accepted principles on ethics and on social responsibility.

The principles and guidelines of conduct set forth in the Code of Conduct apply to all professionals of the Group, regardless of their hierarchical or functional level. For the purposes of the Code of Conduct, professionals of the Group will mean managers and employees, as well as any other persons whose activity is expressly subject to the Code of Conduct.

In connection with possible conflicts of interest, the professionals of the Group must comply with the following general principles of conduct:

- a) Independence: acting professionally at all times, with loyalty to the Group and its shareholders, and independent of own or third-party interests. Consequently, they will refrain at all times from giving priority to their own interests over those of the Group.
- b) Abstention: refraining from taking part in or influencing decision-making which could affect the Group companies with which there are conflicts of interest; refraining from participating in meetings at which such decisions are being discussed and refraining from accessing confidential information with an impact on such conflicts.
- c) Communication: reporting conflicts of interest in which they are involved. For such purpose, the existence or potential existence of a conflict of interest must be reported in writing to their immediate hierarchical superior and to the Appointments and Compensation Committee.

In no case may transactions or activities which entail or may entail a conflict of interest be carried out within the Group, unless written authorization has first been obtained from the Appointments and Compensation Committee. The professional must refrain from taking any action in this connection until he has obtained an answer to his request.

**C) CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS**

Situations involving a conflict of interest between the Company and the significant shareholders are regulated pursuant to article 35 of the Board Regulations, as well as by the "Related-Party Transactions Procedure" referred to in section D.1 above.

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

Yes

No

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## **E** RISK MANAGEMENT AND CONTROL SYSTEMS

### E.1 Describe the company's risk management system, including tax risks.

On February 26, 2016, the Board of Directors of the Company approved the "**Risk Management Policy**" which, as provided for in article 4 of the Board Regulations, establishes the basic principles of control and management of the risks faced by both MERLIN and its subsidiaries.

This policy sets out the general principles of action in relation to risk management, which is understood to be an ongoing process based on the identification and assessment of potential risks to which the company is exposed, taking into consideration its strategic and business objectives, the determination of critical response points and control of critical risks, surveillance and monitoring of these key risks and, finally, procedures to ensure that the system functions smoothly.

In this respect, the Company has a **Risk Management System** based on a comprehensive and systematic approach. This system is conceived as a key tool for managing uncertainty and, as such, is aimed at helping to reduce the threats and take advantage of the opportunities that may arise in the businesses of the Company and its Group.

The Risk Management System of MERLIN Group, which is based on the principles, key elements and methodology established in the COSO framework ("Committee of Sponsoring Organizations of the Treadway Commission"), is aimed at minimizing the volatility of results (profitability) and therefore maximizing the Group's economic value, taking risk and uncertainty into account in the decision-making process so as to provide a reasonable assurance that the objectives established will be met, thereby giving shareholders, other stakeholders and the market in general adequate guarantees and ensuring the protection of the value generated.

The approach adopted in the Risk Management System of the MERLIN Group is based on the following pillars:

- Assessment of risk on an ongoing basis
- Forecasting of risks at source
- Involvement of all areas of the company
- Availability of updated information
- Knowledge of the impact to facilitate decision making

The Risk Management System is based on a model that identifies the Company's key risk events, evaluates them based on the impact and likelihood of occurrence considering the controls in operation and monitors and reports on any developments on a regular basis.

The Risk Management System functions comprehensively and continuously, such management being consolidated by area, business unit, activity, subsidiary and support area (e.g. human resources, tax, marketing, management control, etc.) at corporate level, with the management of all priority risks, whether internal or external, being addressed.

It is a process led by the Board of Directors and Senior Management, and is the responsibility of each and every member of the Organization, each within his/her respective area of action. The management of risks, under the supervision of the Audit and Control Committee, enables

Management to manage uncertainty and related risks effectively, thereby improving the capacity to generate value.

The point of departure of the Risk Management System is the control environment within the organization, which influences risk-awareness among all employees and forms the basis of all other components of the management of corporate risks.

The subsequent analysis of risks entails the identification and assessment of factors which may have an adverse impact on compliance with business objectives (risks and uncertainties), the objective being to reduce or mitigate such risks, provide responses, and establish the pertinent control activities.

The efficiency of the Risk Management System is based on proper and timely communication of expectations, results and actions. Finally, the management of corporate risks is supervised through on-going monitoring activities.

This System is complemented by a series of Policies and Procedures which are implemented within the Organization over time and are reviewed and updated on an ongoing basis in response to changes in the Organization.

A key component of the Risk Management System is the Risk Map, prepared for the first time in 2015 and which reflects and evaluates risks with a potential impact on the achievement of the objectives. In addition, the Company has a Risk Catalog based on its objectives and prioritized according to their importance. In determining the key risks, account was taken of the impact on the organization and the likelihood of occurrence in order to establish a standard Risk Profile to be managed.

The Audit and Control Committee (with the support of the Internal Audit Management team) supervises the Risk Management System, based on the application of the risk management methodology through the supervision of the identification and evaluation of risks (likelihood and impact) that affect the objectives of each area. Through the development of the audit plan, it evaluates and concludes on the sufficiency and effectiveness of the controls put in place by the Company, issuing any relevant recommendations.

In 2017, after identifying the relevant critical processes, periodic reviews were performed with respect to compliance and permanence within the risk tolerance thresholds. Accordingly, throughout the year, the Audit and Control Committee, in conjunction with the Internal Audit Management team, has continued the work begun the year before, carrying out the following activities:

- Update of the Corporate Risk Map for its subsequent submission to the Board of Directors.
- Quarterly follow-up on the key performance indicators (KPIs) of the risks, as well as on the various steps established for their mitigation.
- Analysis of simulations and sensitivities of the various risk factors and their impact on the Group's main financial figures.
- Analysis of the Group's litigation, as well as its impact on the Company's financial statements.

E.2 Identify the corporate bodies responsible for preparing and implementing the risk management system, including tax risks.

A) BOARD OF DIRECTORS

Article 4 (“*General Function of the Board*”) of the Board Regulations establishes the functions reserved by law or the bylaws to the knowledge of MERLIN’s Board, which include the approval of both the general risk policy and the policy on risk management and control and the periodic monitoring of the information and control systems.

Aware of the importance of this aspect, the Board of Directors has established, through the “*Risk Management Policy*”, the mechanisms and basic principles required to properly manage the key risks it faces, with a view to:

- boosting the achievement of the business objectives proposed;
- avoiding losses from the materialization of risks;
- preserving the image and reputation of the Company and of its brand; and
- maintaining continuity in the analysis and detection of potential threats and new risks in order to analyze their impact and likelihood of occurrence.

The Board of Directors tasks the Audit and Control Committee with overseeing the Company’s internal control and risk management systems, including tax risks.

B) AUDIT COMMITTEE

On the other hand, under article 40 of the Board Regulations, the Audit and Control Committee is responsible for supervising the effectiveness of the Company’s internal control, internal audit and risk management systems, and for discussing any significant weaknesses detected in the internal control system. Accordingly, the Audit and Control Committee will perform, among others, the following basic functions

- Supervision of the effectiveness of the Company’s internal controls, internal audit function and risk management systems including tax risks, and discussion with the external auditors any significant weaknesses in the internal control system detected in the course of the audit.
- Ensuring the independence and effectiveness of the internal audit function, verifying the suitability and integrity thereof and providing support to the Audit and Control Committee in its supervision of the internal control system.
- Actively develop the implementation of a risk map and the processes inherent therein, as well as an internal control and financial reporting management system (ICFR).
- Supervision of MERLIN’s Risk Map, ensuring that MERLIN’s exposure to risk is consistent with the strategic position required at any given time, for the approval thereof by the Board of Directors.
- Approval of the budget assigned to the risk management function and the internal audit function.
- Approval and monitoring of action and/or contingency plans agreed on in the work plans drawn up by the internal audit function, analyzing the reports prepared by the

head of the internal audit function in relation to the key processes of the ICFR, proposing improvements and corrective measures.

The Audit and Control Committee will perform this supervision function through the Internal Audit Management team, which will periodically verify the suitability and integrity of the Risk Management System implemented by the Company's Management.

#### C) SENIOR MANAGEMENT

MERLIN considers that the entire company must be involved in managing risks proactively. With the goal of making its risk management system sustainable over time, the Company has identified the persons at each one of the companies and business divisions of the group, who will be responsible for managing the risk model, as well as a person responsible for monitoring and supervising it.

MERLIN's Management is responsible for leading, implementing, conveying and managing the strategy and resources that comprise the Risk Management System and it undertakes as an essential undertaking to ensure a suitable level of independence, based on the following principles:

- Considering Risk as any threat that an event, action or omission may prevent MERLIN from achieving its objectives, successfully executing its strategies, the proper performance of its transactions or the loss of opportunities.
- Establishing mechanisms for suitable Risk Management, considering its identification, evaluation, response, monitoring and reporting.
- Promoting and establishing the strategy, culture, resources and processes that make up Comprehensive Risk Management, which will be periodically reviewed for its suitability to MERLIN's situation and environment.
- Distributing, among the different levels of the Organization, responsibility for identifying, analyzing, assessing, evaluating and supervising the Risk Management System.
- Encouraging the establishment and implementation of guidelines, limits and mechanisms that ensure that Risk Management is conducted in accordance with the risk appetite accepted by the Company.
- Promoting, boosting and disseminating the Risk Management System through training and communication, ensuring the dissemination of this Policy, together with the documentation that implements it.

#### D) RISK MANAGEMENT TEAM

The risk management team is led by the Internal Audit Management team, an independent function that reports mainly to the Audit and Control Committee and for administrative purposes to General Management.

In the context of risk management, the Internal Audit Management team coordinates the information received from the various persons directly responsible for managing risks and

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reporting to the Audit and Control Committee. In this respect, the Internal Audit Management team has, among others, the following functions:

- To supervise the risk identification process, ensuring that the main risks are identified and keeping the risk catalog and the Risk Map up to date.
- To review compliance with the risk levels that the Company considers acceptable.
- To supervise compliance with the measures adopted to mitigate the impact of the risks identified, in the event that they materialize.
- To evaluate information systems and the operation of the controls that are used to manage risks.
- To report periodically to the Audit and Control Committee on any developments in the risks identified, the analyses performed on their potential impact on the Company's objectives and on compliance with the measures identified for their mitigation, proposing recommendations to improve the system and the level of internal control of the Group.

E.3 Indicate the main risks, including tax risks, which may affect the achievement of business targets.

MERLIN is subject to myriad risks inherent in its various business segments and in the activities it pursues in each one, as well as in the geographical areas where it operates and in developments in external economic factors.

In this respect, the Board of Directors considers Risk Management as a tool that contributes to achieving greater efficiency and effectiveness in its operations and ensures the achievement of the objectives established in the long-term commitments acquired with the markets and shareholders, as well as short-term objectives established annually in the annual budget.

MERLIN has a risks catalog in keeping with its objectives and prioritized by importance. When determining which are the key risks, consideration has been given to the impact on the organization and probability of materialization, establishing a standard Risk Profile to be managed.

In addition, the risks management system takes into account risks of any nature and source which may have a component with an impact on financial information (ICFR risks), which are specifically identified, assessed, and monitored.

In drawing up the Risks map for 2017, 111 risks with a potential impact on the accomplishment of objectives have been identified, assessment parameters have been established, and 15 risks have eventually been identified as key risks. These have been classified by different risk types: strategic, operational, reporting, and compliance, according to the four large headings of objectives defined in the COSO methodology.

- Strategic: covering all risks associated with the lines of strategy and projects defined by the Group's Management.
  - Risks relating to compliance with Law 16/2012 on SOCIMIs.
  - Risks relating to the loss of property value.
  - Risks relating to dependence on key staff.
  - Risks relating to the real estate market and potential market saturation.
  - Risks relating to economic and political stability of the environment.
- Financial: encompassing all risks which affect both the quality and the reliability of the financial information reported to the markets, and the management information used by the Group at internal level, as well as the risk inherent in the Group's sources of financing.
  - Risks relating to the difficulty of accessing sources of financing.
  - Risks relating to client solvency and credit risk.
  - Risks relating to the fluctuation of interest rates.
- Operational: including all those risks related to the efficiency and effectiveness of operations, in all processes and all areas of activity.
  - Risks relating to the difficulty of obtaining tenants.
  - Risks relating to the acquisition of properties and investment assumptions.
  - Risks relating to information systems and the needs of the business.
  - Risks relating to the concentration of rent on a small number of clients.
  - Risks relating to potential inefficiencies in the integration with Metrovacesa.



- Compliance: all those related to compliance with the legislation in force in the countries in which the Group operates, and with internal policies.
  - Risks relating to compliance with legislation, especially criminal compliance.
  - Risks relating to other regulatory changes.

#### E.4 Identify whether the company has a risk tolerance level, including tax risks.

MERLIN prioritizes any risks identified according to their importance and places them within a Risk Map which, in turn, defines the scope of the importance based on a pre-determined tolerance threshold. This threshold determines the Company's risk appetite.

MERLIN conceives risk appetite as the level of risk that the Company is willing to assume or reject on the basis of its objectives, and considering the expectations of its stakeholders, and risk tolerance as the determination of fluctuations in the risk level, understood as normal based on their risk appetite. For each risk identified, MERLIN has determined their scope of application and has established a level of tolerance suited to the objectives set in each case.

In the identification of key risks, the organization has applied an overall tolerance threshold based on the impact of the risk on it and the probability of materialization, establishing a standard risk profile to be managed.

The following are taken into consideration when determining the risk tolerance level:

- Qualitative aspects, establishing the specific risks which the organization is willing to accept based on the risks inherent in its activity and linked to its strategy and business plans;
- Quantitative aspects, describing the limits, thresholds or key risk indicators, which establish how risks and their benefits are to be assessed and/or how to assess and oversee the aggregate impact of such risks, based on the understanding that not all risks are measurable. The assessment scales used have been determined in terms of:
  - probability of materialization of the risk in relation to the number of times the event has occurred during the year, based on a scale which goes from improbable (0) to certain (10);
  - impact or effect of the materialization of the risk on the income statement, with materialization being regarded as any negative variation in the income statement (reduction in revenues or increase in expenses), based on a scale which goes from insignificant (0) to very serious (10).

It is important to note the existence of "zero" tolerance risks, i.e. risks for which the response strategy is "avoid", which implies not proceeding with the activity which generates the risk or changing the course of action. The organization includes in this category all risks related to compliance with the terms of the SOCIMI regime, to any other legal or regulatory infringements, to compliance with the terms of financing arrangements and the distribution of dividends, risks relating to any kind of fraud (by senior managers and employees, clients or suppliers of the company) and those related to the prevention of money laundering and financing of terrorism.

E.5 Identify any risks, including tax risks, which have arisen during the year.

On one hand, thanks to the ongoing monitoring of the Company's transactions and to the response plans aimed at mitigating the risks identified above, the risks relating to fluctuation of interest rates and to potential inefficiencies in the integration of Metrovacesa ceased to be regarded as significant risks of the Company during 2017, due to the high percentage of the Group's financial debt covered at a fixed rate and to the successful performance, in due time and form, of all the activities envisaged in the action plan for the integration of Metrovacesa.

On the other, because of the events occurring in the Cataluña Autonomous Community during the second half of 2017, the risk relating to the economic and political stability of the environment has taken on major importance, although the level of assets and transactions the Company has in that geographical area is limited (14.4% by asset value).

In this connection, and as part of the Company's strategy since its formation, the exposure to Cataluña is lower than that which might have been expected having regard to macroeconomic indicators (contribution to the Spanish GNP) and to the weight and relative importance of the real estate industry. Only 7.3% of the value of the Company's assets comes from office buildings located in Cataluña. The remaining 7.1% are concentrated in commercial assets and logistics warehouses, the latter category of assets being the least affected by the political instability, thanks to their privileged and strategic location for logistics operators.

The Company has at all times monitored the performance of the business in Cataluña, enhancing the monitoring of sales and the influx of shoppers at shopping malls, as well as of marketing and risks of contract termination at offices. In this connection, the fourth quarter has continued the upward trend (both in terms of occupation and of increased rent from offices) undergone during the first nine months of the year, although it is true that the number of transactions has gone down. With respect to shopping malls, sales and the influx of shoppers were affected by the terrorist attack in August, without this having a negative impact on rent or on occupation, which continue to rise. On the other hand, in terms of investments, the Company has made no acquisition since January 2017 when it purchased the most emblematic office building in Barcelona.

E.6 Explain the response and monitoring plans for the company's main risks, including tax risks.

MERLIN understands that in its comprehensive risk management system it is as important to identify risks as it is to determine the measures required to manage them and to ensure that those measures are proving to be effective. Accordingly, the Company continuously monitors the risks while ensuring the viability, effectiveness, efficiency and sufficiency of the responses established for them.

MERLIN configures its response plans based on policies, procedures and controls, in all cases adjusted to the various risks that affect or may affect it.

In this connection, the Group has defined and identified a series of controls of different typologies, has designated the person responsible for control and proceeds periodically (quarterly, semiannually or annually) to assess the risk and its residual component following implementation of the control. Specific improvement plans have also been established with respect to the operational, strategic, compliance and reporting risks deemed relevant.

The Audit and Control Committee is tasked with the risk management and control process and with approving the control policies, procedures, limits and structures it deems necessary.

At their periodic meetings, the General Management, Financial Management and other Business Management Teams of the Company analyze the status of and changes in the main risks affecting the Group, taking any corrective measures considered necessary.

The following is a summarized list of the main mitigation measures implemented in the management of risks deemed to be relevant at the end of 2017:

- **Risks relating to compliance with Law 16/2012 on SOCIMIs**
  - Implementation of General Controls (Tax Policy), as well as a Tax Department Regulation and a Protocol to review compliance with Law 16/2012.
  - Periodic control by way of quarterly calculation of compliance with statutory requirements.
  - Review of methods and calculation by external experts.
  - Periodic reporting to the Audit Committee and to the Board.
  - Half-yearly and annual audit of calculations by the auditor.
  
- **Risks relating to the loss of property value**
  - Monitoring of factors of the real economy with an impact on asset value.
  - Half-yearly independent external assessment.
  - Appraiser rotation plan and audit of assessments by the external auditor.
  - Internal assessment check: monitoring of the discount rates applied in the assessment and the investment alternatives to real estate.
  - Ongoing monitoring of the yields of the real estate market.
  
- **Risks relating to dependence on key staff**
  - Variable compensation (Management Stock Plan) with a stay commitment.
  - Implementation of Succession Plans by main business area.
  
- **Risks relating to the real estate market and potential market saturation**
  - Ongoing monitoring of factors that affect demand (renegotiations of rentals, unexpected leaving of tenants, potential future supply, etc.)
  - Monitoring of prices by sector and segment.
  
- **Risks relating to economic and political stability of the environment**
  - Close monitoring of the political and regulatory environment.
  - Ongoing contact with specialized advisors.
  - Monitoring of all relationships with public authorities.
  
- **Risks relating to the difficulty of accessing sources of financing**
  - Monitoring of debt markets (mortgage, corporate banking, bonds).
  - Monitoring of leverage level, deadlines and average debt cost.
  - Keeping lines of credit open for eventual emergencies.
  - Analysis of Cash Flow and presentation to governing bodies.
  - External audit report on compliance with covenants.
  
- **Risks relating to client solvency and credit risk**
  - Monitoring of rent from the main properties / tenants.
  - Monitoring of payment by main properties / tenants.
  - Monitoring the credit risk of the main tenants.
  
- **Risks relating to the difficulty of obtaining tenants**
  - Periodic monitoring of indicators (occupation, rent, vacancies, etc.).
  - Annual and quarterly simulation exercise.

- Monitoring of external / internal marketing.
- **Risks relating to the acquisition of properties and investment assumptions**
  - Investment procedure and control structures.
  - Documentation of functioning of financial models.
  - Modification controls and integrity controls of models.
  - Internal audits contrasting the profitability of investments.
- **Risks relating to information systems and the needs of the business**
  - Implementation of a Computer Security Plan.
  - Definition of a General Information Systems Control Manual.
  - Monitoring of incidents and periodic reporting to the Audit Committee.
  - Annual Information Systems Enhancement Plan.
- **Risks relating to the concentration of rent on a small number of clients**
  - Monitoring of contracts per tenant / operator
  - Monitoring of the gross rent percentage per major tenant.
  - Design of contingency plans for the eventual leaving of each major tenant.
- **Risks relating to compliance with legislation, especially criminal compliance**
  - Development of Crime Prevention Program.
  - Training programs on compliance.
  - Anti-money laundering controls.
  - Monitoring activities Criminal Compliance Body.
  - Monitoring activities Internal Control Body.
- **Risks relating to other regulatory changes**
  - Close monitoring of the political and regulatory environment.
  - Periodic reporting of new industry-wide legislation.
  - Analysis of drafts of new regulations, anticipating their impact.

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (ICFR)**

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

### **F.1 Control environment of the company**

Report on at least the following, describing their main characteristics:

- F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of a suitable and effective ICFR; (ii) its implementation; and (iii) its monitoring.

Article 4 of the Board Regulations establishes that the Board is ultimately responsible for approving the Company's general risk policy and the risk management and control policy, as well as for the periodic monitoring of the internal financial reporting and control systems.

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In addition, article 40 of the Board Regulations sets out the responsibilities of the Audit and Control Committee and tasks it with periodically reviewing the Company's internal control and risk management systems and in particular with designing the internal control over financial reporting (ICFR) system so that the main risks are adequately identified, managed and reported.

The Audit and Control Committee is in charge of periodically reviewing the Company's internal control and risk management systems, their implementation and supervision, as well as approving the internal audit plan for the evaluation of ICFR and its modifications, and receiving periodic information from the result of its work, as well as the action plan for correcting any deficiencies observed.

The Management Teams of the Company are in charge of implementing ICFR by establishing the policies, procedures and controls that ensure its proper functioning.

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

- Departments and/or mechanisms in charge of: (i) the design and review of the organizational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring there are sufficient procedures so that this is communicated effectively at the company.

The Board of Directors is the supreme decision-making body of the Company and has broad powers to manage it and is responsible for performing the general function of oversight, design and review of the organizational structure, lines of responsibility and authority, the allocation of tasks and functions and the existence of sufficient procedures for proper disclosure including the financial information that the Company must periodically report.

To perform this task, it calls on the Company's senior management team, as being the General Management Team responsible for the design and review of the Group's organizational structure.

The General Management Team has tasked the Financial Management Team with preparing the financial information that the Company must periodically report and the Management Team itself, together with the other Management Teams, is in charge of defining its organizational structure for the purpose of performing the functions entrusted to it.

Financial reporting is a critical tool for communication with stakeholders and supervisory bodies, which feeds off data from almost all the organizational

areas of the MERLIN Group. For this reason, compliance with objectives in terms of the transparency and veracity of such data is the responsibility not only of the Economic-Financial General Management, but also of each and every one of the areas of the MERLIN Group, within their respective fields of action.

In addition, the Economic-Financial General Management assumes the following functions in relation to internal control and the preparation of financial information:

- Receipt of the information prepared by the different areas and subsidiaries of the Group, supervising that the accounting principles established by the Group in the different countries in which the activity is pursued are complied with.
- Assessment of the financial information and of the controls necessary to ensure that it conforms to the principles of reliability, consistency and transparency.
- Consolidation of the Group's financial statements and establishing of controls to verify the integrity and appropriateness of the monthly consolidation process.
- Establishing the accounting principles and policies to be applied by the Group worldwide, which must be in keeping with IFRS accounting standards.
- Supervision of internal controls and procedures related to the presentation of information externally and the reporting of information to the various Committees of the Company (the Audit and Control Committee, the Appointments and Compensation Committee and the Board of Directors).
- **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.**

As part of its powers, the Board of Directors is responsible for approving the Company's general policy and strategy when it comes to its corporate governance policy, its corporate social responsibility policy, as well as the Company's codes of conduct and their approval, dissemination, principles and values.

Within the executive committees of the Board, the Appointments and Compensation Committee will perform the function of overseeing

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compliance with the internal codes of conduct and the corporate governance rules.

The Company has a code of conduct which contains MERLIN's commitment to the principles of business ethics and transparency in all areas of activity, establishing a set of principles and guidelines for conduct aimed at ensuring the ethical and responsible conduct of all of the Group's professionals in the pursuit of their business, among which it makes reference to accounting records and financial reporting.

This code was approved by the Board of Directors at its meeting on December 16, 2015 and applies to all of the Group's professionals, regardless of their hierarchical or functional level.

The Appointments and Compensation Committee is the body responsible for disseminating the code of conduct internally and externally as well as for its general interpretation and construction. The code has already been distributed to all employees so that they can read and accept it. The interpretational standards of the code are binding on all of the Group's professionals and any breaches will be analyzed and handled in accordance with the Ethics Channel procedure.

The Code of Conduct is formally signed by the workers at all of the Group's companies, and the original of each acceptance is kept in the employee's personal file.

The Code of Conduct applies to all members of the managing body and to all of the employees of the companies making up the MERLIN Group. They are all under the obligation to know and comply with the Code of Conduct and to assist in implementing it at MERLIN. The scope of application of the Code may contractually extend to any individual or legal entity that maintains commercial relationships with MERLIN when, by the nature of such relationship, their activities may affect the image and reputation of the Group.

The essential corporate values that form the basis of the MERLIN Group's activities are, in short, the ethical values of loyalty and good faith, necessarily aligned with rectitude, professional honesty and teamwork, and are expressed in the following attitudes:

- Moral integrity and conduct in good faith in dealings with any member of the organization and third parties, even when it may enter into conflict with personal interests or economic pressures.
- Trust and credibility, based on the quality of products and on conduct geared toward service to the company, consumers, clients and suppliers.

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- Safety, health and hygiene, paying special attention to the protection of employees, suppliers, clients and the environments.
- Compliance with the law, with a firm commitment to complying with all applicable domestic and international rules and laws, it being the obligation and responsibility of each employee to comply with the laws relating to his/her work and to avoid any activity that may involve MERLIN in any practice not only unlawful but also immoral or illegitimate.

As a specific and key section MERLIN's Code of Conduct deals with information transparency. In it, all employees and directors, within the scope of their powers, are required to supply information that is true, complete, comprehensible and timely, and in no case may they knowingly supply information that is incorrect, inaccurate or imprecise which may mislead the party receiving it. Specifically, efforts must be made to ensure the reliability and rigorosity of the financial information which, in accordance with the applicable legislation, is publicly supplied to the market. In particular, the accounting policies, controls and oversight mechanisms defined by the Group will be applied so that the relevant information may be identified, prepared and communicated in a timely and appropriate manner.

In addition, the Board of Directors, the Audit and Control Committee and other managing bodies will periodically ensure the effectiveness of the internal control system for preparing the financial information to be sent to the markets, one of the specific functions of the Audit and Control Committee being that of "supervising compliance with the internal codes of conduct, as well as the corporate governance rules".

- Whistle-blowing channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organization, stating whether reports made through this channel are confidential.

MERLIN has an Ethics Channel for the confidential reporting of any event that infringes the law and the Code of Conduct as well as any potentially significant financial, accounting or other irregularities. This channel is available to all of the companies that make up MERLIN Properties Socimi S.A. and is also public. For this purpose, it has a specific e-mail address which is indicated in the code of conduct together with its characteristics. In addition, MERLIN has a procedure in place for processing any reports received through the channel.

The Ethics Channel is a means of communication that is confidential and non-anonymous whereby complaints may be received which may relate to fraud, irregular conduct of a financial, accounting or other nature, to the quality of



the financial information supplied to the markets or other internal control matters. It covers all employees of all the MERLIN Group companies.

The Chairman of the Appointments and Compensation Committee receives the complaints and is empowered to commence an investigation into the facts set out in the complaint. All investigations must be conducted confidentially, so that only the information needed to facilitate the review of the documents investigated is disclosed. All complaints will be reported on in the appropriate session of each meeting of the Audit and Control Committee.

In 2017, a compliance clause was included in all contracts with clients and suppliers. The clause includes the Ethics Channel as a way to report any irregularities in commercial dealings with MERLIN.

No complaints were received through the Ethics Channel this year.

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

From the outset, MERLIN has endeavored to have personnel with the training and experience required to perform their functions and the duties entrusted to them.

The processing and preparation of financial information requires personnel with specific training in accounting and consolidation questions, tax aspects, insurance, risk assessment and control checks to mitigate risk.

To this end, MERLIN's personnel participate in training and refresher programs relating to the legislation that affects the Company and MERLIN promotes and provides the resources for this purpose such as attendance at seminars, refresher conferences and bulletins and publications for providing its personnel useful information.

Periodic meetings are also held with the external auditor in order to ascertain any changes in the current legislation that may affect the Company.

In 2017, 20% of staff, that is, a total of 31 workers received training on information systems, accounting standards and risk management, amounting to a total of 454 hours of training in these areas.

The training activities carried out by these professionals included most notably:

- Analysis of tenants' income statements and negotiation.
- New developments in the accounting legislation in 2017.

- Financial training in SAP.
- Annual conference of the Internal Audit Institute.
- European Compliance Conference.

## F.2 **Risk assessment in financial reporting**

Report on at least the following:

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.

MERLIN has in place a risk management system in which the first step is to identify any events that may affect the Company's objectives. This system has a handbook that describes the process from the identification of the risk to the reporting of the risk to the Audit and Control Committee.

With respect to the internal control over financial reporting (ICFR) system, MERLIN has conducted in previous years a process of identifying the financial reporting risks through the analysis of the financial statements. Based on qualitative and quantitative aspects, the Company determined what the relevant processes of its business are and followed the steps established in the risk management handbook.

To fulfill one of the functions corresponding to the Audit and Control Committee in relation to knowledge of the financial reporting process and internal control systems, the identification of risk types and levels, the measures required to mitigate the impact of risks identified and the risk control, reporting and management systems, the MERLIN Group conducts an annual review of its key business and supporting processes in order to reassess existing risks and identify any new risks which may impact the process whereby economic-financial information and other information to be supplied to third parties is generated.

The process of identification of risks related to the preparation of financial information has two objectives:

- To identify risks associated with critical processes in the company's activities which could lead to material misstatements in financial information (operational processes).
- To identify key processes linked directly to the generation of financial information, essentially of an accounting and financial nature (non-operational processes).

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- The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and how frequently.

Following the determination of MERLIN's relevant processes, the risks that cover the financial reporting objectives were determined (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations).

The ICFR Manual and the Financial Risk Matrices serve as elements of review of the main financial risk points, with controls being assessed for each financial reporting objective. The risks defined are to be assessed annually to determine the extent to which they are up to date.

The process covers both significant or complex accounts and risks which, despite not relating to significant accounts, could potentially have an impact on the financial statements and on the reliability of financial reporting.

The process of identification of risks affecting the Group's financial information takes into account the following 5 control objectives in relation to financial reporting:

- Existence and occurrence: the assets and liabilities exist as at a particular date; the transactions recorded have taken place during a particular period.
- Integrity: there exist no assets, liabilities or significant transactions which have not been recorded.
- Valuation and measurement: balances and transactions have been recorded for appropriate amounts; they have been adequately measured in accordance with the applicable accounting legislation, using an appropriate methodology, and have been correctly calculated.
- Presentation, breakdown and comparability: assets, liabilities and transactions are correctly itemized, classified and described.
- Rights and obligations: assets represent legitimate rights and liabilities represent legitimate obligations.

Finally, all transactions with a potential impact on the financial statements and the most significant recurring estimates and measurements are documented and periodically reviewed and updated.

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- 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.

The identification of companies within MERLIN's scope of consolidation is based both on the actual holding in and degree of influence over each investee and in accordance with the accounting legislation applicable to the financial statements. The actual holdings in each company are determined in conjunction with Legal Counsel.

In 2016 there were no complex corporate structures within the Group that could entail transactions outside the financial statements and which should have been recorded in them.

If transactions subject to interpretation were to arise, and in order to determine in advance the proper treatment of such transactions, as well as their financial impact, the Group could call on the external auditor and other relevant external experts for advice.

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

As noted above, the process for identifying risks that affect the Group's financial information takes into account the 5 control objectives for financial reporting (existence and occurrence, integrity, valuation and measurement, presentation and disclosure and rights and obligations). Although other types of risks such as operational, technological, financial, and environmental risks are taken into account in identifying risks that affect financial reporting, they are not expressly identified in the ICFR.

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

The MERLIN governing body that oversees the process of identifying financial reporting risks is the Board of Directors, through the Audit and Control Committee, in accordance with article 40 of the Board Regulations.

Accordingly, during the year it has overseen the risk identification process, evaluating the risk catalog to adapt it to present circumstances.

### **F.3 Control activities**

Report on the existence of at least the following, and specify their main characteristics:

- F.3.1. Procedures for reviewing and authorizing the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in

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each case and the documentation describing the flow of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including the procedures for the close of accounts and for specific review of critical judgements, estimates, evaluations and projections.

Within the financial reporting internal control system, MERLIN has:

- The ICFR Manual, which classes processes with an impact on financial reporting as:
  - Operational processes, which are those directly related to the company's activity. Their main objective is not the recording of financial information, but to contribute to the accomplishment of the company's objectives and results.
  - Non-operational processes, these are accounting processes which have a direct impact on financial information since their essential purpose is to ensure that the financial information recorded in respect of the company's activity is reliable. These processes can be designed in a standardized form, irrespective of the company's activity or nature.
- Financial Risk Matrices, which identify the controls over relevant ICFR risks and how they relate to the 5 financial reporting objectives.

The documentation for the financial reporting internal control system includes descriptions and flowcharts of the different cycles that generate the material financial information selected in the identification process, as well as descriptions of the prioritized risks of error, of the controls designed to mitigate them, distribution of responsibilities for their execution and supervision, and a description of the evidence to be provided in executing them, which will be reviewed by the Internal Audit Management team.

The different processes and activities of business accounting close and of administrative and/or corporate activities are considered as a cycle within the ICFR. In addition, the specific review of the material judgments, estimates, valuations and projections is subject to specific controls in the model in the cycles in which it applies, given that they entail the identification of risks of error.

MERLIN has in place the following cycles to regulate the processes with an impact on financial reporting:

- Asset Acquisition Cycle
- Asset Management Cycle
- Asset Sale Cycle
- Corporate Finance Cycle
- NAV Calculation Cycle
- Procurement and Capex Management Cycle

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- Tax Cycle
- Accounts Receivable Cycle
- Accounts Payable Cycle
- Travel and Other Expenses Cycle
- Accounting Close and Consolidation Cycle
- Financial Statements Preparation Cycle
- Accounting System Operation Cycle
- IT Control Cycle (Operations, General Controls and Security)
- Human Resources Management Cycle
- General Company Control Cycle

Lastly, the Company has in place a financial reporting control procedure that includes the annual financial statements, financial statements for interim periods (quarterly and half-yearly), the annual corporate governance report and the annual directors' compensation report, as well as other public information relevant to the market.

This procedure oversees the process from when this information is generated by the Financial Management Team, to when it is reviewed by the Audit and Control Committee and finally approved by the Board of Directors before being reported to the market.

As regards the description of the ICFR to be published in the securities markets, the review and authorization procedure is the same as for the other economic and financial contents of the Annual Corporate Governance Report.

With respect to the procedure for the accounting close and the specific review of material judgments, estimates, valuations and projections, the Audit and Control Committee, with the support of the Internal Audit Department, conducts a quarterly review of the financial information to confirm that the information is reliable, understandable and relevant. The quarterly review also seeks to ensure that the quarterly and half-yearly financial statements are prepared in accordance with the same accounting policies as the annual ones, the verification of the proper definition of the scope of consolidation and the correct application of the international financial reporting standards, highlighting any issues identified that may entail a risk in the external auditor's opinion.

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 internal control policies and procedures associated with the reporting system

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are defined by Management, with the assistance of an IT service provider under an outsourcing contract.

The Company has in place a set of procedures for the control and operation of IT systems and systems related to financial information.

This set of procedures and associated internal policies which expand upon risk control processes covers the following aspects:

- Access security, processes regulating the following aspects:
  - Access to documents
  - Allocation of IT system permits
  - IT Security Rules which users must comply with obligatorily: document for general circulation
  - Policy with respect to passwords for access to the network and SAP (the main system in which financial information is generated and maintained)
- Control over changes of programs, parameterization and the operation of systems, covering the following processes:
  - Operational processes for the application of patches (minor updates) in SAP
  - Operational processes for change of programs
  - Operational processes for change of parameterization in Productive SAP
  - Policy with respect to the change or updating of systems (renewal, application of patches in SAP, change of version, etc.)
- Operational continuity, which includes the following activities:
  - Contingencies and Systems Recovery Plan and technical instructions (corporate office network, email, communications and SAP)
  - Automatic monitoring of security copy processes
  - Definition of the scope of security copies for SAP
  - Operational procedure for recovery of SAP
- Segregation of functions:

The segregation of functions is a key pillar of the internal control model and in the MERLIN Group, it is fundamental in the SAP system environment, given both the number of users accessing the system and the level of importance of the data which they handle.

There is an assignment policy in SAP, the aim of which is to adhere as strictly as possible to the assignment of functions to the different departments and areas. In other words, if a person has been assigned a function, he/she will be authorized to access the processes related to such function.

These access and execution permits change over time in line with changes

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in the organization. The decision to allow or refuse access is defined by the Company and executed by the Systems Management by applying the corresponding procedures.

- Control of changes in master data:  
The system most used in the company, and that from which financial information is obtained, is SAP. This system registers internally the user by which changes to the most relevant master data are made. This register is available for review through SAP transactions.

The main risks contemplated by MERLIN, and to which it responds, affect physical security (backup copies, maintenance, access to servers, etc.), logical security (access controls, registration and deregistration procedure, anti-virus protection, etc.), sufficient segregation of functions, recording and traceability of information for the various profiles and transactions within the system, privacy (Personal Data Protection Law) and, lastly, the development and maintenance of systems.

In addition, MERLIN makes a daily backup copy of its servers so that in the event of a service failure it is protected from the loss of data and information and business continuity.

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

There is an internal procedure for engaging the services of external advisers, which establishes certain levels of approval based on the amount of the service to be engaged including, where appropriate, the approval of the CEO of the Company.

The Audit and Control Committee is responsible, by delegation from the Board of Directors, for authorizing the terms of contracts entered into for the main activities which are outsourced and which have an impact on MERLIN's financial information.

Specifically, in relation to the asset valuation process, the Company distinguishes between:

- Processes for the acquisition of assets taking place prior to a possible purchase; there are processes for the selection of the third parties and subsequent follow-up by Management.
- External appraisal of assets to obtain accounting estimates (valuation and



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impairment), undertaken by independent external appraisers (i.e.: Spanish rules NIC-40 and PGC and NOFAC); according to article 40 of the Board of Directors Regulations, the appointment and supervision of such appraisers is the responsibility of the Audit and Control Committee.

- The company has a specific operational procedure (included in the procedure for calculation of NAV, referred to above) which includes the controls implemented in relation to this question. These include the existence of an Appraisals Coordinator, who is a member of the Management Committee, whose task it is to oversee the suitability and independence of the independent appraisers by whom real estate assets are valued, and the efficacy and efficiency of the appraisal process, the results of which are supervised by the Audit and Control Committee.

In relation to other external advisors:

- If any task is performed by the Company's accounting auditor, an analysis is made of the compatibility, reasonableness and proportionality of the fees in relation to the external audit and conditions of independence, subject in all cases to approval by the Audit and Control Committee.
- In the event of any kind of work related to financial or tax aspects or advice on corporate transactions being required and of an independent expert being engaged for this purpose, the company verifies the competence and technical and legal proficiency of such professional and his/her reputation in the sector.

In relation to reports issued by independent experts, the Group has trained staff whose function is to assess the reasonableness of their findings. The findings or reports of accounting, tax or financial experts are supervised by the corresponding Managements where necessary, depending on the area to which they relate.

#### **F.4 Information and communication**

Report on the existence of at least the following, and specify their main characteristics:

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

The Management Team responsible for defining accounting policies and ensuring they are kept up to date and for drawing up the financial statements in accordance with generally accepted accounting principles is the Financial Management Team of MERLIN.

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The Financial Management Team is responsible for defining and maintaining the Group's accounting policies, and for resolving any issues which may arise in relation to their application.

MERLIN has an Accounting Policies Manual, which defines the criteria to be adhered to in the preparation of the individual and consolidated Financial Statements. The personnel involved in the process of preparation and review of financial information are kept informed on a timely basis of all changes to accounting or tax rules through subscriptions, bulletins and newsletters received from the main audit firms and the IASB.

Moreover, the Financial Management Team assumes the following functions with respect to accounting policies and in particular those related to the application of International Financial Reporting Standards (IFRS):

- Analyze one-off operations or transactions performed or expected to be performed by the Group to determine the accounting treatment applicable to them in accordance with Group accounting policies.
- Unify and standardize accounting policies and the monitoring of compliance with the legislation in each country, as well as compliance with centralized group accounting policies.
- Resolve any query which may be made by any Group company with respect to the application of accounting policies.
- Monitor IASB projects related to new regulations and new rules to be approved by regulatory bodies, and analyze the possible impact thereof on the consolidated Group accounts or possible adaptations necessary for compliance purposes.
- Ensure that all persons responsible for the preparation and supervision of the financial statements at the different levels of the Group are kept duly informed, providing them with whatever information may be necessary to ensure that the Group's accounting policies are applied on a consistent basis.

In addition, the Audit Committee is responsible for supervising the process for the preparation and presentation of the financial statements of the Company and the periodic information which, in accordance with the currently applicable legislation, the Company must provide to the markets, supervising the process for preparing and publishing it, informing the Board of Directors in this connection before it is approved, as well as ensuring compliance with the legal requirements in this area and the proper application of the generally accepted accounting principles and reporting on any proposed changes to accounting principles and policies suggested by Management.

When the application of accounting legislation is particularly complex, the Financial Management Team consults with the external auditor, other consultants

or the regulatory body, seeking advice on the correct accounting treatment, as well as the conclusions reached by the auditor with respect to the required accounting analysis.

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

MERLIN has a common IT tool (SAP) used by all the Group companies which supports the process for the preparation of the separate financial statements in accordance with a standardized format. The consolidated financial statements are produced through the aggregation of the accounting information contained in the separate financial statements, with the pertinent adjustments and eliminations being applied in the process, to produce the consolidated financial statements which are subsequently analyzed.

This process is managed by the Financial Management Team, which has in place a series of control procedures to ensure that the information is reliable, based on a single chart of accounts which is adhered to by all the Group companies.

The process for the accounting consolidation of the financial statements is undertaken every quarter, there being set calendars for the closing and consolidation of accounts, as well as the appropriate assignment of roles and responsibilities in accordance with the Financial Close Procedure.

## **F.5 Monitoring of the system operation**

Report on at least the following, describing their main characteristics:

- F.5.1. The ICFR monitoring activities are supervised by the audit committee which is supported by the Financial Management Team and by the internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. In addition, information will be provided on the scope of the ICFR assessment conducted in the year and of the procedure.

As indicated in article 40 of the Board Regulations, the functions of the Audit and Control Committee include the following:

- to supervise the effectiveness of the internal control of the Company, the internal audit and the risk management systems, including tax risks, and to discuss with the external auditors the significant weaknesses of the internal control system detected in the course of the audit;

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- to periodically review the internal control and risk management systems of the Company and, in particular, the correct design of the internal control and financial reporting management system (ICFR) to ensure that the main risks are identified, managed and adequately communicated;
- to approve the internal audit plan for assessment of the ICFR system, and any amendments thereof, and receive periodic information on the outcome of its work, as well as the action plan to correct the deficiencies observed.

The Audit and Control Committee is in charge of approving the internal audit plan for assessment of the ICFR, and its amendments, and to receive periodic information on the outcome of its work, as well as the action plan to correct the deficiencies observed.

Accordingly, this year the Committee worked on:

- (i) supplementing and updating the Financial Risk Matrices;
- (ii) monitoring the review of the ICFR controls under the 2017 internal audit plan and the weaknesses disclosed;
- (iii) reviewing and approving the Financial Close Procedure;
- (iv) analyzing and reviewing the internal audit reports on the process used to prepare the quarterly and half-yearly financial statements for 2017.

In turn, the Internal Audit Department, which depends from the functional perspective on the Audit and Control Committee and from the administrative perspective on the Group's Corporate General Management, supports the Committee in its supervisory and reporting tasks.

As stated in the MERLIN's Internal Audit Statute, the objectives of the Internal Audit Department are, inter alia:

- to assist the Audit and Control Committee with the fulfilment of its responsibilities, providing support to the Department for the enhancement and reinforcement of the internal control system, procedures used and control activities;
- to monitor the reliability and merits of the Risk Control System existing at the Organization, giving an opinion on its suitability and sufficiency;
- working to identify and assess the risks, of any nature, faced by the Organization, monitoring their level of control;
- ensuring the integrity of the accounting and management data issued (i.e., that it is complete and correct) both internally and externally.

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In this connection, and in support of the Audit and Control Committee, the Internal Audit Department performs an independent review of the design and the operation of the internal control system, identifying weaknesses and deficiencies and preparing recommendations for their correction.

In addition to reviewing the design and the operation of the controls of the cycles on a half-yearly basis, coinciding with the preparation and approval of the half-yearly and annual financial statements, the Internal Audit Department reviews the operation of the controls that are deemed critical.

For this reason, the reviews of the cycles, combined with the half-yearly reviews of critical controls, enables the Internal Audit Department to perform an exhaustive assessment of the entire system used for the internal control of financial data, and to give an opinion on the effectiveness of the controls, which is then reported to the Audit and Control Committee at the meetings held to review the half-yearly and annual financial statements.

- F.5.2. Whether there is a discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's managers and to the audit committee or company directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Pursuant to the Board Regulations, the Audit and Control Committee has, among other functions, that of working with the external auditors to analyze any internal control weaknesses identified in the audit process. For such purpose, the auditor meets with the Audit and Control Committee at least once a year to present recommendations related to the internal control weaknesses identified during the half-yearly and annual review of the financial statements. Should internal control weaknesses exist, they are monitored periodically by the Audit and Control Committee, with the support of the Internal Audit Department. In 2017 the auditors disclosed no significant internal control weaknesses.

During 2017, the Company's external auditors (Deloitte) appeared before the Committee four times and, at least three of those times, presented their conclusions without the presence of the management team, at its meetings held on (i) February 24, 2017, (ii) July 11, 2017 and July 24, 2017, and (iii) December 13, 2017. The main purpose of such appearances was most notably the following:

- (i) At the meeting held on February 24, 2017, the auditors presented the Draft Audit Opinion on the individual and consolidated financial statements as of December 31, 2016, consisting of a favorable opinion, without qualifications. As part of the presentation, they detailed the audit work performed, as well as the work performed by Deloitte

beyond what is specifically audit work, handing over a letter of independence.

In this connection, the Committee approved the “2016 Report on the Independence of the Auditor of MERLIN and of its consolidated tax group”, for publication on occasion of the 2016 Shareholders’ Meeting.

- (ii) At the meeting held on July 11, 2017, the auditors explained the contents of the new audit report, the new features of the “CNMV Technical Guide 3/2017 on Audit Committees of public-interest entities” and the contents of IFRS 15, 16 and 9, applicable to the Company.
- (iii) At the meeting held on July 24, 2017 (which was adjourned and resumed on July 26, 2017, as a single meeting), the auditors explained the Draft Audit Opinion on the interim financial statements as of June 30, 2017, consisting of a favorable opinion, without qualifications, detailing the main relevant facts of the period, as well as the main audit risks.
- (iv) At the meeting held on December 13, 2017, the auditors explained the work performed in the preliminary review as of September 30, 2017, aimed at reviewing the accounting close, the significant audit issues detected during the course of the work and the Internal Control Recommendations detected during the year.

At the meeting held on November 13, 2017, the Committee approved the “Auditor Engagement Policy and Relations Framework”, which describes the procedure for engaging services additional to the annual audit of financial statements, the procedures for assessing independence and the methods used in the annual assessment of the auditor.

Looking toward next year, at the meeting held on December 13, 2017, the Committee stipulated the 2018 Work Plan with the external auditor, with the contents envisaged for each one and the reports required by the Committee.

On the other hand, as a part of its duties and among other aspects, the Committee must also ensure the independence and effectiveness of the Internal Audit Department, monitoring, inter alia, its annual work plan, approving its budget and monitoring its compensation, ensuring that the conclusions and recommendations of its reports are borne in mind by the members of the management team.

Thus, as part of the responsibilities attributed to the Committee in 2017, the Committee:

- (i) revised and approved an annual work plan for 2017;

- (ii) promoted the reinforcement of the Internal Audit Department by hiring a new head of department;
- (iii) performed a review of the reports issued by the Internal Audit Department, checking compliance with the recommendations included therein;
- (iv) promoted the reinforcement of the internal audit area by hiring a new head of that area to strengthen and complete the existing team;
- (v) its meetings were attended by the head of internal audit, who explained the progress and advances achieved in his/her area of responsibility, placing particular emphasis on the varying degrees of progress on the work, models and processes being implemented in this respect (mainly the ICFR, design of key procedures, as well as the progress on the crime prevention model and the risk management system);
- (vi) reviewed and approved the budget and the annual work plan for 2018.

**F.6 Other relevant information**

None
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**F.7 Report by external auditor**

Report on:

- F.7.1. Whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. If not, explain the reasons why.

The information supporting the ICFR system has been prepared for the most relevant processes and is available within the Company. This information is reviewed by the external auditor, with the scope that such auditor considers reasonable taking into consideration the impact on the financial statements. The Group has its activity in Spain, does not have a large number of investees and has a business, in sectoral terms, that is largely centered on the leasing of assets. The Group is therefore not highly complex. For these reasons, the issue of a separate report other than the audit report has not been considered necessary.

**G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

*For information purposes only*  
*Spanish version prevails*

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any of the recommendations or complies 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 behavior. General explanations are not acceptable.

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

Complies  Explain

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

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

Complies  Complies partially  Explain  Not applicable

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

- a) **Changes taking place since the previous annual shareholders' 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  Complies partially  Explain

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

**This policy should be disclosed on the company's website, including details of how it has been put into practice and stating the contact persons or persons responsible for its implementation.**



*For information purposes only*  
*Spanish version prevails*

Complies     Complies partially     Explain

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

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

Complies     Complies partially     Explain

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

- a) **Report on auditor independence.**
- b) **Reports on the functioning of the audit committee and the appointment and compensation committee.**
- c) **Audit committee report on related-party transactions.**
- d) **Report on corporate social responsibility policy.**

Complies     Complies partially     Explain

7. **The company should broadcast its shareholders' meetings live on the corporate website.**

Complies     Explain

The Company considers that with the information on the Shareholders' Meeting that the shareholders have and that is supplied to them for the meeting (on the occasion of both the call notice and the holding of meeting itself), the live broadcast of the meeting would not constitute a significant improvement for the shareholders. Nonetheless, the Company is analyzing technical means that would enable it to more effectively comply with this recommendation in the future.

8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the shareholders' 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     Complies partially     Explain

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

**Such conditions and procedures should facilitate shareholder attendance and the exercise of shareholder rights and be applied in a non-discriminatory manner.**

Complies     Complies partially     Explain

10. **When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the shareholders' meeting, the company should:**

- a) **Immediately circulate the supplementary items and new proposals.**
- b) **Publish the duly modified specimen attendance card or proxy appointment or remote voting form so that new agenda items and alternative proposals can be voted on in the same terms as proposals made by the board of directors.**
- c) **Put all these items or alternative proposals to a vote applying the same voting rules as for those submitted by the board of directors, with particular regard to assumptions concerning the direction of votes.**
- d) **After the shareholders' meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Complies     Complies partially     Explain     Not applicable

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

Complies     Complies partially     Explain     Not applicable

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

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

Complies     Explain

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

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

**The outcome of the preliminary analysis of the board's needs should be set out in the explanatory report of the appointment committee, to be published when the shareholders' meeting is called that is to ratify the appointment or re-appointment 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     Complies partially     Explain

- 15. Nominee and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies     Complies partially     Explain

- 16. The percentage of nominee directors out of all non-executive directors should be no greater than the proportion between the capital of the shareholder they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

- a) **At large cap companies where few shareholdings are legally considered significant shareholdings.**
- b) **At companies with a plurality of shareholders represented on the board but not interrelated.**

Complies

Explain

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

**However, when the company does not have a large market capitalization, or when a large cap company has a shareholder or several shareholders acting in concert that control(s) more than 30 percent of the share capital, independent directors should make up, at least, one-third of board members.**

Complies

Explain

**18. Companies should disclose the following director information on their websites and keep it regularly updated:**

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

Complies     Complies partially     Explain

**19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of nominee directors at the request of shareholders controlling less than 3% of capital; and explain any rejection of formal requests for board representation from shareholders whose shareholding is equal to or greater than that of other shareholders who have successfully requested the appointment of nominee directors.**

Complies     Complies partially     Explain     Not applicable

**20. Nominee directors should resign when the shareholders they represent dispose**

of their shareholding in its entirety. If such shareholders reduce their shareholdings to a level that requires a reduction in the number of their nominee directors, the number of nominee directors should be reduced accordingly.

Complies  Complies partially  Explain  Not applicable

21. The board of directors should not propose the removal of independent directors before the end of bylaw term for which they were appointed, except where it considers there is just cause, based on a report by the appointments committee. In particular, just cause will be deemed to exist when directors take on new offices or responsibilities that prevent them from dedicating the necessary time to the performance of their functions as director, breach the duties inherent in their office or become subject to any circumstances that strip them of their status as an independent director, in accordance with the provisions of the applicable legislation.

The removal of independent directors may also be proposed as a result of takeover bids, mergers or similar corporate transactions that entail a change to the company's capital structure, where such changes in board structure arise from the proportionality criterion set out in recommendation 16.

Complies  Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the company's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offenses stated in company legislation, the board of directors should investigate the matter as soon as possible and, in light of the specific circumstances, decide whether or not he or she should remain in office. The board should give a reasoned account of all such deliberations in the annual corporate governance report.

Complies  Complies partially  Explain

23. Directors should express their clear opposition when they consider a proposal submitted to the board could be contrary to the corporate interest. In particular, independent and other directors not affected by the potential conflict of interest should challenge any decision that could harm the interests of shareholders not represented on the board.

When the board makes significant or repeated decisions about which a director has expressed serious reservations, then such director must draw the

**pertinent conclusions and, should they choose to resign, explain their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the board secretary, even if they are not a director.**

Complies  Complies partially  Explain  Not applicable

- 24. Directors who stand down before the end of their term of office, through resignation or otherwise, should explain their reasons in a letter to be sent to all board members. Irrespective of whether or not such resignation is disclosed as a material event, the reasons should be explained in the annual corporate governance report.**

Complies  Complies partially  Explain  Not applicable

- 25. The appointments committee should ensure that non-executive directors have sufficient time available to correctly perform their functions.**

**The board regulations should establish the maximum number of company boards on which directors may serve.**

Complies  Complies partially  Explain

- 26. The board should meet with the frequency necessary to effectively perform its functions and at least eight times a year, in accordance with the schedule of dates and items established at the start of the year, and each director may propose the addition of items not initially included on the agenda.**

Complies  Complies partially  Explain

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should grant a proxy with instructions.**

Complies  Complies partially  Explain

Some of the proxies granted do not include specific instructions for casting votes but rather a general reference to the manner of representation. In 2018, the office of the secretary of the Board of Directors of the Company is going to work on standardizing the proxy letters that are sent out and ensuring that they include specific voting instructions.

- 28. When directors or the secretary express concerns about any proposal or, in the case of directors, about the running of the company, and such concerns are not resolved at the board meeting, they should be recorded in the minutes book if the person expressing them so requests.**

Complies  Complies partially  Explain  Not applicable

29. **The company should provide suitable channels for directors to obtain the advice they need to perform their functions, including, if necessary, external advice at the company's expense.**

Complies  Complies partially  Explain

30. **Regardless of the knowledge directors must possess to perform their functions, the companies should also offer them refresher programs when circumstances so advise.**

Complies  Complies partially  Explain

31. **The agenda of board meetings should clearly indicate the items on which the board must adopt a decision or resolution so that directors can study the matter or gather together the material they need beforehand.**

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

Complies  Complies partially  Explain

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

Complies  Complies partially  Explain

33. **The chairman, as the person responsible for the effective functioning of the board of directors, in addition to the functions attributed by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and items to be addressed; organize and coordinate the periodic evaluation of the board and, where appropriate, the company's chief executive officer; be responsible for the management of the board and for its effective functioning; ensure that sufficient time is given to the discussion of strategic matters, and approve and review refresher courses for each director, when circumstances so advise.**

Complies  Complies partially  Explain

34. **When a lead director has been appointed, the bylaws or board regulations should grant him or her the following powers, in addition to those conferred**

**by law: to chair the board of directors in the absence of the chairman or deputy chairmen, if any; to voice the concerns of non-executive directors; to maintain contacts with investors and shareholders in order to ascertain their views and form an opinion about their concerns, especially those relating to the corporate governance of the company; and to coordinate the chairman's succession plan.**

Complies  Complies partially  Explain  Not applicable

- 35. The board secretary should strive to ensure that the board's actions and decisions are informed by the applicable good governance recommendations contained in the Good Governance Code.**

Complies  Explain

- 36. The plenary session of the board should conduct an annual evaluation, adopting, where necessary, an action plan to correct any weakness detected with respect to:**

- a) The quality and effective functioning of the board.**
- b) The functioning and composition of its committees.**
- c) The diversity of the composition and competencies of the board.**
- d) The performance of the board chairman and the company's chief executive.**
- e) The performance and contribution of each director, paying particular attention to the chairs of the various board committees.**

**The evaluation of the various committees should be based on the reports sent by them to the board of directors, while the board evaluation should be based on the report sent to it by the appointments committee.**

**Every three years, the board of directors should engage an external consultant to assist with the evaluation process whose independence should be verified by the appointments committee.**

**Any business dealings that the consultant or any company in its group has with the company or any company in its 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  Complies partially  Explain



37. Where there is an executive committee, its composition in terms of the categories of directors should be similar to that of the board and the board secretary should also act as secretary to the executive committee.

Complies  Complies partially  Explain  Not applicable

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

Complies  Complies partially  Explain  Not applicable

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

Complies  Complies partially  Explain

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

Complies  Complies partially  Explain

41. The head of the unit handling the internal audit function should present an annual work program 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  Complies partially  Explain  Not applicable

42. The audit committee should have the following functions in addition to those provided for in the law:

1. With respect to internal control and reporting systems:

- a) To monitor the preparation and integrity of the financial information relating to the company and, where appropriate, the group, checking its compliance with legislative requirements, the appropriate definition of the consolidated group, and the correct application of accounting principles.
- b) To monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-appointment and removal of the head of the internal audit service; propose the

service's budget; approve its priorities and work programs, 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 takes into account the conclusions and recommendations of its reports.

- c) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any potentially significant irregularities, particularly financial or accounting irregularities, that they detect at the company.

2. With respect to the external auditor:

- a) In the event of the resignation of the external auditor, to investigate the circumstances giving rise to such resignation.
- b) To ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) To ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements with the outgoing auditor and the substance of same.
- d) To ensure that the external auditor has an annual meeting with the plenary session of the board to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) To 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       Complies partially       Explain

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

Complies       Complies partially       Explain

44. The audit committee should be informed of any structural or corporate modifications planned by the company, so the committee can analyze them and report to the board beforehand on their economic conditions and accounting impact and, in particular, where applicable, the proposed exchange ratio.

Complies       Complies partially       Explain       Not applicable

45. **The risk management and control policy should identify at least:**
- a) **The different types of financial and non-financial risk the company is exposed to (including operational, technological, 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 risk level the company considers acceptable.**
  - c) **The measures provided to mitigate the impact of identified risks, should they materialize.**
  - 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  Complies partially  Explain

46. **Under the direct supervision of the audit committee or, as the case may be, a dedicated board committee, companies should establish an internal risk management and control function, exercised by one of the company's internal departments or units that expressly has the following functions:**
- a) **To ensure that risk management and control systems are functioning correctly and, in particular, that all major risks the company is exposed to are adequately identified, managed and quantified.**
  - b) **To participate actively in the preparation of risk strategies and in key decisions about their management.**
  - c) **To ensure that risk management and control systems are mitigating risks effectively within the framework of the policy drawn up by the board of directors.**

Complies  Complies partially  Explain

47. **When appointing members of the appointments and compensation committee – or of the appointments committee and the compensation committee, if created separately –, companies should procure that they have the adequate knowledge, skills and experience for the functions they are called on to perform and that the majority of such members are independent directors.**

Complies  Complies partially  Explain

48. **Large cap companies should have separate appointments and compensation committees.**

*For information purposes only*  
*Spanish version prevails*

Complies  Explain  Not applicable

Although the Company is a large cap entity, it does not require, for the purposes of its ordinary activities, that the Appointments and Compensation Committee be split up into two different committees, since to date this single committee has performed efficiently all the functions corresponding to it by law and pursuant to the Company's own internal regulations.

- 49. The appointments committee should consult the board 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  Complies partially  Explain

- 50. The compensation committee should operate independently and have the following functions in addition to those conferred by law:**

- a) **To propose to the board the standard terms of senior executive contracts.**
- b) **To monitor compliance with the compensation policy set by the company.**
- c) **To periodically review the compensation policy for directors and senior executives, including share-based compensation systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives of the company.**
- d) **To ensure that conflicts of interest do not jeopardize the independence of any external advice provided to the committee.**
- e) **To verify the information on director and senior executives' compensation contained in the various corporate documents, including the annual report on directors' compensation.**

Complies  Complies partially  Explain

- 51. The compensation committee should consult the company's chairman and chief executive, especially on matters relating to executive directors and senior executives.**

Complies  Complies partially  Explain

- 52. The rules on composition and functioning of the supervision and control committees should be set out in the board regulations and be consistent with those applicable to the board committees required by law, in line with the**

preceding recommendations, including:

- a) **The committees should be made up exclusively of non-executive directors, with a majority of independent directors.**
- 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 the directors and each committee's mandate; discuss their proposals and reports; and the committees should report on their activities and the work performed at the first plenary session of the board following each committee meeting.**
- d) **The committees may seek external advice, when they feel it necessary for the performance of their functions.**
- e) **Minutes should be taken of the committee meetings and a copy made available to all board members.**

Complies  Complies partially  Explain  Not applicable

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be assigned to one board committee or split between several board committees, which may be the audit committee, the appointments committee, the corporate social responsibility committee, where there is one, or a dedicated committee established by the board under its powers of self-organization, with at the least the following functions:**

- a) **To monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) **To oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) **To periodically evaluate the effectiveness of the company's corporate governance system in order to ensure it fulfills its mission to promote the corporate interest and takes into account, as appropriate, the legitimate interests of the other stakeholders.**
- d) **To review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**
- e) **To monitor the corporate social responsibility strategy and practices and assess the degree of compliance.**
- f) **To monitor and evaluate the company's interaction with its stakeholder**

groups.

- g) **To evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) **To coordinate non-financial and diversity reporting processes in accordance with the applicable legislation and international benchmarks.**

Complies  Complies partially  Explain

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

- a) **The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) **The corporate strategy with regard to sustainability, the environment and social issues.**
- c) **Specific practices in matters relating to: shareholders, employees, clients, suppliers, social 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 application of the specific practices referred to in the preceding letter, the associated risks and their management.**
- e) **The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) **The channels for stakeholder communication, participation and dialog.**
- g) **The responsible communication practices that prevent the manipulation of information and protect the company's honor and integrity.**

Complies  Complies partially  Explain

**55. The company should report on corporate social responsibility matters in its directors' report or in a separate document, using one of the internationally accepted methodologies.**

Complies  Complies partially  Explain

**56. Director compensation should be sufficient to attract and retain individuals**

with the desired profile and compensate the time commitment, competencies and responsibility that the office demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies  Explain

57. Variable compensation linked to company performance and the director's performance, as well as the award of shares, options or rights over shares or instruments linked to the share value and long-term savings schemes, such as pension plans, retirement systems or other employee welfare systems, should be confined to executive directors.

The company may consider the award of shares as compensation for non-executive directors provided they retain such shares until the end of their term of office. This condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies  Complies partially  Explain

58. In the case of variable awards, compensation policies should include limits and specific 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 of activity or other similar circumstances.

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

- a) Be linked to predetermined and measurable performance criteria that take into consideration the risk assumed to obtain a given outcome.
- b) Promote the sustainability of the company and include non-financial criteria that are appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk management and control policies.
- c) Be focused on achieving a balance between the fulfilment of short-, medium- and long-term objectives, such that performance-related compensation rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to sustainable value creation, in order to ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies  Complies partially  Explain  Not applicable

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

Complies  Complies partially  Explain  Not applicable

Variable compensation components are not deferred for a minimum period to ensure that predetermined performance criteria have been met, although, as a way of retaining the executive, for these variable components to be granted, such performance requirements must be met on an *ex ante* basis, in addition to which entitlement to them is linked to time served.

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

Complies  Complies partially  Explain  Not applicable

- 61. A significant percentage of the variable compensation of executive directors should be linked to the award of shares or financial instruments linked to the share value.**

Complies  Complies partially  Explain  Not applicable

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

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

Complies  Complies partially  Explain  Not applicable

As described in Merlin's Compensation Policy, approved by the Shareholders' Meeting on April 26, 2017, the executive directors maintain ownership of a number of Company shares the market value of which is equal to three years of their annual fixed compensation.

The long-term incentive plan of which the executive directors are beneficiaries, payable in cash and in shares of the Company ("Executives' LTIP"), is linked to the creation of value for the shareholder over a total period of five (5) years, linked to the achievement of value creation targets and the uninterrupted continuation of their independent contractor relationship with the Company during such period.

In addition, the shares under the compensation plans derived from Past Incentives (Management Stock Plan ("MSP")) are awarded over a period of three years from the calculation date of the MSP. Any shares under the MSP that are delivered to the executive directors will be unavailable until 2023.



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

Complies  Complies partially  Explain  Not applicable

Both the Annual Restricted Bonus and the MSP applicable throughout the year 2017 have a five years deferral system that allows to confirm with sufficient anticipation the accuracy of the data that, as the case may be, will generate the right to receive such compensations.

- 64. Payments for contractual termination should not exceed a fixed amount equal to two years of the director's total annual compensation and should not be paid until the company confirms that the director has met the predetermined performance criteria.**

Complies  Complies partially  Explain  Not applicable

The contracts with the executive directors do not contain any clause that does not permit the company to pay compensation until it has been able to verify that the director has met pre-determined performance criteria. However, they contain a clawback clause that permits the company to demand reimbursement of compensation in certain scenarios.

## **H** OTHER INFORMATION OF INTEREST

1. If there are any material aspects relating to corporate governance at the company or at group entities that have not been addressed elsewhere in this report and which are necessary to provide a more comprehensive and reasoned view of the corporate governance structure and practices at the company or group, provide a brief explanation.
2. You may include in this section any other information, clarification or qualification related to the previous sections of this report to the extent they are significant and not repetitive.

Specifically, indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include any information it is obliged to provide if different to that required in this report.

3. Also state whether the company voluntarily adheres to other codes of ethics or standard practices, at international, sectorial or any other level. If so, give details of the code and the date of adhesion. In particular, state whether the company has adhered to the Code of Good Tax Practices of July 20, 2010.

## B. SHAREHOLDERS' MEETING

***For information purposes only***  
***Spanish version prevails***

B.5 Indicate whether there is any bylaw restriction that imposes a minimum requirement on the number of shares necessary to attend the shareholders' meeting:

Number of shares required to attend the shareholders' meeting is the lower of 500 shares and the number of shares that represents one-thousandth (1/1,000) of the share capital.

**C. MANAGEMENT STRUCTURE OF THE COMPANY**

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

C.1.15 List the overall compensation of the board of directors:

Board compensation (thousands of euros): 6,078 (\*)

(\*) Additionally the directors will have the right to receive, within the following five years, up to a maximum of 750,000 shares (equivalent to 8,006 thousand euros).

C.1.16 Indicate the members of senior management who are not, in turn, executive directors, and indicate the total compensation paid to them during the year:

Total compensation received by senior management (thousands of euros): 5,412 (\*)

(\*) Additionally the directors will have the right to receive, within the following five years, up to a maximum of 623,334 shares (equivalent to 6,654 thousand euros).

C.1.30 For the calculation of the total number of board meetings held during the year with all members in attendance, the meeting held in writing and without meeting ("*por escrito y sin sesión*"), have not been taken into account.

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

Yes

No

Name or corporate name of director that did not vote in favor of approving this report	Reasons (voted against, abstention, did not attend)	Explain the reasons