For information purposes only
Spanish version prevails

Annual Directors' Remuneration Report

MERLIN PROPERTIES

Board of Directors

February 27, 2018

For information purposes only
Spanish version prevails

ANNUAL DIRECTORS' REMUNERATION REPORT
OF MERLIN PROPERTIES, S.A.

A. COMPANY REMUNERATION POLICY FOR THE CURRENT YEAR

A.1 Explain the Company's remuneration policy. This section will include information on:

- **General foundations and principles of the remuneration policy.**
- **Most significant changes to the remuneration policy with respect to the policy applied last year, as well as any changes made during the year to the terms for exercise of options already granted.**
- **Criteria used and composition of comparable corporate groups which remuneration has been examined to establish the company's remuneration policy.**
- **Relative importance of variable remuneration items with respect to fixed components and criteria followed to determine the different components of the directors' remuneration package (remuneration mix).**

Explain the remuneration policy
A.1.1 General foundations and principles of the remuneration policy The quality and commitment of the members of the Board of Directors and senior executives of Merlin Properties SOCIMI, S.A. ("**Merlin**" or the "**Company**") is essential for the successful fulfillment of Merlin's strategies. For such purpose, the Appointments and Remuneration Committee ("**ARC**") prepares and proposes to the Board of Directors the remuneration policies and practices that adequately reward the best professionals, seeking to (i) align the fulfillment of strategic objectives with long-term shareholder value creation, and (ii) offer a fair and competitive system to attract, retain and ensure the commitment of the best professionals, while incorporating the necessary safeguards to avoid excessive risk taking and rewarding poor results. With that in mind, the 2017-2019 remuneration policy for the directors of Merlin approved by the Shareholders' Meeting held on April 26, 2017 (the "**Remuneration Policy**") has the following principles and criteria: • Transparency of information on the remuneration of the members of the Board of Directors. • Consistency with the business strategy, objectives, values and long-term interests of Merlin. • Focus on boosting the profitability and sustainability of the Company over the long term. • Acknowledgment of remuneration for the non-executive directors (independent, nominee or other non-executive directors). • Remuneration for executive directors solely for the performance of executive

functions, and not for the tasks inherent in the office of director.

- Receipt of variable remuneration solely by executive directors, subject to the achievement of objectives that are linked to the interests of the shareholders, with certain specific conditions for its receipt, aligned with prudent risk management and a medium- and long-term outlook, which drives the directors' performance in strategic terms, in addition to the achievement of short-term results.
- Inclusion of elements capable of attracting and retaining the best professionals.

A.1.2 Most significant changes to the remuneration policy with respect to the policy applied last year, as well as any changes made during the year to the terms for exercise of options already granted

With respect to 2018, no amendments are envisaged to the Remuneration Policy applied in 2017.

A.1.3 Criteria used to establish the company's remuneration policy

The Board of Directors, at the proposal of the ARC, bases its decisions regarding the establishment of the remuneration policy on:

(i) The bylaws;

(ii) the Board Regulations;

(iii) the principles established in the Company's corporate governance policy;

(iv) the general principles and criteria set out in Section A.1.1; and

(v) the applicable legislation.

In addition to the above, when determining the policy, the Board of Directors also considers the objectives of Strategic Plan which enable, among others, to establish the metrics to which the variable remuneration is linked; as well as market data and guidelines from investors and proxy advisors.

In 2018, the criteria contained in the Remuneration Policy have been maintained, meaning that it differentiates between non-executive directors (independent, nominee or other non-executive directors) and directors who perform executive functions at the Company. These criteria are set out below:

(i) The remuneration for non-executive directors must (i) be transparent as it pertains to the information on directors's remuneration.; and (ii) provide an incentive to reward their dedication, qualifications and responsibilities, without compromising the independence of independent directors;

(ii) the remuneration of directors who perform executive functions is allocated according to the terms of their contracts. In this connection, the Remuneration Policy takes into account market trends and seeks to attract, retain and ensure the commitment of the best professionals. Executive directors do not receive any remuneration for the office of director; they are remunerated for their executive functions and, unlike non-executive directors, they do have a variable remuneration system. This system (i) constitutes a balanced relationship with value creation for shareholders; (ii) seeks to align the interests of the executive directors with the interests of the Company's shareholders through the establishment of specific objectives; and (iii) is designed to provide a medium- and long-term outlook in order to drive directors' performance in strategic terms, as well as the achievement of short-term results.

A.1.4 Relative importance of variable remuneration items with respect to fixed components and criteria followed to determine the different components of the directors' remuneration package (remuneration mix).

a) Non-executive directors: do not have a variable remuneration system.

b) Executive directors. The remuneration structure for executive directors is made up of the following elements:

- Annual fixed remuneration ("**Fixed Remuneration**").
- Life and health insurance benefits.
- Consideration for non-compete undertakings.
- A short-term cash incentive system (the "**STIP for Executive Directors**").
- A long-term incentive system, payable in cash and in Company shares (the "**LTIP for Executive Directors**").
- Severance for removal.

The variable remuneration has two elements:

(i) Annual variable remuneration (STIP for Executive Directors): This is indexed to the annual degree of achievement of targets. If the set targets are not reached, executive directors would not receive any amount under the STIP, with their remuneration being limited to the Fixed Remuneration (including remuneration in kind and any employee benefits they may be entitled to) and the remaining variable components of their remuneration that may have been accrued (i.e. LTIP). If the executive directors meet their targets, they may receive a target amount of the STIP for Executive Directors amounting to 150% of the Fixed Remuneration; they may also receive a higher amount for outstanding achievement of targets, albeit capped.at 275% of the Fixed Remuneration.

(ii) Multiyear variable remuneration (LTIP for Executive Directors): This is linked to shareholder value creation, meaning that if a set threshold is not reached, the executive directors will not receive any amount whatsoever, with their remuneration being limited to the Fixed Remuneration (including remuneration in kind and any employee benefits they may be entitled to) and the remaining variable components of their remuneration that may have been accrued (i.e. STIP for Executive Directors), as explained in section A.4 of this Report.

Achievement of the targets of the LTIP for Executive Directors will depend on shareholder value creation during the measurement period exceeding 24%, on the terms described in Section A.4 of this Report. If the executive directors meet their targets, they may receive an Incentive under the LTIP for Executive Directors of a maximum amount of 625% of the Fixed Remuneration, for each year of the term of the Plan.

(iii) In a scenario of standard achievement of targets (target), and an average degree of shareholder value creation, as regards the remuneration mix, approximately 13% of the total remuneration of executive directors is fixed in nature, with the remaining percentage

	deriving 20% from the STIP for Executive Directors and 67% from the LTIP for Executive Directors. In a scenario of maximum achievement of targets (maximum), as regards the remuneration mix, approximately 10% of the total remuneration of executive directors would be fixed in nature, and the remaining 90% would derive from the variable components (28% under the STIP for Executive Directors and 62% under the LTIP for Executive Directors).

A.2 Information on the preparatory work and decision-making process followed to determine the remuneration policy and role performed, as the case may be, by the remuneration committee and other control bodies in the configuration of the remuneration policy. This information will include, as the case may be, the mandate given to the remuneration committee, its composition and the identity of any external advisers whose services were used to define the remuneration policy. It will also indicate the category of any directors who participated in defining the remuneration policy

Explain the process for determination of the remuneration policy

At the date of this Report, the members of the ARC are the same as in 2017, namely, Mr. Donald Johnston (Chairman), Mr. Fernando Ortiz Vaamonde, Ms. Pilar Cavero Mestre and Mr. Javier García-Carranza Benjumea, all of whom are independent non-executive directors, save for Mr. Javier García-Carranza Benjumea, who is a nominee non-executive director.

Mr. Donald Johnston has held the office of director since June 11, 2014 and has been lead director since February 26, 2015.

In accordance with article 45 of the Bylaws of Merlin and article 41 of the Board Regulations, the powers of the ARC relating to the remuneration policy of the members of the Board of Directors of the Company are as follows:

a) to propose to the Board of Directors the remuneration policy for directors and general managers or those who perform senior management functions and report directly to the Board, the executive committees or the chief executive officers, as well as the individual remuneration of the executive directors and the other terms of their contracts, ensuring the observance thereof;

b) to analyze, prepare and review the remuneration programs on a regular basis, considering their suitability and returns, and proposing their modification or update;

c) to monitor observance of the remuneration policy established by the Company; and

d) to assist the Board of Directors in preparing the report on the directors' remuneration policy and submit to the Board of Directors any other reports on remuneration provided for in the Bylaws.

The Board of Directors of the Company, in accordance with article 34 of the Bylaws and article 4 of the Board Regulations, has the power to approve the remuneration policy for directors (for its approval by the Shareholders' Meeting) and senior executives, at the proposal of the ARC. The executive directors have absented themselves from Board meetings at which matters relating to their remuneration have been discussed.

By way of introduction, during 2017, the ARC held a total of 10 meetings, with average attendance of 97.5% of its members. In 2017, the ARC focused a major part of its activities on (i) preparing the Remuneration Policy, (ii) the new long-term incentive plan (2017-2019) for the management team, including the executive directors (the "**Incentive Plan**" or "**LTIP**"), and (iii) the implementation of such plan.

a) Remuneration Policy and new Incentive Plan

The Remuneration Policy and new Incentive Plan, both approved by the Shareholders' Meeting held on April 26, 2017, were the result of an in-depth study of best practices concerning the remuneration of senior executives, which included an analysis of the best remuneration practices and a review of remuneration peers, prepared in each case by consultancy firm Willis Towers Watson, both in relation to the IBEX-35 index, of which Merlin is a member, and to 9 European REITS which, due to their size, liquidity and activity are considered a pertinent peer group (Foncière des Régions, Gecina, Hammerson, Inmobiliaria Colonial, Intu Properties, Klépierre, Land Securities, British Land and Unibail Rodamco).

In order to prepare the Remuneration Policy, the ARC collected the feedback from both significant shareholders of the Company and from international investors and advisors conveyed to the management team of Merlin during the meetings held in 2017 as part of the notification process of the most relevant matters relating to the preparation of the 2017 Shareholders' Meeting.

The Remuneration Policy was updated to bring it into line with best practices and international recommendations in the area of corporate governance, including various changes to the policy applicable up to 2017. Some of the most notable changes included (without limitation): (i) better alignment of the remuneration of the management team with shareholder value creation, (ii) the increase of the measurement period for achievement of the targets of the LTIP for Executive Directors to more than three years, (iii) the establishment of clawback clauses applicable to the STIP for Executive Directors and the LTIP for Executive Directors, (iv) the introduction of caps on the variable remuneration components, including in change of control cases, (v) the limitation of rights to potential severance payable in cases of the removal of executive directors to an amount not exceeding the result of multiplying by two the Fixed Remuneration and the STIP for Executive Directors granted to the executive director in the last two years, and (vi) the application of a policy for maintenance of a minimum holding in the capital of Merlin by executive directors, which may not be less than three years' Fixed Remuneration ("Shareholder guideline").

b) Documents implementing the new Incentive Plan

In implementing the Remuneration Policy and the new Incentive Plan, the ARC has paid particular attention during the second half of 2017 to further developing the terms contained therein.

To do so, the ARC has engaged several top-level firms providing professional services in this area, and there has also been a high degree of dedication and personal involvement by the Committee members in this project, with a view to obtaining an applicable regulatory framework that is one of the most precise and most advanced in the market.

As a result of this process, the Board of Directors approved the current implementing regulations of the Incentive Plan.

Notwithstanding the above, both the ARC and the Board of Directors of Merlin keep abreast of the latest corporate governance developments with a view to ensuring that the Remuneration Policy is aligned with recommendations and best practices.

Additionally, in the context of the powers attributed to the ARC regarding remuneration of the members of the managing body and of the management team, during 2017 the ARC has carried out an in-depth analysis and has reported on the following:

a) The proposal to the Board of Directors on:

a. The amount of the annual remuneration and STIP for executive directors and of the remuneration of the management team (fixed and variable remuneration);

b. the settlement of the 2016 Management Stock Plan and allocation of shares;

b) the incorporation of new members into the Management Stock Plan; and

c) the new proposal regarding directors' remuneration for the office of director.

In 2018, in relation to the above matters, the ARC has analyzed and reported on, among other aspects, (i) the achievement of objectives and the amounts of the annual remuneration and STIP for Executive Directors, and on the remuneration of the management team (fixed and variable); (ii) the incorporation of new members as beneficiaries of the Incentive Plan; and (iii) the content of the Annual Directors' Remuneration Report.

A.3 Indicate the amount and nature of the fixed components, with a breakdown, as applicable, of the remuneration for performance of senior management functions by executive directors, of additional remuneration for chairmanship or membership of any Board committees, of any fees for attending Board and committee meetings or other fixed remuneration as director, as well as an estimate of the annual fixed remuneration to which they give rise. List any other benefits not paid in cash and the fundamental parameters pursuant to which they are granted

Explain the fixed components of the remuneration

A.3.1 Fixed remuneration of non-executive directors (independent, nominee or other non-executive directors)

The remuneration structure for non-executive directors (independent, nominee or other non-executive directors) is that detailed in the Remuneration Policy and set out in article 38 of the Bylaws of Merlin.

The Shareholders' Meeting held on April 26, 2017, resolved to establish the maximum annual amount that Merlin may pay to the entire group of non-executive directors (independent, nominee or other non-executive directors), for the office of director, in the gross amount of one million, six hundred and sixty thousand euros (€1,660,000) per year, which amount will remain in force until the Shareholders' Meeting resolves to change it.

For 2018, the remuneration of non-executive directors is maintained at the amounts approved by the Shareholders' Meeting held on April 26, 2017. Thus, the amounts to be received by this category of directors are as follows:

(i) Gross fixed annual allowance for the office of director: €100,000 per year.

If a director is appointed, removed or tenders his or her resignation during the year, the amount will be prorated according to the time that the director sat on the Board of Directors.

(ii) Gross fixed annual allowance for membership of Board committees:

a) €15,000 per year to each director sitting on the Audit and Control Committee.

b) €10,000 per year to each director sitting on the ARC.

c) €5,000 per year to the chairpersons of each committee.

If a director is appointed or removed as a committee member during the year, the amount will be prorated according to the time that he or she sat on the committee in question.

Executive directors will not receive this remuneration under any circumstances.

A.3.2 Fixed remuneration of executive directors

In accordance with the Remuneration Policy, the gross annual fixed remuneration for each of the executive directors is one million euros (€1,000,000). This is the fixed remuneration they received in 2017 and is the amount they will receive in 2018 (0% increase). This remuneration is deemed to refer to a complete year. Accordingly, if the executive director vacates his or her office on a date other than the start or the end of the year, he or she will receive the amounts actually accrued, in proportion to the time worked in that year.

A.4 Explain the amount, nature and principal characteristics of the variable components of the remuneration systems. In particular:

- **List each of the remuneration plans of which the directors are beneficiaries, their scope, date of approval, date of implementation, period of validity and main characteristics. In the case of share option plans and other financial instruments, the general characteristics of the plan will include information on the conditions for exercise of such options or financial instruments for each plan.**

- **Indicate any remuneration in the form of profit-sharing or bonuses, and the reason for its award.**

- **Explain the fundamental parameters and the basis for any system of annual bonuses.**

- **Indicate the types of director (executive directors, nominee non-executive directors, independent non-executive directors or other non-executive directors) who are beneficiaries of remuneration systems or plans that include variable remuneration.**

- **Explain the basis of these variable remuneration systems or plans, the chosen performance evaluation criteria, as well as the components and assessment methods for determining whether or not such evaluation criteria have been met and an estimate of the absolute amount of variable remuneration arising from the remuneration plan in force, depending on the degree of achievement of the assumptions or targets taken as a reference.**

- **As applicable, information will be given on any payment deferral periods established and/or any periods of retention of shares or other financial instruments.**

Explain the variable components of the remuneration systems
Variable remuneration is only applicable to the executive directors and is made up of the following two elements: **1. Short-term cash incentive plan (STIP for Executive Directors)** The STIP for Executive Directors forms part and is paid out of the overall amount allocated annually by the Company to the payment of the variable remuneration of all of its personnel. The formula for calculating the system of monetary incentives detailed below is the same as that applied in 2017. In this formula, as part of the commitment by the members of Merlin's management team to achieving the strategic objectives of the Company and its sustainability in the medium and long term, the parameters determining entitlement to the STIP were modified in 2017, by reducing the Total Overheads percentages, as envisaged in the Remuneration Policy. The reduction of the Total Overheads percentages means that for each year of application of the Remuneration Policy (between 2018 and 2020), it is harder for the executive directors to access the STIP for Executive Directors, since the amount of the remuneration to be distributed is limited, forcing them to manage the Company's resources more efficiently. The maximum amount that the Company may allocate annually for the variable remuneration of the entire workforce of the Company and its subsidiaries (the "**Short-Term Incentive Plan**" or "**Bonus Pool**") is the positive difference between Total Overheads and Operating Expenses. In this respect: (i) Total Overheads: means the maximum annual amount of the total general expenses of the Company and its subsidiaries, taking as a reference the higher of the following two amounts: (i) 5.75% of the gross income recorded in the 2018 consolidated financial statements of the Company (this percentage was 6% in 2017 and is reduced to 5.75% in 2018, as indicated in the Remuneration Policy); and (ii) 0.575% of the net asset value of the Company contained in the consolidated financial statements, calculated in accordance with the standards of the European Public Real Estate Association ("**EPRA NAV**") at December 31, 2018 (this percentage was 0.6% in 2017 and is reduced to 0.575% in 2018, as indicated in the Remuneration Policy). These percentages will remain in force in 2019 and will be reduced to 5.5% and 0.55%, respectively, from 2020 onwards. (ii) Operating Expenses: means the amount of the annual operating expenses of the Company and of its subsidiaries (including, in all cases, the fixed remuneration of executive and non-executive personnel, the fixed remuneration of executive directors, directors' remuneration for the office of director or for membership of committees, audit expenses; expenses for tax, legal and labor advice; expenses for the appraisal and valuation of the real estate portfolio; leases; administrative fees; management and organizational expenses; costs and expenses associated with uncompleted transactions for the acquisition

and/or sale of assets; and all other general expenses).

Following the close of the fiscal year, the executive directors provide the ARC with a proposed distribution of the STIP, on a global basis, in which they identify, on an individual basis, the amounts they propose to allocate to management personnel and the executive directors and, on an aggregate basis, the amount they propose to allocate to the rest of the non-executive personnel, indicating the total number of recipients in this category and the average fixed remuneration of such group of recipients. Based on this proposal, the ARC will present its conclusions to the Board of Directors, which will have the authority to approve both the amount, its beneficiaries and its distribution. If the ARC and/or the Board of Directors decide not to allocate the entire amount of the Bonus Pool, it must explain the reasons for such decision.

Once the STIP for executive and non-executive personnel has been defined, the Board of Directors will decide on the STIP for Executive Directors, following a report by the ARC, for which it will take into consideration, among other aspects, the degree of achievement of the initially established objectives, as detailed below in this section. In determining these objectives, and in line with market trends, financial indicators (such as those relating to the dividend forecast) and nonfinancial indicators (such as compliance with the strategic plan) are combined with quantitative aspects (minimum degree of achievement of a specific objective) and qualitative aspects (such as management of human resources or promotion of corporate social responsibility), with respect to which it is not possible to use a specific performance scale.

Before deciding on the STIP for Executive Directors, the ARC takes other matters into account, such as the performance of Merlin's peers, market practices and industry developments.

Prior to the Board meeting at which the Company's financial statements are prepared, the ARC, in the exercise of its functions, analyzes the proposed amount and distribution of the STIP for Executive Directors.

In analyzing the suitability of the proposed amount and distribution of the STIP for Executive Directors, the ARC assesses the proposed amount and distribution of the STIP for Executive Directors together with that of the STIP for executive personnel and the amounts of the other variables taken as a basis for such calculations (Total Overheads, Operating Expenses and STIP for non-executive personnel).

In 2018, in order to analyze the suitability of the proposed amount and distribution of the STIP for Executive Directors, the ARC will assess the degree of achievement of the following targets:

(i) Financial targets:

a. The forecast distribution of dividends announced to the market by the executive team during the first quarter of 2018.

b. The forecast *Funds from Operations* ("**FFO**") announced to the market by the executive team during the first quarter of 2018.

Additionally, while it does not form part of the targets established in the Remuneration Policy, the ARC assesses the degree of fulfillment of the following financial aspects:

a. the degree of fulfillment of the budget of the year being assessed and the degree of leverage of the Company; and

b. the cost efficiency of the Company compared to the European REITs which, due to their size, liquidity and activity, are deemed to be the pertinent peer group.

(ii) Qualitative targets:

a. The Company's strategic objectives;

b. HR management;

c. risk management;

d. quality of management; and

e. fostering of corporate social responsibility.

Again, while it does not form part of the targets established in the Remuneration Policy, the ARC assesses the degree of fulfillment of the Company's environmental policies.

Linking the STIP for Executive Directors to the strategic objectives is an essential requirement to incentivize the achievement of the Company's objectives in the medium term, which pave the way for future value creation. The ARC follows a rigorous process in analyzing and determining which objectives should be linked to variable remuneration that includes a review of the degree of alignment of these objectives with those established in the business strategy approved by the Shareholders' Meeting, as well as the performance of regular reviews of different quantitative and qualitative data, and a full review at year-end, in order to ensure a solid performance assessment in relation to each of the objectives.

In accordance with the Remuneration Policy, if the executive directors meet the indicated targets, they may receive 150% of the fixed remuneration (Target Bonus), and for exceptional performance or if so decided by the Board of Directors, subject to a report by the ARC and having regard to the achievement, commitment and performance of the executive director during the measurement year, they may receive a higher amount, up to a maximum of 275% of the fixed remuneration for the year being measured.

Additionally, with a view to establishing the individual STIP of each executive director, the ARC will assess the contribution made by each director to the abovementioned targets.

Once the Board of Directors, at the proposal of the ARC, has approved the proposed STIP for Executive Directors, the entitlement to this remuneration item and its payment shall be governed by the following rules:

(i) Each executive director will be entitled to receive 50% of the STIP corresponding to him or her (the "**Upfront STIP**") on the date that the STIP (and its distribution) is approved by the Board of Directors (the "**STIP Approval Date**").

(ii) As regards the remaining 50% of the STIP corresponding to him or her (the "**Deferred STIP**"): entitlement to 25% will arise on the STIP Approval Date; entitlement to 12.5% will arise on the first anniversary of the STIP Approval Date; and entitlement to the remaining 12.5% will arise on the second anniversary of the STIP Approval Date.

The 2018 STIP to which executive directors are entitled will be paid on the following dates:

(i) With respect to the Upfront STIP, jointly with the amount of the Fixed Remuneration paid in the calendar month following that of the STIP Approval

Date (2019).

(ii) With respect to the Deferred STIP, on the business day following the date of the second anniversary of the STIP Approval Date (2021).

The Policy provides that, in certain cases of termination of the relationship between the executive director and the Company, the maturity and payment of the STIP for Executive Directors in force at that date will be brought forward, while in other cases the entitlement to vested amounts not received will be forfeited.

2. Long-term incentive plan, payable in cash and in Company shares (LTIP for Executive Directors)

The long-term incentive system (for 2017-2019) detailed below is (i) that contained in the Remuneration Policy, and (ii) that approved as the Incentive Plan by the Shareholders' Meeting held on April 26, 2017, the implementation of which was approved by the Board of Directors at the meeting held on February 27, 2018.

The LTIP is a long-term incentive that enables the executive directors, members of the executive and management team and personnel of Merlin that the Board of Directors formally decides to include in the system, on a reasoned basis, subject to a report by the ARC and after obtaining the opinion of the executive directors, at any time prior to the maturity of the LTIP (the "**Beneficiaries**"), to receive an amount in cash and a number of Merlin shares once a term of 5 years has elapsed, comprising one period for measurement of shareholder value creation and another for payment and delivery, as applicable, of the Incentive, as described below:

- "**Measurement Period**": Period elapsed between January 1, 2017 and December 31, 2019 (inclusive), in which measurements will be taken to see whether or not the conditions are met to trigger entitlement to the Incentive.
- "**Payment and Delivery Period**": Period elapsed between December 31, 2019 and March 22, 2022, during which the applicable amounts in cash will be paid and the applicable shares delivered, provided that the necessary conditions and requirements have been met for payment of the Incentive, as described below.

At its meeting on February 27, 2018, the Board of Directors set the initial number of LTIP Beneficiaries at 41.

The creation of value for shareholders will be measured using two parameters:

(i) The increase in the market price of the Company's shares ("**Incentive Referenced to the Market Price per Share**" or "**IRMP**"), plus any dividends distributed and other distributions, including as a distribution the value of any preemptive subscription rights arising in the context of an executed and completed capital increase with rights, ("**Distributions**") made during the Measurement Period, with a weighting of 1/3; and

(ii) the increase in the EPRA NAV of the Company plus the Distributions during the Measurement Period (the "**Incentive Referenced to EPRA NAV per Share**" or "**IR EPRA NAV**") with a weighting of 2/3.

referred to jointly as the "**Incentive**."

The determination of the Incentive will be conditional, in addition to the uninterrupted maintenance by the executive directors of their commercial relationship with Merlin, on the achievement of the following profitability targets linked to the two parameters, considered individually, mentioned above:

(i) <u>**Incentive Referenced to the Market Price per Share**</u>**:** The entitlement of the executive directors to the IRMP will be conditional upon the rate of shareholder return based on market price reaching a minimum of 24% during the Measurement Period.

1. The shareholder return per share based on market price ("**Market Price TSR**") is calculated as the positive difference between (i) the average closing price of the Merlin shares in the 90 trading sessions prior to December 31, 2019 (the "**Final Reference Market Price**") and (ii) €9.83 per share, plus the amount of Distributions during the Measurement Period, divided by the number of shares at December 31, 2019. The rate of shareholder return per share based on market price is calculated by dividing this result by 9.83 (the "**Market Price TSR Rate**").

Once the conditions that trigger entitlement to the IRMP have been met, the amount of this portion of the Incentive will be calculated, first of all, by allocating the following percentages to the Beneficiaries:

- If the Market Price TSR Rate is less than 24%, no percentage will be allocated to the Beneficiaries.
- If the Market Price TSR Rate is equal to or greater than 24% and lower than 36%, 6% will be allocated to the Beneficiaries.
- If the Market Price TSR Rate is equal to or greater than 36%, 9% will be allocated to the Beneficiaries.

In order to obtain the IRMP, the above percentage will be applied to the result of multiplying the Market Price TSR by the number of Company shares at December 31, 2019, adjusting such result by using a modifier to compensate for the fact that the percentage allocated to the Beneficiaries for the first 24% of the Market Price TSR Rate is 0% (the "**Catch-up**" or "**Modifier**").

Of the resulting amount, a maximum total of €6,250 thousand for the entire Measurement Period corresponds to each one of the executive directors.

Where the IRMP corresponding to each executive director exceeds €6,250 thousand, the amount by which it exceeds this threshold (the "**Excess**" "**Surplus**") will be allocated to the executive directors as a supplement or to replace the amount of the Incentive Referenced to EPRA NAV, depending on whether or not the latter has been generated, respectively, subject at all times to the maximum amount to be received by reason of the Incentive Referenced to EPRA NAV per Share (replaced or supplemented) being, for each executive director, a maximum amount equal to €12,500 thousand overall for the settlement and payment dates

(ii) **<u>Incentive Referenced to EPRA NAV per Share</u>**: The entitlement of the executive directors to the IR EPRA NAV will be conditional upon the rate of shareholder return based on EPRA NAV reaching a minimum of 24% during the Measurement Period.

The shareholder return per share based on EPRA NAV (the "**EPRA NAV TSR**") is calculated as the difference between (i) the EPRA NAV at December 31, 2019 plus any Distributions made during the Measurement Period and the aforementioned sum divided by the number of shares making up the share capital at December 31, 2019 and (ii) €11.23. The rate of shareholder return based on EPRA NAV is calculated by dividing this difference by 11.23 (the "**EPRA NAV TSR Rate**").

Additionally, this part of the LTIP will have the additional condition that EPRA NAV plus any Distributions made to the shareholder in 2020 and 2021 must be equal to or greater than the EPRA NAV achieved at December 31, 2019.

Once the conditions have been met to trigger entitlement to receive the IR EPRA NAV, the amount thereof will be calculated by allocating the same percentages as those provided for calculating the IRMP according to the EPRA NAV TSR Rate.

In order to obtain the IR EPRA NAV, the above percentage will be applied to the figure resulting from multiplying the EPRA NAV TSR by the number of shares of the company at December 31, 2019 and the result of such operation shall be adjusted using catch-up mechanisms.

Of the resulting amount, a maximum total of €12,500 thousand for the entire Measurement Period corresponds to each of the executive directors.

Since the IR EPRA NAV is paid in shares, such shares shall be determined as the result (rounded down) of dividing the final amount of the IR EPRA NAV by the Final Reference Market Price. The number of allocable shares under the LTIP may not exceed 6 million under any circumstances, of which up to a maximum of two (2) million may be allocated to the executive directors, as recorded in the resolution of the Shareholders' Meeting of Merlin held on April 26, 2017.

If the number of allocable shares multiplied by the Final Reference Market Price is lower than the final amount of the IR EPRA NAV, the difference (that is, the "**Cash Amount**") will be paid in cash.

Once the final amount of the IRMP and the final amount of the IR EPRA NAV have been determined, the Board of Directors, at the proposal of the ARC, will determine the amount corresponding to each executive director, in accordance with the following rules:

(i) The percentage that may be allocated to the executive directors as a whole will be 33.33% of the total of the LTIP (both of the IR EPRA NAV and of the IRMP), with no executive director being able to benefit from a share in the LTIP that enables him to exceed the limit of €18,750 thousand overall for the settlement and payment dates and for each executive director.

(ii) The individual allocation to each executive director out of the total LTIP allocable to the executive directors as a whole shall be determined through a system of ideal quotas to be distributed among the executive directors in the following proportions and on the following dates:

- Up to 25% of the quotas will be distributed immediately after the approval of the general terms and conditions of the Incentive.
- Up to 25% on the date the 2018 financial statements are prepared.
- The remaining 50% on the date the 2019 financial statements are prepared.

Lastly, entitlement to receive the Incentive will arise according to the following calendar:

(i) The executive directors will be entitled to receive the final amount of the IRMP on the date of preparation of the 2019 financial statements and it will be paid in cash in the 5 business days following said date, save for the Surplus, which will be paid in accordance with the corresponding calendar for the final amount of the Incentive Referenced to EPRA NAV.

(ii) The executive directors will be entitled to receive any shares, Surplus and

Cash Amount deriving from the final amount of the IR EPRA NAV in accordance with the following calendar:

a. Entitlement to 50% will arise on the date of preparation of the 2020 financial statements, and the applicable shares and amounts will be paid within the next two business days.

b. Entitlement to the remaining 50% will arise on the date of preparation of the 2021 financial statements, and the applicable shares and amounts will be paid within the next two business days.

The entitlement to and settlement of the IRMP and the IR EPRA NAV will be brought forward in the event of the occurrence of special situations, such as, for example, the removal of an executive director by the Company without just cause, in the event of retirement, death or permanent disability, or where there is a change of control.

3. Past Incentives

In the Remuneration Policy, the Board of Directors and executive team included an amendment to the conditions applicable for entitlement to the allocation of the shares which, in accordance with the rules of the MSP, should have been allocated in 2017. As a result of this amendment, these shares are to be allocated in 2018 and 2019, on the terms described in section C.1.2 of this Report.

A.5 Explain the main characteristics of the long-term savings plans, including retirement and any other survival benefit, financed in whole or in part by the company, whether funded internally or externally, with an estimate of their amount or equivalent annual cost, indicating the type of plan, whether it is a defined contribution or defined benefit plan, the terms for vesting of the economic rights in favor of the directors and its compatibility with any other severance for early termination or termination of the contractual relationship between the company and the director. Indicate the contributions made on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit plans

Explain the long-term savings systems
None

A.6 Indicate any severance agreed or paid in the event of termination of functions as director

Explain the severance
The Company and the executive directors have agreed on a novation of their contracts in order to limit severance in the event of termination of their relationship with the Company to an amount equal to two times the fixed remuneration received and the STIP for Executive Directors allocated in the twelve (12) months prior to the termination (although, from such amount, an amount equal to six months of fixed remuneration is paid as consideration for the noncompete undertaking described in Section A.7 below). In this regard, the contracts executed with the executive directors provide that severance will not be paid when the termination is due to a decision by the Company

deriving from (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.

This severance may be paid in the event of the resignation or termination of the executive director deriving from a substantial adverse modification of his or her conditions or functions.

The severance is limited to an amount equal to one year of the fixed remuneration received and the STIP for Executive Directors allocated in the twelve (12) months prior to the termination, where the termination is due to the resignation of the executive director as a result of a change of control at the Company (although, from such amount, an amount equal to six months of fixed remuneration is paid as consideration for the non-compete undertaking described in Section A.7 below).

A.7 Indicate the conditions that must be respected in the contracts of those exercising senior management functions as executive directors. Among other aspects, information will be provided on term, the limits on severance amounts, minimum-stay clauses, advance notice periods, as well as payment in lieu of such advance notice period, and any other clauses relating to hiring bonuses, as well as severance or indemnification for early termination or termination of the contractual relationship between the company and the executive director. Include, among others, non-compete, exclusivity, minimum-stay or loyalty, and post-contractual non-compete clauses or agreements

Explain the terms of the executive director contracts

The main terms of the contracts with executive directors are as follows:

- Nature: commercial contract.
- Term: the contracts with executive directors are for an indefinite term.
- Advance notice period: it is established that both parties must respect, in general and save for specific exceptions, an advance notice period of four (4) months. Failure by the Company to observe the advance notice requirement, save for the specific exceptions, will give rise to the obligation to pay indemnification in an amount equal to the advance notice period not observed. If the director fails to observe the advance notice requirements, such amount will be deducted from the settlement of amounts in his or her favor.
- Severance for removal: described in section A.6 above.
- Confidentiality: Executive directors, both during the period they provide services to the Company and after their contract has been terminated for whatever reason, may not provide, disclose or supply to any individual or legal entity, whether directly or indirectly, any data, ideas, documents, secrets, procedures, methods or, in general, any information to which they may have had access in discharging their office, save for that strictly necessary in order to comply with the obligations contained in the contract or information in the public domain (unless it becomes public due to a breach of the confidentiality obligation). Equally, they may not use such information for their own benefit or for the benefit of third parties.

  Notwithstanding the confidentiality obligation expressly established in the contract, executive directors are also bound by the duty of secrecy forming part of the duty of loyalty established in article 27 of the Board Regulations and, specifically, by the duty of confidentiality, applicable to all directors, regulated in article 24 of the Board Regulations.

- Non-compete undertaking: Executive directors assume a 6-month non-compete undertaking from the date of termination of their contractual relationship. The consideration for this obligation is a gross amount equal to 6 months' Annual Fixed Remuneration (equal to €500,000), which will be paid to the executive director in monthly installments where the termination is due to their resignation and such resignation does not give rise to any severance in their favor and it will be deemed absorbed (and therefore no additional payment will be payable) by the amount of severance for removal received in cases where the termination led to payment of severance to the director.
- Miscellaneous: The contracts also include the customary rules regarding (i) exclusivity in the provision of the services and (ii) intellectual property and inventions within the context of the services.

A.8 Explain any supplementary remuneration accrued by directors as consideration for services provided other that those inherent in their office

Explain the supplementary remuneration
None in 2017 and none envisaged in 2018.

A.9 Indicate any remuneration in the form of advances, loans and guarantees granted, stating the interest rate, their essential characteristics and any amounts repaid, together with the obligations assumed on their behalf under guarantees

Explain the advances, loans and guarantees granted.
None in 2017 and none envisaged in 2018.

A.10 Explain the main characteristics of remuneration in kind

Explain the remuneration in kind
The executive directors are beneficiaries of (i) an insurance policy against death or permanent disability to any degree, the beneficiary of which will be the executive director and/or the persons he or she designates in the event of death, as well as (ii) medical insurance, with global healthcare coverage and with a top-tier insurer, which will include as beneficiary the executive director and his or her spouse and dependent children. The sum of the premiums of both policies will amount to a maximum of €14,000 per year, which amount will be reviewed on an annual basis, in line with the habitual current parameters for this type of insurance, and will be mandatorily attributed to the executive director as remuneration in kind.

A.11 Indicate the remuneration accrued by the director by virtue of the payments made by the listed company to a third-party entity at which the director provides his or her services, where the purpose of such payments is to remunerate the director's services at the company

Explain the remuneration accrued by the director by virtue of the payments made by the listed company to a third-party entity at which the director provides his or her services
None in 2017 and none envisaged in 2018.

A.12 Any remuneration item other than those listed above, regardless of its nature or the group entity making payment, especially when it may be considered a related-party transaction or when its issuance would detract from a true and fair view of the total remuneration received by the director.

Explain the other remuneration items
The directors form part, as insureds, of the civil liability policy for directors and executives arranged by Merlin, on the normal market terms and conditions.

A.13 Explain the steps adopted by the company in relation to the remuneration system in order to reduce exposure to excessive risks and to bring it into line with the long-term objectives, values and interests of the company, to include, as the case may be, a reference to: measures envisaged to ensure the remuneration policy takes into account the long-term results of the company, measures to ensure an adequate balance between the fixed and variable components of the remuneration , measures adopted in relation to categories of personnel whose professional activities have a material impact on the company's risk profile, clawback formulas or clauses in order to seek the return of variable remuneration components based on results when such components have been paid having regard to inaccurate data, which is subsequently shown to be patently inaccurate, and measures envisaged to prevent conflicts of interest.

Explain the measures adopted to reduce risks

a) Non-executive directors

The remuneration systems for non-executive directors (independent, nominee or other non-executive) do not include measurement elements that reward excessive risk-taking by the Company, since they are limited to fixed allowances for the office of director and for membership of committees.

b) Executive directors

(i) Adequate alignment with strategy and long-term results

In relation to the remuneration system for executive directors, it is aligned with the long-term interests of the Company and does not encourage excessive risk-taking.

As described in section A.4, the STIP amounts are linked annually to the gross income received by the Company and its subsidiaries and the net asset value, deducting the annual operating expenses of the Company and its subsidiaries.

In turn, the trigger of the vesting of the LTIP is subject to the total shareholder return obtained during the Measurement Period of the LTIP. The entitlement to receive a significant portion of the LTIP (the final amount of the IR EPRA NAV) will arise in two years, namely those corresponding to the dates of preparation of the 2020 and 2021 financial statements, at a rate of 50% on each of these dates, and its amount will be reduced if the EPRA NAV plus Distributions in 2020 and 2021 is lower than that achieved in 2019.

Accordingly, the remuneration system for executive directors is linked to the Company's performance and remuneration levels may not be raised unless there is a correlation with the Company's results and, consequently, a shareholder return.

Furthermore, executive directors are required, during the period they hold office, to own Merlin shares with a market value (on the date of their incorporation) equal to three years' fixed remuneration, an obligation they must comply with before the first anniversary of their appointment. The executive directors already comply with this obligation.

(ii) Adequate balance between fixed and variable remuneration

The design of the remuneration structure for directors of Merlin incorporates the following risk adjustments:

- The variable remuneration components are sufficiently flexible to ensure that, in a scenario in which the targets linked to the variable remuneration are not met, the executive directors receive only the fixed remuneration.
- The STIP and LTIP form part of a multiyear system, since any remuneration resulting from these plans is deferred by at least two years. In any event, executive directors must remain at the Company in order to receive such amounts in full, save in extraordinary cases.
- The LTIP links the remuneration of executive directors to shareholder interests in that (i) the LTIP is conditional upon the performance of the share price and the EPRA NAV of the Company, and (ii) the incentive is paid in Company shares.

(iii) Clawback clauses

Lastly, the contracts with executive directors include a clawback clause whereby Merlin can require the executive directors, in the two years following payment of the STIP for Executive Directors and/or the LTIP for Executive Directors, to return up to 100% of the amounts or shares received under the STIP for Executive Directors or the LTIP for Executive Directors, and in the case of the LTIP, the damage and loss caused to the Company by the executive director's conduct, if any of the following circumstances occur:

- A serious penalty is imposed on the Company by the National Securities Market Commission ("**CNMV**") for facts related to the discharge of the functions of an executive director at the Company; or
- there is a material restatement of the Company's financial statements on grounds attributable to one or more executive directors and unless such restatement was motivated by a change in the applicable accounting standards.

In both cases the clawback clause will be triggered where the above circumstances refer in time to any of the years taken into consideration for the determination of the STIP or LTIP for Executive Directors.

B. REMUNERATION POLICY ENVISAGED FOR FUTURE YEARS

Revoked.

C. OVERALL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED IN THE YEAR CLOSED

C.1 Briefly explain the main characteristics of the structure and remuneration items of the remuneration policy applied during the year closed, which gives rise to the details of the individual remuneration accrued by each director and set out in section D of this report, as well as a summary of the decisions taken by the Board in order to apply such items

Explain the structure and remuneration items of the remuneration policy applied during the year

C.1.1 Remuneration policy for the office of director

The Remuneration Policy establishes as remuneration for non-executive directors the amount of €100,000 for the office of director, together with the following gross annual fixed allowances for membership of committees:

- €15,000 per year to each director who has sat on the Audit and Control Committee during the year.
- €10,000 per year to each director who has sat on the ARC during the year.
- An additional €5,000 per year to the chairpersons of each committee.

C.1.2 Remuneration policy for executive directors

The gross fixed remuneration of each of the executive directors in 2017 amounted to €1,000,000. The Company also paid the premiums corresponding to the medical and life insurance policies described in section A.10. The amount of the premiums amounted to €6,827.28 for Mr. Ismael Clemente and to €4,128.84 for Mr. Miguel Ollero.

With respect to the system of variable remuneration accrued in 2017, its application during the year is analyzed below:

1. **STIP for the Executives**

   The ARC has assessed the degree of achievement of the targets set for 2017 following the procedure described in the Remuneration Policy and has reached the following conclusions:

   (i) Financial targets:

   a. The forecast distribution of dividends announced to the market by the management team during the first quarter of 2017 set a target of €0.44 per share. However, the management team achieved an amount of €0.46 per share.

   b. The forecast funds from operations ("**FFO**") announced to the market by the management team during the first quarter of 2017 was to obtain €0.61 per share, despite starting the year with €0.07 per share less FFO due to the divestments made in 2016. This target has also been reached.

In addition to the above, it was considered that:

a. the Company finished the year by exceeding the budget approved for 2017;

b. the management team not only maintained the maximum debt threshold set (50%) but also reduced the level of debt with respect to that existing at 2016 year-end (debt at 2017 year-end sits at 43.6%, compared to 45.5% at 2016 year-end).

(ii) Qualitative targets:

In relation to the qualitative targets described in section A.4 of this Report, the ARC considers that the degree of achievement in 2017 exceeded the best expectations.

In order to assess the qualitative targets, in 2017 the ARC took a very positive view of (i) the rapid growth in the category of logistics assets, where the Company reached a leading position in 2017; (ii) the Company's expansion in Portugal; (iii) the quick and efficient integration of Metrovacesa in terms of both the staff and IT systems; (iv) the leading position in office space, retail, and the partial execution of the ambitious refurbishment plan to enhance the asset portfolio, with €42.6 million invested in the year; (v) the degree of fulfillment of the budget of the year being assessed; and (vi) the cost efficiency of the Company compared to European REITs which, due to their size, liquidity and activity, are deemed to be the pertinent peer group.

In light of the above, the ARC has decided to consider granting a STIP to the Chief Executive Officer (for his special degree of performance) that is slightly above the 150% target (placing it at 155%), maintaining the amount of the other executive director at the 150% target.

Having regard to the foregoing, the Board of Directors, following a report from the ARC, has considered, based on the degree of achievement of the targets set and the performance of each director, that the STIP corresponding to fiscal year 2017 amounts to €1,550 thousands for Mr. Ismael Clemente and to €1,500 thousands for Mr. Miguel Ollero.

Entitlement to receive 50% of the above amounts (Upfront STIP), i.e. €1,525 thousands, will arise in the calendar month following the approval of the 2017 STIP (March 2018).

Entitlement to receive the remaining 50% (Deferred STIP) will arise on the following dates:

(i) 25% will arise on the STIP approval date (2018);

(ii) 12.5% will arise on the first anniversary of the STIP approval date (2019); and

(iii) 12.5% will arise on the second anniversary of the STIP approval date (2020).

The Deferred STIP to which the executive directors are entitled will be paid on the business day following the second anniversary of the STIP approval date

(2020).

2. Management Stock Plan

The Remuneration Policy contains the approved changes to the calendar for entitlement and payment of the shares deriving from the MSP, having regard to the Total Annual Shareholder Return and the High Watermark Outperformance thresholds reached in 2016.

Specifically, as stated in the Remuneration Policy, the approved changes to the calendar for entitlement and payment of the MSP in relation to the executive directors are as follows:

- In 2017, 750,000 shares were awarded to the directors, corresponding to one-third of the 2,250,000 shares under the MSP earmarked for the executive directors.
- In 2018, on the date of preparation of the 2017 financial statements, once the Company has confirmed that it has the solvency levels required by the Insolvency Law in order not to petition for an insolvency order at 2017 year-end, the shares awarded to the directors will be limited to 750,000 shares, corresponding to one-third of the 2,250,000 shares under the MSP earmarked for the executive directors.
- Entitlement to the remaining 750,000 shares will arise on the date of preparation of the 2018 financial statements, provided that, at the close of such year, the Company has the solvency levels required by the current Insolvency Law in order not to petition for an insolvency order.

In light of the modifications to the MSP, the Board of Directors, at the proposal of the ARC, agreed to allocate, in 2018, 383,333 shares to Mr. Ismael Clemente and 366,667 shares to Mr. Miguel Ollero.

In accordance with the definitions of CNMV Circular 4/2013 (as amended by Circular 7/2015), the shares actually awarded (750,000) are included under section D.1.a) ii), “number of shares”. The allocation of the remaining shares will depend on compliance with the solvency requirements, and such shares may not be deemed to have vested.

If the relationship between the executive director and the Company is terminated before the last payment date, the director may receive some or all of the undelivered shares derived from the MSP (good leaver scenarios) or may not receive any shares (bad leaver scenarios). There are also specific scenarios for early settlement of the MSP in the event of a change of control at the Company.

All of the shares delivered will be subject to a nondisposal period ending in 2023.

This nondisposal period will not apply if, during the same, (i) the employment or commercial relationship is terminated as a result of retirement, dismissal, death or total permanent disability; or (ii) a change of control occurs.

3. Miscellaneous

In 2018, the right to collect certain percentages relating to the Restricted Annual Bonus will be generated, as described in the 2016 Annual Directors’ Remuneration Report.

To receive the Restricted Annual Bonus, the directors must remain at the Company on the payment date, except in certain scenarios of termination of the executive director's relationship with the Company (good leaver scenarios) in which some or all of the Restricted Annual Bonus may be received.

C.1.3 Severance

A number of directors resigned in 2017 but no severance for removal from the office of director was paid.

For information purposes only
Spanish version prevails

D. DETAILS OF INDIVIDUAL REMUNERATION ACCRUED BY DIRECTORS IN THE YEAR CLOSED (2017)

Name	Type of director	2017 accrual period
Ismael Clemente Orrego	Executive	From 1/1/2017 through 12/31/2017
Miguel Ollero Barrera	Executive	From 1/1/2017 through 12/31/2017
Alfredo Fernández Agras	Independent	From 1/1/2017 through 12/31/2017
María Luisa Jordá Castro	Independent	From 1/1/2017 through 12/31/2017
Fernando Javier Ortiz Vaamonde	Independent	From 1/1/2017 through 12/31/2017
George Donald Johnston	Independent	From 1/1/2017 through 12/31/2017
Ana María García Fau	Independent	From 1/1/2017 through 12/31/2017
John Gómez-Hall	Independent	From 1/1/2017 through 12/31/2017
Juan María Aguirre Gonzalo	Independent	From 1/1/2017 through 12/31/2017
Pilar Cavero Mestre	Independent	From 1/1/2017 through 12/31/2017
Francisco Javier Garcia-Carranza Benjumea	Nominee	From 1/1/2017 through 12/31/2017
Francisca Ortega Hernández-Agero	Nominee	From 1/1/2017 through 12/31/2017
Rodrigo Echenique Gordillo	Nominee	From 1/1/2017 through 2/27/2017
Ana de Pro Gonzalo	Independent	From 1/1/2017 through 04/26/2017
Agustín Vidal-Aragón de Olives	Nominee	From 1/1/2017 through 3/10/2017
José Ferris Monera	Nominee	From 3/13/2017 through 12/22/2017

For information purposes only
Spanish version prevails

D.1 Complete the following tables on the individual remuneration accrued by each director during the year (including remuneration for executive functions)

a) Remuneration accrued at the Company to which this report relates:

i. Remuneration in cash (€ thousand)

Name	Salaries	Fixed Remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Committee remuneration	Severance	Other items	Total fiscal year 2017	Total fiscal year 2016
Francisco Javier Garcia-Carranza Benjumea	0	0	0	0	0	0	0	0	0	0
George Donald Johnston	0	100	0	0	0	15	0	0	115	68
María Luisa Jordá Castro	0	100	0	0	0	20	0	0	120	71
Ismael Clemente Orrego	1,000	0	0	1,550	0	0	0	7	2,557	2,155
Ana María García Fau	0	100	0	0	0	15	0	0	115	71
Francisca Ortega Hernández-Agero	0	0	0	0	0	0	0	0	0	0
Juan María Aguirre Gonzalo	0	100	0	0	0	15	0	0	115	13
Pilar Cavero Mestre	0	100	0	0	0	10	0	0	110	12
Fernando Javier Ortiz Vaamonde	0	100	0	0	0	10	0	0	110	68
Miguel Ollero Barrera	1,000	0	0	1,500	0	0	0	4	2,504	2,103
John Gómez-Hall	0	100	0	0	0	0	0	0	100	60
Alfredo Fernández Agras	0	100	0	0	0	0	0	0	100	77
José Ferris Monera	0	100	0	0	0	0	0	0	100	0
Ana de Pro Gonzalo	0	32	0	0	0	0	0	0	32	60

Name	Salaries	Fixed Remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Committee remuneration	Severance	Other items	Total fiscal year 2017	Total fiscal year 2016
Rodrigo Echenique Gordillo	0	0	0	0	0	0	0	0	0	0
Agustín Vidal-Aragón de Olives	0	0	0	0	0	0	0	0	0	0

ii. Share-based remuneration systems

MR. ISMAEL CLEMENTE ORREGO **MSP 2016 in shares**								
Implementation Date	**Options held at the start of 2017**				**Options allocated during 2017**			
	No. of options	**Shares affected**	**Exercise price (€)**	**Exercise period**	**No. of options**	**Shares affected**	**Exercise price (€)**	**Exercise period**
6/4/2014	0		0.00	-	0	0	0.00	0
Conditions: -								
Shares delivered during 2017	**Options exercised during 2017**		**Options vested and not exercised**	**Options held at the end of 2017**				

No. of Shares	Price	Amount (€ thousand)	Exercise price (€)	No. of options	Shares affected	Gross profit (€ thousand)	No. of options	No. of options	Shares affected	Exercise price (€)	Exercise period
383,333	10.67	4,092	0.00	0	0	0	0	0	0	0.00	0
Other exercise requirements: Due to space limitations, these are set out in section E.1.											

MR. MIGUEL OLLERO BARRERA
MSP 2016 in shares

Implementation Date	Options held at the start of 2017				Options allocated during 2017			
	No. of options	Shares affected	Exercise price (€)	Exercise period	No. of options	Shares affected	Exercise price (€)	Exercise period
6/4/2014	0	0	0.00	-	0	0	0.00	0
Conditions: -								
Shares delivered during 2017			Options exercised during 2017	Options vested and not exercised	Options held at the end of 2017			

For information purposes only
Spanish version prevails

No. of Shares	Price	Amount (€ thousand)	Exercise price (€)	No. of options	Shares affected	Gross profit (€ thousand)	No. of options	No. of options	Shares affected	Exercise price (€)	Exercise period
366,667	10.67	3,914	0.00	0	0	0	0	0	0	0.00	0
Other exercise requirements: Due to space limitations, these are set out in section E.1.											

For information purposes only
Spanish version prevails

iii. Long-term savings systems

iv. Other benefits (€ thousand)

<table>
<tr><th colspan="4">ISMAEL CLEMENTE</th></tr>
<tr><th colspan="4">Remuneration in the form of advances, loans granted</th></tr>
<tr><th colspan="2">Interest rate of the transaction</th><th>Essential characteristics of the transaction</th><th>Amounts repaid</th></tr>
<tr><td colspan="2">0.00</td><td>There is no remuneration in the form of advances or loans granted</td><td>None</td></tr>
<tr><th colspan="2">Life insurance premiums</th><th colspan="2">Guarantees provided by the Company for directors</th></tr>
<tr><th>2017 fiscal year:</th><th>2016 fiscal year:</th><th>2017 fiscal year:</th><th>2016 fiscal year:</th></tr>
<tr><td>2</td><td>2</td><td>No guarantees were provided by the Company for directors in 2017</td><td>No guarantees were provided by the Company for directors in 2016</td></tr>
</table>

MIGUEL OLLERO			
Remuneration in the form of advances, loans granted			
Interest rate of the transaction		**Essential characteristics of the transaction**	**Amounts repaid**
0.00		There is no remuneration in the form of advances or loans granted	None
Life insurance premiums		**Guarantees provided by the Company for directors**	
2017 fiscal year:	**2016 fiscal year:**	**2017 fiscal year:**	**2016 fiscal year:**
2	2	No guarantees were provided by the Company for directors in 2017	No guarantees were provided by the Company for directors in 2016

b) Remuneration accrued by Company directors for membership of boards at other group companies:
c) Summary of remuneration (€ thousand):

	Remuneration accrued at the Company				Remuneration accrued at group companies:				Total		
Name	Remuneration in cash	Number of shares granted	Profit from options exercised	Total fiscal year 2017 Company	Remuneration in cash	Number of shares granted	Profit from options exercised	Total fiscal year 2017 Group	Total fiscal year 2017	Total fiscal year 2016	Contributions to savings systems
Francisco Javier Garcia-Carranza Benjumea	0	0	0	0	0	0	0	0	0	0	0
George Donald Johnston	115	0	0	115	0	0	0	0	115	68	0
María Luisa Jordá Castro	120	0	0	120	0	0	0	0	120	71	0
Ismael Clemente Orrego	2,557	4,092	0	6,649	0	0	0	0	6,649	6,247	0
Ana María García Fau	115	0	0	115	0	0	0	0	115	71	0
Francisca Ortega Hernández-Agero	0	0	0	0	0	0	0	0	0	0	0
Juan María Aguirre Gonzalo	115	0	0	115	0	0	0	0	115	13	0
Pilar Cavero Mestre	110	0	0	110	0	0	0	0	110	12	0
Fernando Javier Ortiz Vaamonde	110	0	0	110	0	0	0	0	110	68	0
Miguel Ollero Barrera	2,504	3,914	0	6,418	0	0	0	0	6,418	6,017	0
John Gómez-Hall	100	0	0	100	0	0	0	0	100	60	0
Alfredo Fernández Agras	100	0	0	100	0	0	0	0	100	77	0
José Ferris Monera	100	0	0	100	0	0	0	0	100	0	0
Ana de Pro Gonzalo	32	0	0	32	0	0	0	0	32	60	0
Rodrigo Echenique Gordillo	0	0	0	0	0	0	0	0	0	0	0
Agustín Vidal-Aragón de Olives	0	0	0	0	0	0	0	0	0	0	0

	Remuneration accrued at the Company				Remuneration accrued at group companies:				Total		
Name	Remuneration in cash	Number of shares granted	Profit from options exercised	Total fiscal year 2017 Company	Remuneration in cash	Number of shares granted	Profit from options exercised	Total fiscal year 2017 Group	Total fiscal year 2017	Total fiscal year 2016	Contributions to savings systems
TOTAL	6,078	8,006	0	14,084	0	0	0	0	14,084	12,764	0

D.2 Report on the relationship between the remuneration obtained by directors and the results or other performance measures of the company, explaining, as the case may be, how variations in the company's performance may have influenced the variation in directors' remuneration.

This aspect has been addressed in section C.1.2 of this Report.

D.3 Report on the outcome of the consultative vote by the Shareholders' Meeting on the annual report on directors' remuneration for the previous year, indicating the number of votes against cast, if any.

	Number	% of total
Votes cast	369,181,874	78.59%

	Number	% of votes cast
Votes against	170,898,836	46.29%
Votes in favor	194,392,895	52.65%
Abstentions	3,890,143	1.05%

E. OTHER INFORMATION OF INTEREST

If there are any material aspects relating to directors' remuneration that have not been addressed elsewhere in this report and which are necessary to provide a more comprehensive and reasoned view of the remuneration structure and practices of the company, provide a brief explanation.

Section D.1 a) i)

Mr. Javier García-Carranza Benjumea and Ms. Francisca Ortega Hernández-Agero have expressly, unconditionally and irrevocably waived their remuneration corresponding to fiscal year 2017.

Section D.1 a) i)

The "other items" column includes the cost of the health insurance policy with reimbursement of medical expenses described in section A.10.

50% of the amounts indicated in the "short-term variable remuneration" column will not be received until 2020. In order to receive the full amount, the directors must remain at the Company on the payment date, save in certain cases of termination of the relationship between the executive director and the Company (good leaver scenarios), in which they may receive some or all of it.

Section D.1 a) ii)

In accordance with the change made to the MSP by the Remuneration Policy, the allocation of (and entitlement to) the shares corresponding to said plan was made in blocks of 750,000 shares for each of the fiscal years 2017, 2018 and 2019, subject to the conditions set out in section C.1.2. The change entailed the possibility of the executive directors (and the rest of the beneficiaries) requesting, if so interested, the early delivery of the shares allocated on each of the entitlement dates. In 2017, 750,000 shares were allocated to the executive directors (and they were entitled to receive them): specifically, 383,333 shares were allocated to Mr. Clemente Orrego and 366,667 shares were allocated to Mr. Miguel Ollero Barrera. Of these shares, Mr. Clemente Orrego requested the delivery of 287,500 shares and Mr. Miguel Ollero Barrera requested the delivery of 275,000 shares.

In 2018, the executive directors will again be allocated 750,000 shares (that is, 383,333 shares for Mr. Ismael Clemente and 366,666 shares for Mr. Miguel Ollero). The executive directors may request (and have so requested) the delivery of all of the shares allocated in 2018.

Additionally, the executive directors may request (and have so requested) the delivery of the shares allocated in 2017 which, since they were not requested in 2017, were not delivered to them.

All of the abovementioned shares will be subject to a nondisposal period ending in 2023.

The share price has been determined as the average share price in the thirty (30) trading sessions on the Madrid Stock Exchange prior to the tenth day after the date of preparation of the 2016 financial statements.

For information purposes only
Spanish version prevails

This annual directors' remuneration report has been approved by the board of directors of the Company in its meeting held on February 27, 2018.

Indicate if there has been any directors who have voted against or refraied from voting in connection with the approval of this report.

Yes □ No ■