



**PROPOSAL BY THE APPOINTMENTS AND COMPENSATION COMMITTEE
OF MERLIN PROPERTIES, SOCIMI, S.A. IN RELATION TO THE
MODIFICATION OF THE BOARD REGULATIONS**

1. Introduction

The Appointments and Compensation Committee of MERLIN Properties, SOCIMI, S.A. (the “**Company**”) has issued this proposal to amend the Regulations of the Board of Directors of the Company (the “**Regulations**”) which is submitted to the Board of Directors for approval. For the appropriate purposes, this report also includes the full wording of the proposed amendments.

In order to facilitate the directors’ understanding of the changes giving rise to this proposal, this report provides an explanation of the aim and justification of the amendments, followed by the proposed resolutions submitted to the Board of Directors for approval.

Lastly, in order to facilitate the comparison between the proposed new wording of the articles to be amended and their current wording, a text highlighting the proposed changes to be made to the current wording is included as an Exhibit to this report.

2. Justification for the proposal

The proposed amendments to the Regulations generally fall within the ongoing review and update process carried out by the Company in relation to its internal rules on corporate governance of the Company.

As part of this review process, it has been deemed necessary to bring the wording of the Regulations relating to the period of appointment of the members of the different committees into line with the bylaw article approved by the Shareholders’ Meeting held on April 6, 2016.

In this connection, the bylaw article establishes that the members of the Audit and Control Committee will hold office for the duration of their appointment as directors of the Company (established as two years in the bylaws), unless the Board of Directors resolves otherwise. The wording of the Regulations also expressly limits such duration to two years. While both provisions are compatible (since the time periods coincide), it has been deemed advisable to standardize the terms in order to avoid future discrepancies (deriving from changes to the bylaws that modify the period of appointment of directors).

3. Structure and justification of the amendment

The planned amendment will be structured in a single resolution (Amendment of article 40 (The Audit and Control Committee) and article 41 (The Appointments and Compensation Committee) and its justification in both cases is to bring the wording of both articles into line with the bylaw provisions relating to the period of appointment of the directors making up the committees.

4. Proposed resolution

Set out below is a literal transcription of the full text of the proposed wording to be submitted to the Board of Directors for approval:

Amendment of article 40 (The Audit and Control Committee) and article 41 (The Appointments and Compensation Committee).

PROPOSED RESOLUTION :

“To amend articles 40 (The Audit and Control Committee) and 41 (The Appointments and Compensation Committee) of the Regulations of the Board of Directors, which shall hereafter be worded as follows:

ARTICLE 40. THE AUDIT AND CONTROL COMMITTEE

1. *The audit and control committee shall be made up of non-executive directors in the number determined by the board, between a minimum of three (3) and a maximum of five (5). Committee members shall be appointed by the board of directors at the proposal of the appointments and compensation committee.*
2. *Members of the audit and control committee shall hold office while their appointment as Company directors remains in force, unless the board of directors resolves otherwise. The renewal, reappointment and removal of the directors forming this committee shall be governed by what is agreed by the board.*
3. *The majority of the members of the audit and control committee must be independent directors. The members of the audit and control committee and, in particular, its chairman, shall be appointed in the light of their knowledge and experience in accounting, audit or risk management matters.*
4. *The committee shall 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 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.

5. *Without prejudice to any other tasks that may be assigned to it from time to time by the board, the audit and control committee shall 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;*
- (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 (SCIIF)*

to ensure that the main risks are identified, managed and adequately communicated;

- (r) to approve the internal audit plan for assessment of the SCIIF, 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;

- (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.*

6. *The audit and control committee shall 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 shall be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt.*
7. *In all cases, the audit and control committee shall be called and shall 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.*
8. *The audit and control committee shall be deemed to be validly constituted when the majority of its members are present, in person or by proxy. However, the audit and control committee shall 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 shall be adopted by a majority of those present, in person or by proxy. In the event of a tie, the committee chairman shall have the casting vote.*

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.

9. *Ordinary meetings of the audit and control committee shall 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.*
10. *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, shall be considered attendees for all purposes and may cast their vote via the means of communication used.

11. *The audit and control committee may 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.

12. *The audit and control committee shall prepare an annual report on its functioning, highlighting the main incidents that arose, if any, in relation to its inherent functions, and the report shall be published on the terms provided for in the legislation applicable from time to time.*
13. *Company personnel shall 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.*
14. *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 shall be responsible for engaging the relevant services.*

ARTICLE 41.- THE APPOINTMENTS AND COMPENSATION COMMITTEE

1. *The appointments and compensation committee shall be made up of non-executive directors, the majority of whom shall 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 appointments and compensation committee shall be appointed by the board.*
2. *The directors forming part of the audit and control committee shall hold office while their appointment as Company directors remains in force, unless the board of directors resolves otherwise. The renewal, reappointment and removal of the directors forming this committee shall be governed by what is agreed by the board.*
3. *The appointments and compensation committee shall appoint a chairman from among its number. The chairman shall be an independent director. The chairman must be replaced every two (2) years, and may be re-appointed for successive terms 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 shall act as the committee secretary and deputy secretary.

4. *Without prejudice to any other tasks that may be assigned to it from time to time by the board, the appointments and compensation committee shall have the following basic responsibilities:*

- (a) *to evaluate the competence, knowledge and experience that board members 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, 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:*
 - (i) *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;*
 - (ii) *to promote the Company's corporate governance strategy;*
 - (iii) *to supervise compliance with the requirements of the law and of the Company's internal corporate governance regulations;*
 - (iv) *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;*
 - (v) *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;*
 - (vi) *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.*
 - (x) *any other powers attributed to it by virtue of bylaws, these regulations, the law and any other regulations applicable to the Company.*
5. *The appointments and compensation committee shall meet ordinarily at least once a year. It shall 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.*
6. *It shall 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 shall be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt.

- 7. The appointments and compensation committee shall 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 shall 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 shall be adopted by a majority of those present, in person or by proxy. In the event of a tie, the committee chairman shall have the casting vote.*
- 8. Ordinary meetings of the appointments and compensation committee shall 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.*
- 9. 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.*
- 10. 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, shall be considered attendees for all purposes and may cast their vote via the means of communication used.*
- 11. 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.*
- 12. 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 to the secretary or deputy secretary of the board, who shall be responsible for engaging the relevant services.*
- 13. 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."*

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Exhibit

ARTICLE 40. THE AUDIT AND CONTROL COMMITTEE

1. The audit and control committee shall be made up of non-executive directors in the number determined by the board, between a minimum of three (3) and a maximum of five (5). Committee members shall be appointed by the board of directors at the proposal of the appointments and compensation committee.

2. Members of the audit and control committee shall hold office while their appointment as Company directors remains in force, unless the board of directors resolves otherwise. The renewal, reappointment and removal of the directors forming this committee shall be governed by what is agreed by the board.

~~2. Members of the audit and control committee shall 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.~~

3. The majority of the members of the audit and control committee must be independent directors. The members of the audit and control committee and, in particular, its chairman, shall be appointed in the light of their knowledge and experience in accounting, audit or risk management matters.

4. The committee shall 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 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.

5. Without prejudice to any other tasks that may be assigned to it from time to time by the board, the audit and control committee shall 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;

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- (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;
- (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 (SCIIF) to ensure that the main risks are identified, managed and adequately communicated;
- (r) to approve the internal audit plan for assessment of the SCIIF, 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;

- (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.
6. The audit and control committee shall 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 shall be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt.
7. In all cases, the audit and control committee shall be called and shall 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.
8. The audit and control committee shall be deemed to be validly constituted when the majority of its members are present, in person or by proxy. However, the audit and control committee shall 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 shall be adopted by a majority of those present,

in person or by proxy. In the event of a tie, the committee chairman shall have the casting vote.

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.

9. Ordinary meetings of the audit and control committee shall 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.
10. 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, shall be considered attendees for all purposes and may cast their vote via the means of communication used.

11. The audit and control committee may 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.
12. The audit and control committee shall prepare an annual report on its functioning, highlighting the main incidents that arose, if any, in relation to its inherent functions, and the report shall be published on the terms provided for in the legislation applicable from time to time.
13. Company personnel shall 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.
14. 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 shall be responsible for engaging the relevant services.

ARTICLE 41.- THE APPOINTMENTS AND COMPENSATION COMMITTEE

1. The appointments and compensation committee shall be made up of non-executive directors, the majority of whom shall 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 appointments and compensation committee shall be appointed by the board.

~~2.~~ The directors who form part of the Members of the audit and control committee shall 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. shall hold office while their appointment as Company directors remains in force, unless the board of directors resolves otherwise. The renewal, reappointment and removal of the directors forming this committee shall be governed by what is agreed by the board.

~~2.3.~~ The appointments and compensation committee shall appoint a chairman from among its number. The chairman shall be an independent director. The chairman must be replaced every two (2) years, and may be re-appointed for successive terms 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 shall act as the committee secretary and deputy secretary.

~~3.4.~~ Without prejudice to any other tasks that may be assigned to it from time to time by the board, the appointments and compensation committee shall have the following basic responsibilities:

- (a) to evaluate the competence, knowledge and experience that board members 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, 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:
 - (i) 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;
 - (ii) to promote the Company's corporate governance strategy;

- (iii) to supervise compliance with the requirements of the law and of the Company's internal corporate governance regulations;
 - (iv) 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;
 - (v) 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;
 - (vi) 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.
- (x) any other powers attributed to it by virtue of bylaws, these regulations, the law and any other regulations applicable to the Company.
- | ~~4.5.~~ The appointments and compensation committee shall meet ordinarily at least once a year. It shall 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.
- | ~~5.6.~~ It shall 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 shall be made by letter, telegram, fax, email or any other means capable of providing evidence of its receipt.
- | ~~6.7.~~ The appointments and compensation committee shall 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 shall 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 shall be adopted by a majority of those present, in person or by proxy. In the event of a tie, the committee chairman shall have the casting vote.
- | ~~7.8.~~ Ordinary meetings of the appointments and compensation committee shall 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.
- | ~~8.9.~~ 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.

- | ~~9-10.~~ 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, shall be considered attendees for all purposes and may cast their vote via the means of communication used.

- | ~~10-11.~~ 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.

- | ~~11-12.~~ 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 to the secretary or deputy secretary of the board, who shall be responsible for engaging the relevant services.

- | ~~12-13.~~ 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.”