



**REPORT BY THE AUDIT AND CONTROL COMMITTEE IN RELATION
TO RELATED-PARTY TRANSACTIONS PERFORMED IN 2016 BY
MERLIN PROPERTIES, SOCIMI, S.A.**

1. Introduction

Recommendation 6 of the Code of Good Governance for Listed Companies recommends that listed companies should draw up the following reports, whether on a voluntary or a compulsory basis, and publish them on their website well in advance of the annual shareholders' meeting, even if their disclosure is not obligatory: "(...) *a report by the audit committee on related-party transactions.*"

In addition, article 40 of the current Board Regulations establishes that the Audit and Control Committee will be responsible for reporting on related-party transactions.

This report fulfills said obligation.

2. Basis for the report

In 2016, the Audit and Control Committee has had knowledge of the transactions considered to be related-party transactions that are listed in the Company's financial and corporate governance information (the "**Supporting Information**" and the "**Related-Party Transactions**").

It should be noted that, prior to the acquisition of stakes in the share capital of the Company, related-party transactions were limited to a lease agreement signed by Magic Real Estate, S.L. in relation to 125 m2 of one of the office floors occupied by the Company.

In the most recent capital increase formalized in 2016, a number of financial institutions acquired stakes in the Company's share capital, as significant shareholders, and were engaged, at year-end, in related-party transactions with the Group fundamentally related to financing transactions, security, guarantees, the provision of services, leases, finance costs, etc.; these transactions increased the figures regarding related-party transactions, as can be seen in the Supporting Information.

3. Conclusions

Based on the Supporting Information, this Committee has reasonably concluded that the Related-Party Transactions have been performed on fair market conditions and do not represent significant amounts that could compromise any of the parties, and it therefore issues a favorable report on related-party transactions.

Madrid, February 24, 2017.