

**Report on the activity of the Appointments and Compensation Committee of  
MERLIN Properties, SOCIMI, S.A.  
during the fiscal year ended December 31, 2016**

**February 2017**

## 1. Introduction

The organization and powers of the Appointments and Compensation Committee of MERLIN Properties SOCIMI, S.A. (the “Committee” and the “Company”) are regulated in article 41 of the Regulations of the Board of Directors and article 45 of the Bylaws, both of the Company. These articles establish, in brief, the following key features of the Committee:

### 1.1. Composition

- (i) The Committee:
  - (a) 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);
  - (b) shall appoint a Chairman from among its number, who shall be an independent director; the Chairman must be replaced every two (2) years, and may be re-appointed one more time for a period of equal duration once one (1) year has elapsed since his/her removal;
  - (c) shall also appoint a Secretary and may appoint a Deputy Secretary, neither of whom need be committee members or directors;
- (ii) the renewal, re-appointment and removal of the directors forming the Committee shall be governed by what is agreed by the Board;
- (iii) currently has the following composition:

MEMBER	OFFICE	CATEGORY AS DIRECTOR
Mr. Donald Johnston	Chairman	Independent
Mr. Fernando Ortiz Vaamonde	Member	Independent
Mr. Javier García-Carranza Benjumea	Member	Nominee
Ms. Pilar Cavero Mestre	Member	Independent

## **1.2. Operation**

The Committee:

- (i) is called by its Chairman, either at his/her own initiative, or at the request of the Board Chairman or of any committee member;
- (ii) shall meet ordinarily at least once a year and also when called by its Chairman, who must do so whenever the Board or its Chairman request the issuance of a report or the adoption of proposals and, in any event, when it is appropriate for the proper pursuit of its functions;
- (iii) shall be validly convened where the majority of its members are present in person or by proxy; and
- (iv) its resolutions shall be adopted by a majority of the members present in person or by proxy, the Chairman's vote being the casting vote.

## **1.3. Main tasks**

The Committee has as its main tasks:

- (i) to evaluate the skills, knowledge and experience that board members must have;
- (ii) to submit proposals to the Board of Directors for the appointment, re-appointment or removal of independent directors;
- (iii) to report on:
  - (a) the proposed appointment of non-independent directors;
  - (b) the appointment of the Chairman, Deputy Chairmen, Secretary and Deputy Secretary of the Board of Directors;
  - (c) the proposed appointment of members of the Audit and Control Committee;
  - (d) the performance of the functions of the Chairman;
  - (e) proposals for appointment and removal of members of the management team and the basic terms of their contracts; and

- (f) prior to its approval, on the Company's annual corporate governance report,;
- (iv) to examine and organize the process for succession of the Chairman and/or of the CEO;
- (v) to establish a target for the representation of the underrepresented gender;
- (vi) 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;
- (vii) to propose to the Board of Directors the compensation policy for directors and general managers or those persons who perform senior management functions, as well as the individual compensation of executive directors and their other contractual conditions, ensuring the observance thereof;
- (viii) to analyze, prepare and review the compensation programs on a periodic basis, considering their suitability and returns, and proposing their modification or update;
- (ix) to monitor observance of the compensation policy established by the Company;
- (x) to assist the Board in preparing the report on the directors' compensation policy;
- (xi) to supervise compliance with legislation on related-party transactions;
- (xii) 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;
- (xiii) to supervise compliance with and the update of internal codes of conduct and rules on corporate governance; and
- (xiv) to know, promote, guide and supervise the actions of the Company in corporate social responsibility and sustainability matters.

## **2. Activities pursued by the Committee**

### **2.1 Meetings**

In 2016, the Committee met ten (10) times (in particular, on February 15, February 25, May 11, June 21, July 26, August 10 (within a board meeting), September 20, October 19, October 25, and November 14, all of 2016), all face-to-face meetings except for the meeting of October 19 which was held by written consent and without a meeting.

### **2.2 General activities**

At its meeting in 2016, the Committee, in exercising its powers, has:

- (i) proposed:
  - (a) the reelection of Mr. Alfredo Fernández Agras, Ms. Ana García Fau, Mr. John Gómez-Hall, Mr. George Donald Johnston, Ms. María Luisa Jordá Castro and Mr. Fernando Ortiz Vaamonde, as independent directors;
  - (b) the appointment of (i) Ms. Pilar Cavero Mestre and (ii) Mr. Juan María Aguirre Gonzalo as independent directors of the Company;
  - (c) to amend the Board Regulations to bring them into line with the latest corporate governance recommendations.
- (i) reported on:
  - (a) the proposed reelection of Mr. Ismael Orrego Clemente and Mr. Miguel Ollero Barrera, as executive directors, and Mr. Hammad Khan, Mr. Rodrigo Echenique Gordillo as nominee directors;
  - (b) the appointment of (i) Mr. Rodrigo Echenique Gordillo, (ii) Ms. Francisca Ortega Hernández-Agero, (iii) Mr. Javier Garcia-Carranza Benjumea and (iv) Mr. Agustin Vidal-Aragon de Olives as directors of the Company
  - (c) the increase in the members of the board to 15 and the new composition of the committees;
  - (d) the appointment of Mr. Rodrigo Echenique Gordillo and of Mr. Ismael Clemente Orrego as chairman and deputy chairman, respectively, of the Board of Directors;

- (e) the spin-off plan to be signed in the context of the spin-off of Metrovacesa, S.A., in matters within its remit and, in particular, in relation to the increase in the number of directors and the appointment of new directors;
  - (f) the amounts of the compensation of the executive directors and the management team;
  - (g) the annual report on directors' compensation and the annual corporate governance report, in those matters within its remit; and
  - (h) the annual evaluation of the Board and of its Chairman.
- (ii) actively promoted the preparation of a new compensation policy for the Board of Directors.

### **2.3 Specific activities**

In particular, the Committee has pursued the following activities::

- (i) New compensation policy

As part of its remit, the Committee has the power to propose to the Board of Directors the compensation policy for directors and general managers or those who perform senior management functions.

Within this context, the Committee:

- (a) at its meeting of May 11, 2016, debated the steps that were being taken to prepare the new compensation policy for the Board of Directors, with the advice of an expert in the subject, for its presentation to proxy advisers to ascertain their opinion in this connection. The requests for professional services made to three reputable consultancy firms were reported on;
- (b) at its meeting of July 26, 2016 it updated the status of the work in progress with respect to the compensation policy, reporting that the process was being conducted with Willis Towers Watson, as well as the process of the different phases making up the work;
- (c) at its meeting of September 20, 2016 it reported on the status of the work, indicating that the adviser engaged to prepare the policy was close to completing its engagement;

- (d) at its meeting of October 25, 2016 it agreed that, once the new compensation policy was prepared, a road show would start on November 15 to present it to the proxy advisers and to the institutional investors;
  - (e) at its meeting of November 14, 2016 it addressed the status of the development of the new compensation policy and the supporting documentation that would be presented at the road show to the proxy advisers;
- (ii) Compensation of the members of the managing body and management team

In the context of the powers granted to the Committee with respect to the compensation of the members of the managing body and the management team, the Committee:

- (a) At its meeting of February 15, 2016:
  - a. resolved on the proposal for compensation (fixed and variable) for management personnel (including executive directors) for submission to the Board of Directors, for independent directors and the bonus for executive directors (the latter forming part of the Annual Report on Directors' Compensation);
  - b. analyzed and approved the terms of the Annual Report on Directors' Compensation which was submitted to the Board of Directors for approval;
  - c. analyzed and approved (already at its meeting of February 25) the terms of the Annual Corporate Governance Report in those aspects under its responsibility.

(iii) Appointment of directors

As part of its powers, the Committee may submit to the Board of Directors proposals for the appointment, re-appointment and removal of independent directors and report on proposals for the appointment of the other directors. In this connection, the Committee:

- (a) At its meeting of February 15, 2016, issued the relevant reports containing:
  - a. the proposed reelection of Mr. Alfredo Fernández Agras, Ms. Ana García Fau, Mr. John Gómez-Hall, Mr. George Donald Johnston, Ms. María Luisa Jordá Castro and Mr.

Fernando Ortiz Vaamonde, as independent directors, and for the submission thereof to the Shareholders' Meeting; as well as

- b. its favorable opinion on the reelection of Mr. Ismael Orrego Clemente and Mr. Miguel Ollero Barrera, as executive directors, and of Mr. Hammad Khan as nominee director.
- (b) At its meeting of June 21, 2016, it reported on the spin-off plan to be signed in the context of the spin-off of Metrovacesa, S.A., in matters within its remit and, in particular, in relation to the increase in the number of directors and the appointment of new directors.
- (c) At its meeting of August 10, 2010 (held within a board meeting) proposed and reported on (as applicable) the appointment of the new directors ((i) Mr. Rodrigo Echenique Gordillo, (ii) Ms. Francisca Ortega Hernández-Agero, (iii) Mr. Javier Garcia-Carranza Benjumea, (iv) Mr. Agustin Vidal-Aragon de Olives, (v) Ms. Pilar Cavero Mestre and (vi) Mr. Juan María Aguirre Gonzalo.
- (d) At its meeting of October 19, 2016 issued the relevant reports containing its favorable opinion on the appointment of Mr. Rodrigo Echenique Gordillo and Mr. Ismael Clemente Orrego as chairman and deputy chairman, respectively, of the Board of Directors.
- (e) At its meeting of December 14, 2016 reported on the new composition of the Committees of the Company.
- (iv) Evaluation of the Board of Directors and of the Chairman

In the context of corporate governance recommendations, the Committee is entrusted with the duty to submit to the Board of Directors its evaluation of the Board, as well as of its Chairman. In this connection, at its meeting of February 25, 2016 the Committee prepared and approved the relevant evaluation report, which was submitted to the Board of Directors for approval.

### **3. Action plan for fiscal year 2017**

The Committee's action plan for fiscal year 2017 will center on continuing with the functions and powers inherent in the Committee, as regulated in the Board Regulations, and mentioned in section 1 of this report.



Accordingly, and against the above backdrop, the Committee intends, as actions for 2017, to:

- (i) pursue a greater degree of follow-up in the evaluation of the skills, knowledge and experience of the members of the Board of Directors;
- (ii) punctually comply with its duties with respect to the aspects on which it has to report and propose;
- (iii) continue ensuring that, in covering new vacancies or appointing new directors, the selection procedures do not suffer from implicit bias and do not hinder the selection of female directors;
- (iv) monitor the suitability of and compliance with the Company's compensation policy;
- (v) establish and supervise the 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; and
- (vi) oversee compliance with the code of conduct and the application of the ethics channel.