

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
OF THE PUBLICLY TRADED COMPANIES**

**DETAILS OF ISSUER**

<b>DATE OF TERMINATION OF REFERENCE PERIOD</b>	31/12/2017
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<b>C.I.F.</b>	A78304516
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**COMPANY NAME**

MELIA HOTELS INTERNATIONAL S.A.

**REGISTERED OFFICE**

GREMIO DE TONELEROS,24 IND. EST. SON CASTELLO, (PALMA DE MALLORCA) BALEARIC ISLANDS

## A OWNERSHIP STRUCTURE

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

Date of last change	(€)Share capital	Number of shares	Number of voting rights
25/04/2016	45.940.000,00	229.700.000	229.700.000

State whether there are different classes of shares with different rights associated with them::

Yes

No

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

Name or corporate name of shareholder	Number of voting rights directly	Number of voting rights indirectly	% of total voting rights
NORGES BANK	8.165.500	0	3,55%
HOTELES MALLORQUINES AGRUPADOS S.L.	25.690.989	0	11,18%
HOTELES MALLORQUINES ASOCIADOS, S.L.	30.333.066	0	13,21%
MAJORCAN HOTELS EXLUX, S.L.	11.542.525	0	5,03%

State the most significant movements in the shareholding structure during the year:

Name or corporate name of shareholder	Transaction date	Description of the transaction
NORGES BANK	02/01/2017	Below 3% of share capital
NORGES BANK	10/01/2017	3% of share capital exceeded
NORGES BANK	16/01/2017	Below 3% of share capital
NORGES BANK	17/01/2017	3% of share capital exceeded
NORGES BANK	24/01/2017	Below 3% of share capital
NORGES BANK	03/02/2017	3% of share capital exceeded
NORGES BANK	06/02/2017	Below 3% of share capital
NORGES BANK	07/02/2017	3% of share capital exceeded
NORGES BANK	08/02/2017	Below 3% of share capital

NORGES BANK	10/02/2017	3% of share capital exceeded
NORGES BANK	13/02/2017	Below 3% of share capital
NORGES BANK	13/03/2017	3% of share capital exceeded
NORGES BANK	14/03/2017	Below 3% of share capital
NORGES BANK	15/03/2017	3% of share capital exceeded
NORGES BANK	16/03/2017	Below 3% of share capital
NORGES BANK	17/03/2017	3% of share capital exceeded
NORGES BANK	20/03/2017	Below 3% of share capital
NORGES BANK	21/03/2017	3% of share capital exceeded
NORGES BANK	22/03/2017	Below 3% of share capital
NORGES BANK	04/04/2017	3% of share capital exceeded
NORGES BANK	07/04/2017	Below 3% of share capital
NORGES BANK	31/05/2017	3% of share capital exceeded
NORGES BANK	15/06/2017	Below 3% of share capital
NORGES BANK	21/06/2017	3% of share capital exceeded
NORGES BANK	30/06/2017	Below 3% of share capital
NORGES BANK	14/07/2017	3% of share capital exceeded

**A.3 Complete the following tables with the members of the company's Board of Directors with voting rights on company shares:**

<b>Name of Director (person or company)</b>	<b>Number of voting rights directly</b>	<b>Number of voting rights indirectly</b>	<b>% of total voting rights</b>
DOÑA CARINA SZPILKA LÁZARO	0	0	0,00%
DON FERNANDO D'ORNELLAS SILVA	0	0	0,00%
DON JUAN ARENA DE LA MORA	1.000	0	0,00%
DON ALFREDO PASTOR BODMER	0	6.000	0,00%
DON GABRIEL ESCARRER JULIA	0	119.437.747	52,00%
DON JUAN VIVES CERDA	0	375	0,00%
DON SEBASTIAN ESCARRER JAUME	0	0	0,00%
DON GABRIEL ESCARRER JAUME	0	0	0,00%
DON FRANCISCO JAVIER CAMPO GARCIA	0	0	0,00%
DON LUIS M <sup>a</sup> DIAZ DE BUSTAMANTE TERMINEL	300	0	0,00%

HOTELES MALLORQUINES CONSOLIDADOS, S.A.	51.871.167	0	22,58%
Name or corporate name of the indirect shareholder	Through: Name or corporate name of the direct shareholder		Number of voting rights
DON ALFREDO PASTOR BODMER	DOÑA MARÍA DEL CARMEN OLIVES PUIG		6.000
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.		51.871.167
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.		25.690.989
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.		30.333.066
DON GABRIEL ESCARRER JULIA	MAJORCAN HOTELS EXLUX, S.L.		11.542.525
DON JUAN VIVES CERDA	FINCA LOS NARANJOS, S.A		375
<b>% of total voting rights held by the Board of Directors</b>			<b>52,00%</b>

Complete the following tables with the members of the company's Board of Directors with voting rights on company shares

A.4 If applicable, State any family, commercial, contractual or corporate relationships between holders of significant shareholdings, insofar as the company is aware of them, unless they are of little relevance or due to ordinary trading or exchange activities:

Related name (person or company)
DON GABRIEL ESCARRER JULIA
HOTELES MALLORQUINES AGRUPADOS S.L.

**Type of relationship:** Family

**Brief description:** Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)
DON GABRIEL ESCARRER JULIA
HOTELES MALLORQUINES ASOCIADOS, S.L.

**Type of relationship:** Family

**Brief description:** Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)
DON GABRIEL ESCARRER JULIA
MAJORCAN HOTELS EXLUX, S.L.

**Type of relationship:** Family

**Brief description:** Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)
DON GABRIEL ESCARRER JULIA
HOTELES MALLORQUINES CONSOLIDADOS, S.A.

**Type of relationship:** Family

**Brief description:** Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

A.5 If applicable, indicate any commercial, contractual or corporate relationships between holders of significant shareholdings, and the company and/or its group, unless they are of little relevance or due to ordinary trading or exchange activities:

A.6 State whether the company has been informed of any shareholder agreements that may affect it as set out under Articles 530 and 531 of the Corporate Enterprises Act. If applicable, briefly describe them and list the shareholders bound by such agreement:

Yes  No

State whether the company is aware of the existence of concerted actions amongst its shareholders. If so, detail them briefly:

Yes  No

If, during the year, there has been any amendment or breaking-off of said pacts or agreements or concerted actions, State this expressly.

A.7 State whether any person or organization exercises or may exercise control over the company pursuant to Article 4 of the Securities Exchange Act. If so, identify names:

Yes  No

Name or corporate name
DON GABRIEL ESCARRER JULIA
Comments

However, as previously mentioned, all of the shares controlled by the companies Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Asociados, S.L., Hoteles Mallorquines Agrupados, S.L. and Majorcan Hotels Exlux, S.L.. are attributed exclusively to Gabriel Escarrer Juliá, those shares are directly or indirectly owned by Gabriel Escarrer Julia, his wife and children.

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

**At year end:**

Number of direct shares	Number of indirect shares (*)	total % share capital
1.722.464	0	0,75%

**(\*) Through:**

Give any details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

<b>Explain the significant changes</b>
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**A.9 Detail the conditions and the term of the current mandate from the general meeting to the Board of Directors to issue, buy back and transfer company shares.**

The General Shareholders Meeting held on 4 June 2015 passed, among others, the following resolution:

Authorize the Board of Directors, which in turn may delegate and empower as it deems appropriate to the Directors it deems appropriate, to acquire and dispose of shares in the Company, by sale, exchange, adjudication, payment, or any other manner permitted by law, to the extent permitted by law, for a price which shall be not less than 90% or more than 110% of the closing price of the previous day's session, with a term of five years from the date of adoption of this resolution. All this within the limits and requirements of the Corporate Enterprises Act and the Company Internal Code of Conduct on matters relating to Securities Markets.

**A.9.bis Estimated floating capital:**

	%
<b>Estimated floating capital</b>	43,70

**A.10 State whether there is any restriction at all on the transferability of securities and/or any restriction on voting rights. In particular, report of the existence of any restrictions that might hinder the take-over of control of the company by purchasing its shares on the market.**

Yes  No

**A.11 State whether the General Shareholders' Meeting has resolved to adopt anti-takeover measures in accordance with the provisions of Law 6/2007.**

Yes  No

If so, detail the measures approved and the terms and conditions under which the restrictions would become inefficient:

**A.12 State whether the company has issued securities that are not traded on a regulated market in the EU.**

Yes  No

If applicable, detail the different classes of shares, and what rights and obligations each share class confers.

## B GENERAL MEETING

B.1 Point out, and if applicable give details, if there are any differences at all from the minimum standards to the quorum and constitution of the General established under the Corporate Enterprises Act (CEA) with respect to the General Meeting.

Yes  No

	% quorum different from quorum in Art. 193 of CEA for general circumstances	% quorum different from quorum in Art. 194 of CEA for special circumstances in Art. 194 CEA
Quorum required on first call	0,00%	0,00%
Quorum required on 2nd call	0,00%	0,00%
<b>Description of the differences</b>		

Article 24.4 of the Bylaws states that, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding up of the Company, the first call of the General Shareholders Meeting must be attended by FIFTY PERCENT (50%) of the share capital with voting rights. On a second call, the attendance of TWENTY-FIVE PERCENT (25%) of share capital with voting rights will suffice. The merger, or demerger, either total or partial, segregation and global assignment of assets and liabilities of the Company will also require this mentioned reinforced quorum, except when such operations involve companies that, either directly or indirectly, are majority owned by the Company, in which case the reinforced quorum requirements stated in the then current legislation for each case shall apply

B.2 Point out, and if applicable give details, if there are any differences from the minimum standards established under the Corporate Enterprises Act (CEA) for the adoption of corporate resolutions:

Yes  No

Describe how this differs from the arrangements in the CEA.

	Different reinforced majority from that laid down in Article 201.2 CEA for Art. 194.1 circumstances.	Other reinforced majority circumstances
% established by the entity for passing resolutions	0,00%	60,00%
<b>Describe the differences</b>		

According to Article 28.2 of the Bylaws, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding-up of the Company, a favorable vote of SIXTY PERCENT (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting will be required both at the first and second call. Nevertheless, when a second call is attended by Shareholders that represent less than FIFTY PERCENT (50%) of the share capital with voting rights, the resolutions mentioned in this section may only be passed with the favorable vote of TWO THIRDS (2/3) of the share capital present or represented at the General Shareholders Meeting.

The merger, or demerger, either total or partial, segregation and global assignment of the assets or liabilities of the Company will also require the favorable vote of this reinforced majority, except when such a merger or demerger involves companies that, either directly or indirectly, are majority owned by the company, in which case the majority vote requirements stated in 28.1 (simple majority vote of the shareholders present or represented at the meeting, except in those cases where the Law or these Bylaws require a higher majority) will be applicable.

Article 28.3 states that resolutions to change Articles 3 (Company domicile), 7 (Accounting Register of Shares and Register of Shareholders), 8 (Legitimation of Shareholders), 24.3 (Quorum), 24.4 (Special quorum), 28 (Majorities for the approval of resolutions), 33 (Appointments to the Board of Directors) and 38 (Delegation of powers) of these Company Bylaws will require a favorable vote of at least SIXTY PERCENT (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting both at the first and second call.

B.3 State the rules applicable to the amendments of the company bylaws. Specifically, report the majorities established to amend the bylaws, and the rules, whether there are any, to safeguard shareholders' rights when amending the bylaws.

Article 30.1.h) of the Bylaws establishes that the General Shareholders Meeting has the authority to approve the modification of the Bylaws.

Pursuant to Article 24 of the Bylaws, the Ordinary or Extraordinary General Shareholders Meeting shall be constituted at first or second call whenever the shareholders in attendance or represented meet the legal and statutory minimum quorums regarding percentage of share capital for the different matters on the Agenda according to current legislation.

Notwithstanding the terms of the previous point, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding up of the Company, the first calling of the General Shareholders Meeting must be by FIFTY PERCENT (50%) of the share capital with voting rights. On second call, the attendance of twenty-five percent (25%) of share capital with voting rights will suffice. According to Article 28 of the Bylaws, the resolutions of the General Shareholders Meeting will be passed by a simple majority of the votes of shareholders present or represented at the Meeting will be required except in the circumstances where the Law or Bylaws provide for an increased majority. Thus, for the General Shareholders Meeting to validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding-up of the Company, a favorable vote of sixty percent (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting will be required both at the first and second call. Nevertheless, when a second calling is attended by Shareholders that represent less than fifty percent (50%) of the share capital with voting rights, the resolutions mentioned in this section may only be passed with the favorable vote of two thirds (2/3) present or represented at the General Shareholders Meeting. Nevertheless, resolutions to change Articles 3 (Company domicile), 7 (Accounting Register of Shares and Register of Shareholders), 8 (Legitimation of Shareholders), 24.3 (Quorum), 24.4 (Special quorum), 28 (Majorities for the approval of resolutions), 33 (Appointments to the Board of Directors) and 38 (Delegation of powers) of these Company Bylaws will require a favorable vote of at least sixty percent (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting both at the first and second call.

**B.4 Detail the data on attendance at the general meetings held during the year to which this report refers and the previous year also:**

General meeting date	Attendance figures				Total
	% Shareholders present	% attending by proxy	% voting remotely		
			Electronic vote	Other	
23/06/2016	52,37%	14,21%	0,00%	0,00%	66,58%
08/06/2017	52,50%	35,15%	0,00%	0,00%	87,65%

**B.5 State the number of shares, whether there are any, that are required to be able to attend the General Meeting and whether there are any restrictions on such attendance in the bylaws:**

Yes  No

Number of shares necessary to attend the General Meetings	300
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**B.6 Section repealed**

**B.7 State the address and means of access through the company website to the information regarding corporate governance and other information on the general meetings that must be made available to shareholders on the company's website.**

The address of the corporate website is: [www.meliahotelsinternational.com](http://www.meliahotelsinternational.com). Clicking on Shareholders and Investors takes the user to the corporate governance documentation, including the General Meeting:  
<http://www.meliahotelsinternational.com/es/accionistas-e-inversores/gobierno-corporativo/junta-general-accionistas>

**C CORPORATE GOVERNANCE STRUCTURE**

**C.1 Board of Directors**

**C.1.1 Maximum and minimum number of directors established in the bylaws:**

Maximum number of directors	15
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C.1.2 Complete the following table on the Board members:

Name of director (person or company)	Representative	Type of directorship	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
DOÑA CARINA SZPILKA LÁZARO		Independent	DIRECTOR	25/02/2016	23/06/2016	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON FERNANDO D'ORNELLAS SILVA		Independent	INDEPENDENT COORDINATING DIRECTOR	13/06/2012	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON JUAN ARENA DE LA MORA		Independent	DIRECTOR	31/03/2009	04/06/2014	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON ALFREDO PASTOR BODMER		Other External	DIRECTOR	31/05/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON GABRIEL ESCARRER JULIA		Proprietary	PRESIDENT	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON JUAN VIVES CERDA		Proprietary	DIRECTOR	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON SEBASTIAN ESCARRER JAUME		Proprietary	DIRECTOR	07/02/1996	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON GABRIEL ESCARRER JAUME		Executive	VICE PRESIDENT- MANAGING DIRECTOR	07/04/1999	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON FRANCISCO JAVIER CAMPO GARCIA		Independent	DIRECTOR	13/06/2012	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON LUIS M <sup>a</sup> DIAZ DE BUSTAMANTE TERMINEL		Independent	SECRETARY DIRECTOR	30/11/2010	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	DOÑA MARIA ANTONIA ESCARRER JAUME	Proprietary	DIRECTOR	23/10/2000	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
<b>Total number of directors</b>						<b>11</b>

State the severances that have occurred on the Board of Directors during the reporting period:

C.1.3 Complete the following tables on the Board members and their different kinds of directorship:

## **EXECUTIVE DIRECTORS**

<b>Name of Director (person or company)</b>	<b>Position in the Company organisation</b>
MR GABRIEL ESCARRER JAUME	VICE PRESIDENT AND MANAGING DIRECTOR

<b>Total number of executive directors</b>	1
<b>% of total directors</b>	9,09%

## **EXTERNAL PROPRIETARY DIRECTORS**

<b>Name of Director (person or company)</b>	<b>Name (person or company) of the significant shareholder they represent or which proposed their appointment</b>
DON GABRIEL ESCARRER JULIA	ACCIONISTAS SIGNIFICATIVOS
DON JUAN VIVES CERDA	HOTELES MALLORQUINES ASOCIADOS, S.L.
DON SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
<b>Total number of proprietary directors</b>	4
<b>% of total directors</b>	36,36%

## **EXTERNAL INDEPENDENT DIRECTORS**

### **Name of director:**

CARINA SZPILKA LÁZARO

### **Profile:**

Degree in Economics and Business Studies from ICADE E-2 and Executive MBA from the Instituto de Empresa in Madrid.

She held several positions in Santander Investment, Argentaria (now BBVA) and ING Direct between 1991 and 2013.

She has also worked for Oracle Spain and as Vice-President of UNICEF Spain, as well as being Patron of the Create Foundation.

She is currently an Independent Director for ABANCA, Grifols and Meliá Hotels International, founding member and president of K Fund Venture Capital, president of ADigital and member of the Advisory Board of Reparalia (Homeserve Group).

She is also a member of the ESADE Professional Council and the Advisory Board of Impact.

She has received numerous awards including "Female Executive of the Year" Fedepe (2011), "Career Award" from ICADE (2012), "Gold Medal of the senior management forum" (2012) "Best Executive of the Year" from Emprendedores (2013), "#EITalento Award for Executive Talent" from Cinco Dias (2014), "Professional Excellence Award" from ADigital (2014) and "Eisenhower Innovation Fellow" (2014).

**Name of director:**

FERNANDO D'ORNELLAS SILVA

**Profile:**

Degree in Law and Economics from ICADE-E and MBA from IESE in Barcelona (International Section), from 1983 to 1985 he was Deputy Financial Director at Johnson & Johnson Spain and he has also held several positions within the Bergé Group since 1985, Chief Financial Officer Toyota Spain until 1992, Chief Executive Officer Chrysler Spain (1992-2004), President Chrysler Portugal (1997-2012), President Chrysler Colombia (2010-2012), President KIA for Argentina, Peru and Portugal (2004-2012), President Mitsubishi Motor Peru (2010-2012), Vice President Mitsubishi Motors Chile (2001-2012), Vice President SKBergé Latin America (2001-2012), President Bergé Automotive (2004-2012) and Chief Executive Officer Bergé Group (2007-2012).

Since 2004, among other positions, he has been: Member of the Board of Directors, President of the Remuneration Committee (2007-2009) and Chairman of the Audit Committee of ENDESA S.A. (2009). Member of the Board of Directors and Chairman of the Audit Committee (2007-2009) and Director in charge of supervising the activities of subsidiaries in Peru, Colombia, Argentina and Brazil for ENDESA CHILE. Member of the Board of Directors (2013-2015) and Chairman of the Audit Commission (2014-2015) of DINAMIA. Vice-President of the National Association of Importers of Automobiles, Trucks, Buses and Motorcycles (2004-2012). Founding member of the Spain-Chile and Spain-Peru Foundations (2011-2012). Member of the Spain-China and Spain-Japan Foundations, Adviser to Mitsubishi Corporation in the acquisition of Acciona Termosolar, S.A. (2010-2011) and Vice President of the Real Club de la Puerta de Hierro (2006-2010) and member of its Advisory Board since 2010.

He has been a Member of the Board of Directors since 2012 and is currently Coordinating Director, President of the Audit and Compliance Committee and Member of the Appointments and Remuneration Committee at MELIÁ HOTELS INTERNATIONAL S.A. Member of the Board of Directors of PROSEGUR since 2016, Member of the Advisory Board for WILLIS IBERIA since 2013, Senior Advisor Spain and LATAM for MITSUBISHI CORPORATION since 2013; Senior Advisor for Spain and LATAM in LAZARD FINANCIAL ADVISERS S.A. since 2013. Member of the Advisory Board of Hispanic International Society of America, Vice-President of the International Council of the Royal Theatre in Madrid since 2015 and Member of the Executive Committee Spain-USA Foundation since 2016.

**Name of director:**

JUAN ARENA DE LA MORA

**Profile:**

ICAI Doctor Engineer, Graduate in Business Science from ICADE, Graduate in Psychology, Diploma in Fiscal Studies and AMP Harvard Business School.

Professor at Harvard Business School (2009-2010) teaching on the MBA programme (2015) and AMP (Advance Management Programme) and in IESE (2011) teaching in the PADE programme.

He started his career at Bankinter where he occupied various positions. In 1985 he was named Managing Director and in 1993 Chief Executive Officer and CEO. From March 2002 to April

2007 he was Executive Chairman.

He is currently Director of Ferrovial, Amiral Laboratories, and Meliá Hotels International where he holds positions on different Commissions, Member of the EVERIS International Council, Chairman of the Advisory Board of Consulnor, Member of the Advisory Boards of Marsh and Panda.

In the academic field, he is currently President of the Professional Council of ESADE, Director of Deusto Business School and Member of the World Advisory Board of Harvard Business School.

He was the founder and first President of the SERES Foundation (responsible business and society) and is currently a member of the Executive Committee and President of the Governance Commission.

In addition, he has been a Director of TPI, Prisa, Everis, UBS Spain, Panda, Dinamia, member of the Board of ESADE and member of the Advisory Board of Spencer Stuart.

He was awarded the Grand Cross of the Order of Civil Merit for his contribution to research and development of the Information Society.

**Name of director:**

FRANCISCO JAVIER CAMPO GARCIA

**Profile:**

Industrial Engineer from the Polytechnic University of Madrid, began his career in 1980 at Arthur Andersen.

In 1985 he joined Día, where for 24 years he has held the position of global president of Dia International Group and has also been a member of the Carrefour Group's Global Executive Committee for 15 years. Until November 2014, he was president of the Zena group, the leading multi-brand restaurant service company in Spain comprising five brands: Foster's Hollywood, La Vaca Argentina, Cañas y Tapas, Domino's Pizza and Burger King.

He has also been Chairman of the Cortefiel Group (Cortefiel, Springfield, WomenSecret) from 2014 to 2016. He is currently President of AECOC, an Association of major companies which represent more than 20% of Spanish GDP and has more than 28,000 associated companies with more than 2 million employees. Chairman of Bankia and of its Advisory Committee on Risks, Director of Meliá Hotels International, Member of the Advisory Board of the Palacios Food Group, and member of the Advisory Board of AT Kearney. He is also a Patron of the ITER Foundation, the F. Campo Foundation, a member of the Carlos III Foundation, a member of the Bankia Foundation and spokesperson of A.P.D. (Association for Management Progress).

**Name of director:**

LUIS MARIA DIAZ DE BUSTAMANTE TERMINEL

**Profile:**

Born in Torrelavega (Cantabria, Spain) on August 25, 1952. Law Graduate from the Complutense University of Madrid.

Lawyer since 1975 and Partner of the Isidro D. Bustamante Law Firm (1942). His career has focused mainly on civil law, commercial law, civil and international procedures and advisory services for entrepreneurs and corporations.

<b>Total number of independent directors</b>	5
<b>% of total directors</b>	45,45%

State whether any director considered an independent director is receiving from the company or from its group any amount or benefit under any item that is not the remuneration for his/her directorship, or maintains or has maintained over the last year a business relationship with the company or any company in its group, whether in his/her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

If applicable, give a reasoned statement from the Board with the reasons why it considers that this director can perform his/ her duties as an independent director.

### **OTHER EXTERNAL DIRECTORS**

Name all other external Directors and explain why these cannot be considered proprietary or independent Directors and explain their relationships with the company, its executives or its shareholders:

**Name of Director:**

ALFREDO PASTOR BODMER

**Company, executive or shareholder to which related:**

MELIA HOTELS INTERNATIONAL.S.A.

**Reasons:**

Mr.Alfredo Pastor Bodmer has been a director of the company for a continuous period of more than twelve years and, according to Article 529 duodecies, paragraph 4 i) of THE Corporate Enterprises Act (CEA) this period of time is considered as one of the reasons why a Director cannot be regarded as Independent.

<b>Total number of other external directors</b>	1
<b>% of total directors</b>	9,09%

State any changes that may have occurred during the period in the type of directorship of each director:

C.1.4 Complete the following table with information regarding the number of female directors over the last 4 years, and the category of their directorships:

	<b>Number of female directors</b>	<b>% of total directors for each category</b>
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	Year 2017	Year 2016	Year 2015	Year 2014	Year 2017	Year 2016	Year 2015	Year 2014
<b>Executive</b>	0	0	0	0	0,00%	0,00%	0,00%	0,00%
<b>Proprietary</b>	1	1	1	1	25,00%	25,00%	33,33%	33,33%
<b>Independent</b>	1	1	0	1	20,00%	20,00%	0,00%	16,67%
<b>Other External</b>	0	0	0	0	0,00%	0,00%	0,00%	0,00%
<b>Total:</b>	2	2	1	2	18,18%	18,18%	10,00%	18,18%

C.1.5 Detail the measures, if there are any, that have been adopted to try to include a number of female directors on the Board that would mean a balanced presence of men and women.

**Explanation of the measures**

The Company acknowledges full equality of opportunities in all its activities, without any discrimination. This criterion is assumed by the Appointments and Remuneration Committee when beginning the selection process for a new Director, ensuring that there is no implicit bias that might hinder the selection of Directors.

C.1.6 Detail the measures, if there are any, agreed by the Appointments Committee to ensure that the selection procedures do not suffer from any implicit biases that may hinder the selection of female directors, and that the company deliberately seeks and includes amongst the potential candidates women who meet the professional profile sought:

**Explanation of the measures**

When selecting Directors, the Appointments and Remuneration Committee objectively evaluates the skills and experience of candidates, assessing the profile of candidates and ensuring equal opportunities between women and men and that there is no discrimination based on gender.

The selection of Board members and assessment of candidates includes among potential candidates those women whose professional profile may maximise the know-how and experience they can contribute in the performance of their functions as Directors. The selection process focuses on the search for specific skills, evaluating candidates based on these skills, their know-how and attitude while guaranteeing equal treatment and opportunities and ensuring transparency throughout all processes.

Specifically, the Director Recruitment Policy approved in February fiscal 2017 defines the guiding principle for the process: "The assessment of potential candidates based on criteria of equality and objectivity, avoiding any implicit bias that may involve any type of discrimination."

When, despite any measures that might have been adopted, the number of female directors is low or none, explain the reasons:

**Explanation of the measures**

C.1.6 Bis Explain the conclusions of the Appointments Committee regarding the verification of the compliance with the board member selection policy. And, in particular, explain how this policy is fostering the goal for 2020 to have the number of female board members represent at least 30% of the total number of members of the board of directors.

**Explain the conclusions**

In relation to proposals for the re-election of Directors subject to the approval of the General Shareholders' Meeting, in fiscal 2017 an assessment of compliance with the Director Recruitment Policy by the Appointments and Remuneration Committee was carried out when preparing the legally required Reports and Proposals made available to shareholders through the Company website. In summary, they established that "... the Board of Directors must have Directors among its members with extensive experience in the tourism and hotel industry, knowledge of internal operations in the Company, experience in the values of family-run companies and the ability to adapt in a constantly-changing industry growing both geographically and technologically".

Regarding objectives for Directors in 2020, the Company Director Recruitment Policy approved on February 27, fiscal 2017, includes: "f. The trend towards the progressive increase of the number of women on the Board of Directors, always based on an unbiased assessment of skills, profiles, know-how, experiences and professional abilities, aiming insofar as is possible to ensure that by 2020 at least one third of the members of the Board of Directors are women."

This makes it one of the issues that must be evaluated by the Appointments and Remuneration Committee whenever naming, ratifying and/or re-electing board members.

**C.1.7 Explain the form of representation on the Board, of shareholders with significant holdings.**

Significant shareholders are represented on the Board by proprietary directors

**C.1.8 Detail, if applicable, the reasons why proprietary directors have been appointed at the behest of shareholders whose holding is less than 3% of the capital:**

State whether formal petitions have been ignored for the presence on the Board from shareholders whose holding is equal to or higher than that of others at whose behest proprietary directors were appointed. Where applicable, explain why these petitions have been ignored:

Yes

No

**C.1.9 State whether any director has stood down before the end of his/her term of office, if the director has explained his/ her reasons to the Board and using which channels, and if reasons were given in writing to the entire Board, explain below, at least the reasons that were given:**

**C.1.10 Indicate any powers delegated to the managing directors(s):**

**Name or corporate name of the Director:**

MR GABRIEL ESCARRER JAUME

**Brief description**

Vested with all of the faculties of the Board that may be delegated under the law and the Bylaws.

**C.1.11 Identify any members of the Board holding positions as directors or managers in other companies belonging to the listed company's group:**

Name or corporate name of the Director	Corporate name of the group company	Position	Does the Director hold executive functions?
MR. GABRIEL ESCARRER JAUME	FARANDOLE B.V.	JOINT DIRECTOR	NO

MR. GABRIEL ESCARRER JAUME	INVERSIONES INMOBILIARIAS IAR 1997 C.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	MARKSERV B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA ITALIA. S.R.L.	MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	INVERSIONES AREITO. S.A.	JOINT MANAGING DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	INMOTEL INVERSIONES ITALIA S.R.L.	MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	LONDON XXI. LIMITED	DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	SOL MELIA BALKANS EAD	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA PERU S.A.C.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA HOTEL MANAGEMENT (SHANGHAI) COMPANY LTD.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	MADELEINE PALACE S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	CADSTAR FRANCE SAS	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	HOTEL ALEXANDER SAS	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	SOL MELIA FRANCE S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	HOTEL COLBERT. S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	HOTEL FRANCOIS SAS	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	ILHA BELA GESTAO E TURISMO LIMITADA	JOINT MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	HOTEL METROPOLITAIN S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	INMOBILIARIA DISTRITO COMERCIAL C.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	LOMONDO LIMITED	DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	SOL MANINVEST B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	HOTEL ROYAL ALMA S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	SOL GROUP B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	MELIÁ INVERSIONES AMERICANAS N.V.,	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ INVESTMENT N.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	IMPULSE HOTEL DEVELOPMENT B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SAN JUAN INVESTMENT B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	DESARROLLOS HOTELEROS SAN JUAN	DIRECTOR	NO

MR. GABRIEL ESCARRER JAUME	SOL MELIA EUROPE. B.V.	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	CARIBOTELS DE MÉXICO S.A.DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	BISOL VALLARTA S.A.DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	OPERADORA MESOL S.A. DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	MELIÁ HOTELS INTERNATIONAL UK. LTD.	DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ GREECE. S.A.	DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	HOGARES BATLE S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	TENERIFE SOL S.A.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	GEST.HOT.TURÍSTICA MESOL S.A.	ADMINISTRADOR ÚNICO	YES
MR. GABRIEL ESCARRER JAUME	SECURISOL S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	PRODIGIOS INTERACTIVOS, S.A.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	INVERSIONES Y EXPLOTACIONES TURÍSTICAS S.A.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	APARTOTEL S.A.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	REALIZACIONES TURÍSTICAS S.A.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	CASINO TAMARINDOS. S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	INVERSIONES HOTELERAS LA JAQUITA. S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	IDISO HOTEL DISTRIBUTION S.A.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	COLON VERONA S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ LUXEMBOURG. S.À.R.L.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	HOTELES SOL MELIÁ S.L	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA VACATION CLUB ESPAÑA S.L.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	HOTELPOINT S.L.U.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA VACATION NETWORK ESPAÑA S.L.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	DORPAN S.L.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	PT SOL MELIÁ INDONESIA	PRESIDENT DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	CALA FORMENTOR S.A. DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	CORPORACIÓN HOTELERA HISPANO MEXICANA S.A.	PRESIDENT	NO

MR. GABRIEL ESCARRER JAUME	DESARROLLOS SOL, S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	AYOSA HOTELES S.L.	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ DEUTSCHLAND GmbH	JOINT AND SEVERAL DIRECTOR	YES

C.1.12 Point out, if applicable, any directors of the company who sit on the Boards of other companies publicly traded on regulated securities markets outside the company's own group, of which the company has been informed:

Name or corporate name of the Director:	Company name of the group company	Position
CARINA SZPILKA LÁZARO	GRIFOLS S.A.	DIRECTOR
FERNANDO D'ORNELLAS SILVA	PROSEGUR S.A.	DIRECTOR
JUAN ARENA DE LA MORA	ALMIRALL S.A.	DIRECTOR
JUAN ARENA DE LA MORA	FERROVIAL S.A.	DIRECTOR
FRANCISCO JAVIER CAMPO GARCIA	BANKIA, S.A.	DIRECTOR

C.1.13 State and, where applicable, explain whether the company has established rules on the maximum number of company boards on which its directors may sit:

Yes

No

C.1.14 Section repealed.

C.1.15 Detail the overall remuneration for the Board of Directors:

<b>Remuneration of the Board of Directors (thousands of euros):</b>	2.091
<b>Cumulative amount of rights of current Directors in pension scheme (thousands of euros)</b>	0
<b>Cumulative amount of rights of former Directors in pension scheme (thousands of euros)</b>	0

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

Name (person or company)	Position
GABRIEL CÁNAVES PICORNELL	CHIEF HUMAN RESOURCES OFFICER
PILAR DOLS COMPANYY	CHIEF FINANCIAL AND ADMINISTRATION OFFICER
JUAN IGNACIO PARDO GARCIA	CHIEF LEGAL & COMPLIANCE OFFICER
ANDRE PHILIPPE GERONDEAU	CHIEF OPERATING OFFICER
MARK MAURICE HODDINOTT	CHIEF REAL STATE OFFICER
<b>Total senior management remuneration (€k)</b>	2.360

C.1.17 Point out, if applicable, the identity of the Board members who are in turn members of the Board of Directors in companies of significant shareholders and/or in entities of their group:

<b>Name (person or company)</b>	<b>Corporate name of the significant shareholder</b>	<b>Position</b>
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	PRESIDENT
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.	PRESIDENT
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.	PRESIDENT
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	SECRETARIO CONSEJERO
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	DIRECTOR
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JAUME	MAJORCAN HOTELS EXLUX, S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JULIA	MAJORCAN HOTELS EXLUX, S.L.	PRESIDENT
SEBASTIAN ESCARRER JAUME	MAJORCAN HOTELS EXLUX, S.L.	DIRECTOR

Point out, if applicable, the relevant affiliations, other than those considered in the above paragraph, that link Board members to significant shareholders and/or companies in their group:

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JULIA

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES CONSOLIDADOS, S.A.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JULIA

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES AGRUPADOS S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JULIA

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES ASOCIADOS, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JULIA

**Name or corporate name of the related significant shareholder:**

MAJORCAN HOTELS EXLUX, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES CONSOLIDADOS, S.A.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES AGRUPADOS S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES ASOCIADOS, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. GABRIEL ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

MAJORCAN HOTELS EXLUX, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. SEBASTIAN ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES CONSOLIDADOS, S.A.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. SEBASTIAN ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES AGRUPADOS S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. SEBASTIAN ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

HOTELES MALLORQUINES ASOCIADOS, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

**Name or corporate name of the related Director:**

MR. SEBASTIAN ESCARRER JAUME

**Name or corporate name of the related significant shareholder:**

MAJORCAN HOTELS EXLUX, S.L.

**Description of relationship:** Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company.

C.1.18 State whether there has been any change in the Board regulations during the year:

Yes

No

C.1.19 Indicate the procedures for the selection, appointment, re-election, assessment and removal of directors. Indicate the competent bodies, the procedures to be followed and the criteria employed in each procedure.

In accordance with article 15 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must define and review criteria for the composition of the Board of Directors and selection of candidates, proposing to the Board as appropriate the appointment of independent directors as well as reporting proposals for other directors so that the Board may proceed with the appointment (in case of co-optation) or submit the decision to the General Shareholders' Meeting, along with any re-election or separation by the General Meeting.

Directors are appointed for a period of four years and may be re-elected once or several times for periods of equal duration. For the removal of Directors, the procedures indicated in applicable legislation and the Company Bylaws must be followed.

The criteria applied by the Company in each procedure is described in the Director Recruitment Policy approved by the Board of Directors on February 27, fiscal 2017 and available on the company website. Among others, they include:

- The analysis of the profiles and professional know-how of Directors who are already Board members.
- The maintenance of a correct balance between the different types of experience and know-how provided by the Directors to the Company and the Group.
- An analysis of potential situations of conflict, prohibition or incompatibility.
- An assessment of potential candidates based on criteria of equality and objectivity, avoiding any type of implicit bias that may cause discrimination.
- The time that potential candidates may be available.
- The maintenance of an appropriate balance between the different types of Director.
- A trend towards the progressive increase of the number of women on the Board of Directors, always based on an equal assessment of skills, profiles, knowledge, experiences and professional functions.
- 

C.1.20 Explain to what degree the Board's annual assessment has led to significant changes in its internal organization and the procedures applicable to its activities: .20 Explique en qué medida la evaluación anual del consejo ha dado lugar a cambios importantes en su organización interna y sobre los procedimientos aplicables a sus actividades:

#### Description of changes

- Throughout fiscal 2017, the Board of Directors has monitored actions and organizational changes at the highest level that were announced and implemented in 2016, without them having given rise to significant changes in the internal organization of the Board or its general procedures.
- 
- Likewise, the Board of Directors, through the Audit and Compliance Committee, has supported several projects regarding the constant adaptation of the information made available to the Board to ensure the dynamic evolution of the presentation of financial and non-financial information, including supervision and monitoring of the strategic objectives of the Company and its main risks.

C.1.20.bis Indicate the assessment process and the assessed areas conducted by the board of directors assisted, as the case may be, by an external consultant, regarding the diversity in its composition and capacities, duties and composition of its committees, the performance of the chair of the board of directors and the first executive of the company, and the performance and contribution of each board member.

The evaluation for fiscal 2017 has been carried out through Directors completing evaluation questionnaires. This year the Company has received external advice from Deloitte regarding the application of the provisions of Recommendation 36 of the Code of Good Governance of Listed Companies.

The main areas that have been evaluated are:

a) Regarding the Board:

- Board Operations
- Board Composition and Remuneration
- Board Information and Training
- Board Organization
- Board Culture
- Board Committees
- Other aspects

- b) Regarding the Chief Executive:
- Strategic vision and leadership
  - Achievement of results
  - Talent management
  - Management style
  - Relationship with the Board
  - Innovation
  - Culture

The questions include an additional field that allows Board Members to add comments and/or suggestions as well as adding other issues that may improve the functioning of the Board.

The results of these evaluations are analysed by the Appointments and Remuneration Committee and then presented by its Chairman to the Board of Directors to stimulate debate and bring about the improvements that are considered appropriate.

**C.1.20.ter Break down, if pertinent, the business relationship that the consultant or any company of its group maintains with the company or any company of its group.**

In fiscal 2017, in which Deloitte has provided advice on the evaluation process of the Board of Directors, the business relationship between Meliá Hotels International and Deloitte is based mainly on:

Legal advice

Diverse consulting services

External audit services for an international associate.

Analysing the amounts related to them compared to the amounts invoiced by Deloitte and its Group, the amounts paid do not represent a significant percentage of the total business of Deloitte and, therefore, for the purposes of the advisory services on the evaluation process it has been considered as an independent supplier.

**C.1.21 State the circumstances under which directors are obliged to resign.**

Chapter VIII of the Regulations of the Board regulates the Directors' duties, which include the obligation to work with the diligence of an organized businessman and a loyal proxy, and in accordance with any other legally required standard of diligence. More specifically, Article 29 of the Regulations of the Board states that directors must observe all regulations on behavior established in the applicable Stock market legislation and, particularly, those contained in the Internal Code of Conduct. Therefore, a breach of any of these duties or obligations shall be considered grounds for relieving the Director of his/her duties or for his/her resignation.

**C.1.22 Section repealed.**

**C.1.23 Are reinforced majorities required, other than the legal majorities, for any type of resolution?**

Yes  No

If applicable, describe the differences.

**C.1.24 Indicate if there are specific requirements, other than those regarding directors, in order to be appointed Chairman of the Board of Directors.**

Yes  No

Description of the requirements
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Article 33.2 of the Bylaws states that, in order for a Director to be appointed Chairman or Vice-Chairman of the Board of Directors, at least one of the following circumstances must occur:

- a) To have formed part of the Board of Directors during at least the THREE (3) years prior to said appointment; or
- b) To have previously occupied the position of Chairman of the Board of Directors, regardless of the period of time spent as a Director..

Neither of the above circumstances need apply to the Director to be appointed Chairman or Vice-Chairman when this appointment is made by unanimous resolution of SEVENTY-FIVE PERCENT (75%) of the members of the Board of Directors

Moreover, re-election as a Director of members of the Board who are Chairman and Vice-Chairman and, if appropriate

Coordinating Director if he meets the legal requirements, will imply their automatic continuity in those positions

C.1.25 State whether the Chairman has a casting vote:

Yes  No

**Matters on which there is a casting vote**

In the case of a tie in relation to all matters..

C.1.26 State whether the bylaws or the Board Regulations establish an age limit for directors:

Yes  No

C.1.27 State whether the Bylaws or the Board Regulations establish a limited term of office for independent directors, other than that established in the regulations:

Yes  No

C.1.28 State whether the Bylaws or the Board Regulations establish specific rules for proxy voting in the Board of Directors, the way this is done and, in particular, the maximum number of proxies a director may have, and if it has established any limit regarding the categories that may be delegated beyond the limits stipulated by legislation. If applicable, briefly give details on such rules.

Pursuant to Article 18.3 of the Regulations of the Board, representation must be conferred in writing and specifically for each meeting by means of a letter to the Chairman, including the relevant instructions and necessarily conferring the vote to another Director. External Independent Directors may only be represented by another External Independent Director.

C.1.29 State the number of meetings the Board of Directors has held during the year. If applicable, also state how many times the Board has met without the Chairman in attendance. In calculating this number, proxies with specific instructions will be counted as attendances

<b>Number of Board meetings</b>	6
<b>Number of Board meetings not attended by the Chairman</b>	0

If the Chairman is an executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the coordinating Director.

<b>Number of meetings</b>	0
---------------------------	---

State the number of meetings that the Board's various committees have held during the year:

<b>Committee</b>	<b>No. of Meetings</b>
AUDIT AND COMPLIANCE COMMITTEE	8

C.1.30 State the number of meetings held by the Board of Directors during the year attended by all its members. In calculating this number, proxies with specific instructions will be counted as attendances:

Number of meetings with all directors in attendance	6
% of attendances to total votes during the year	100,00%

C.1.31 State whether the individual and consolidated financial statements presented for Board approval are certified beforehand:

Yes  No

If applicable, identify the person(s) who has(have) certified the Company's individual and consolidated financial statements to be filed by the Board:

Name	Position
MRS. PILAR DOLS COMPANY	CHIEF FINANCIAL AND ADMINISTRATION OFFICER
MR. GABRIEL ESCARRER JAUME	VICEPRESIDENT AND CEO

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements that it files from being presented to the General Meeting with a qualified auditors' report.

The functions of the Audit and Compliance Committee include liaising with the external auditors to receive information related to the account auditing process and to have available all the communications laid down in auditing laws and technical auditing standards, conducting direct monitoring with the external auditors. In doing so, the Committee holds several meetings with the auditors throughout the year in order to analyse the performance of their work and to detect and resolve any incidents affecting the annual accounts.

C.1.33 Is the company Secretary a director?

Yes  No

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

C.1.34 Section repealed.

C.1.35 State, if any, the mechanisms established by the company to preserve the independence of the external auditors, the financial analysts, the investment banks and the rating agencies.

One of the functions of the company's Audit and Compliance Committee is to maintain relations with the external auditors so as to receive information with regard to matters which may endanger their independence. In fact, there is a direct relationship between the members of the Committee and the external auditors, with the latter participating with their presence at the meetings held by this Committee. With regard to the mechanisms in place to ensure the independence of financial analysts, mention must be made that the company provides information requested by any analysts with no discrimination and offering the maximum transparency, which also happens when carrying out road shows.

Similarly, in the information exchange process, the aim is to ensure that the company does not at any stage influence the opinions or points of view of the analysts.

According to Article 34.4 of the Regulations of the Board of Directors, under no circumstances will any information be provided to financial analysts that could put them in a privileged situation or at an advantage over the other shareholders.

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

Yes  No

If there were disagreements with the outgoing auditor, explain their motives.

C.1.37 State whether the audit firm does work for the company and/or its group other than the audit work. If so, detail the amount of the fees received for such work and the percentage of such fees on the total fees charged to the company and/or its group:

Yes  No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	278	215	493
Amount of non-audit work / total amount billed by the audit firm (in %)	63,96%	17,41%	30,65%

C.1.38 State whether the audit report on the annual financial statements for the previous year contained reservations or qualifications. If so, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.

Yes  No

C.1.39 State the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Also, state the percentage of the number of years audited by the current audit firm to the total number of years in which the annual financial statements have been audited:

	Company	Group
Number of consecutive years	9	9
Number of years audited by the current audit firm / Number of years that the company has been audited (in %)	40,91%	40,91%

C.1.40 State whether there is and, if applicable, give details on any procedure for directors to engage external advisory services:

Yes  No

**Give details of the procedure**

Pursuant to Article 23 of the Regulations of the Board, external directors may request that legal, accounting or financial advisers or other experts be hired at the expense of the Company.

The engagement must necessarily be related to specific problems of certain importance and complexity that arise in the performance of the office.

The Chairman of the Company must be informed of the decision to hire such services and that decision may be rejected by the Board of Directors under the following circumstances:

it is not required for the proper performance of the duties assigned to External Directors;

its cost is not reasonable in relation to the importance of the problem and the assets and revenue of the company; or (c) the expert help requested from External experts may be provided satisfactorily by experts of the Company.

C.1.41 State whether there is and, if applicable, give details on any procedure for directors to obtain the information they need to prepare the meetings of the governing bodies in sufficient time:

Yes  No

**Give details of the procedure**

Although Article 17 of the Regulations of the Board states that notice of the meeting will be given at least three days before it is held and the notice of the meeting will include the agenda for the session along with the relevant information properly summarised and prepared, barring exceptional circumstances, the information is made available to the Directors eight days before the meeting is held.

Furthermore, Article 22 of the Regulations of the Board establishes that Directors have the widest powers of access to information on any aspect of the company, to review the company's books, records and documents and other records on the company's activities and to examine all its facilities.

Exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will address the Director's requests by providing the information directly to him/her, giving access to the most appropriate person in the organization to provide such information or organizing any measures required so that the Directors may conduct the desired examinations on site.

C.1.42 State and, if applicable, give details, whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may damage the company's credit and reputation:

Yes  No

**Explain the rules**

Article 31.2 of the Regulations of the Board states that Directors should report and, if appropriate, resign in cases that may damage the credit and reputation of the Company and shall in any event report any criminal cases in which they are involved as defendant, and their subsequent trial, and the Board of Directors must examine the case as soon as possible and, having regard to the specific circumstances, must decide whether or not the Director shall remain in office.

C.1.43 State whether any member of the Board of Directors has informed the company of any criminal proceedings against him/her or whether a ruling for the commencement of a verbal hearing has been made against him/her, in relation to any of the offences listed in Article 213 of the Corporate Enterprises Act:

Yes  No

State whether the Board of Directors has examined the case. If it has, explain the motives for the decision taken as to whether or not the director should retain his/her directorship or, if applicable, detail the actions taken or planned to be taken by the Board of Directors as of the date of this report.

C.1.44 State any significant agreements entered into by the Company that come into force, are amended or concluded in the event of a change in the control of the company from a public takeover bid, and its effects.

None.

C.1.45 Identify in aggregate terms and state in detail any agreements between the company and its directors, managers or employees that give compensation or have guarantee or golden parachute clauses for when such persons resign or are wrongfully dismissed or if the contractual relationship concludes due to a public takeover bid or other kinds of transactions.

**Number of beneficiaries: 1**

**Type of beneficiary:**

MANAGING DIRECTOR

**Description of the agreement:**

In 2015, the Chief Executive Officer signed a contract with the Company to provide services in accordance with article 249 of the Capital Companies Act, which, in relation to compensation, foresees:

Post-contract non-compete agreement for one year, with the Company paying the CEO one year's total annual salary under the conditions in force at the time of termination.

If the CEO breaches the post-contract non-compete agreement, he must return to the Company any amounts received for that concept and compensate the Company with an amount equivalent to 150% of the amount received for that concept.

Termination of contract: The cases set forth by Company Law will be cause for dismissal of the CEO, in which case he must place his position at the disposal of the Board of Directors and, if appropriate, formalize his immediate dismissal from office.

Compensation: the CEO may be compensated with an amount equivalent to one year's total annual remuneration in the following cases:

Unilateral termination by the CEO: due to a breach (serious and culpable) by the Company of its contractual obligations according to his contract or to a substantial modification of his functions, powers or service conditions not motivated by a cause imputable to the CEO.

Unilateral termination by the Company: due to a serious and culpable breach by the CEO of the duties of loyalty, diligence or good faith or any of those established by law, according to those by which he must perform his duties.

State whether these contracts must be disclosed to and/or approved by the company or group governance bodies:

	Board of Directors	General Meeting
Body authorising the clauses:	Yes	No

	Yes	No
Is the General Meeting informed of the clauses?	X	

## C.2 Board of Directors Committees

C.2.1 Give details of all the Board Committees, their members and the proportion of executive, proprietary, independent and other external directors sitting on them:

### AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Type
MR. FERNANDO D'ORNELLAS SILVA	PRESIDENT	Independent
MR. JUAN ARENA DE LA MORA	MEMBER	Independent
MR. ALFREDO PASTOR BODMER	MEMBER	Other External
MRS. CARINA SZPILKA LÁZARO	MEMBER	Independent
MR. JUAN VIVES CERDA	MEMBER	Proprietary
<b>% of proprietary directors</b>		20,00%
<b>% of independent directors</b>		60,00%
<b>% of other external</b>		20,00%

Explain the committee's duties, describe its procedures and organizational and operational rules and summarize the main actions taken during the year:

Article 14.2 of the Regulations of the Board states that the Audit and Compliance Committee will meet at least once per quarter and as many times as may be appropriate according to the needs of the Company on notice by its Chairman, or on request by many of its members, or on request by the Board of Directors.

Without prejudice to any others defined by Law, Company Bylaws or the Regulations or the Board of Directors, the functions of the Audit and Compliance Committee will be the following:

- (a) Report to the General Shareholders' Meeting on matters raised by shareholders within its competence and, in particular, on the audit results, explaining how this has contributed to the integrity of financial information and the function that the commission has played in that process;
- (b) Submit proposals to the Board of Directors for the recruitment, appointment, re-election and replacement of the accounts auditor, being responsible for the selection process in accordance with the provisions of current regulations and the contracting process, as well as regularly collecting information from the auditor on the audit plan and its implementation, in addition to preserving their independence in the performance of their duties;
- (c) Supervise the effectiveness of the company's internal controls, internal audit services and risk management systems, including fiscal risks, as well as discussing with the auditor any significant internal control weaknesses detected in the audit, all without impinging on their independence, and presenting recommendations or proposals to the Board of Directors and the corresponding deadline for compliance;
- (d) Supervise the preparation and presentation of mandatory financial information and submit recommendations or proposals to the Board of Directors aimed at safeguarding its integrity;
- (e) Review the appointment or replacement of the people responsible for the financial information processes, internal control systems and risk management;
- (f) Maintain a relationship with external auditors to get information on issues that may pose a threat to their independence or any other issues related to the performance of the Accounts Audit, and, where appropriate, to authorize services other than those prohibited in accordance with applicable legislation as well as those other communications foreseen in legislation on Accounts Audits and technical standards;
- (g) Review Company Accounts and monitor compliance with legal requirements and the correct application of generally accepted accounting principles with the direct assistance of external and internal auditors;
- (h) Ensure that the financial information provided to the markets is prepared in accordance with the same principles, criteria and professional practices used to prepare the Annual Accounts;
- (i) Examine compliance with the Internal Code of Conduct for the Securities Markets, the Regulations of the Board of Directors and, in general, the rules of Company Governance and make all appropriate proposals for improvement;
- (j) Receive the declaration of independence every year from external auditors in relation to the Company or entities linked to the Company either directly or indirectly, as well as detailed information on any additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities linked to it in accordance with the provisions of applicable regulations;
- (k) Prior to the presentation of the Accounts Audit report, issue a report every year expressing an opinion on the independence of the Accounts Auditor in accordance with the Law;
- (l) Report in advance to the Board of Directors any matters set forth by Law, Company Bylaws or the Regulations of the Board and, in particular, on (i) the financial information that the Company must periodically make public; (ii) the creation or acquisition of interests in special-purpose entities or entities domiciled in countries or territories considered to be tax havens; and (iii) transactions with related parties.

It is considered that the Committee performs or can perform all the functions defined in recommendation 42 of the Code of Good Governance of Listed Companies, given that Article 14.2 RCA regarding the functions of the Audit and Compliance Committee defines the same functions, without prejudice to any other functions established by the Law, Company Bylaws and the Regulations of the Board or which the Board may assign to it.

The explanation continues in section H as a note to section C.2.1

Name the Director who is a member of the Audit Committee who has been appointed on the basis of knowledge and experience of accounting or auditing, or both, and state the number of years that the Chairman of this Committee has been in this office.

<b>Name of the director with experience</b>	MR. FERNANDO D'ORNELLAS SILVA
<b>No. of the Chairman's years in the office.</b>	0

## APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Type
MR. FRANCISCO JAVIER CAMPO GARCIA	PRESIDENT	Independent
MR. FERNANDO D'ORNELLAS SILVA	MEMBER	Independent
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	MEMBER	Propietary
MR. LUIS M <sup>a</sup> DIAZ DE BUSTAMANTE TERMINEL	MEMBER	Independent
<b>% of proprietary directors</b>		25,00%
<b>% of independent directors</b>		75,00%
<b>% of other external directors</b>		0,00%

Explain the committee's duties, describe its procedures and organizational and operational rules and summarize the main actions taken during the year.

Article 15.2 of the Regulations of the Board states that the Appointments and Remuneration Committee will meet at the request of its Chairman, or of a majority of its members, or of the Board of Directors, whenever a report or the adoption of proposals is required, and as many times as may be appropriate depending on the needs of the Company. The functions of the Appointments and Remuneration Committee shall be at least the following, notwithstanding any others defined by the Law, Company Bylaws and Regulations:

- (a) Define and review the criteria to be followed for the composition of the Board of Directors and selection of candidates;
- (b) Submit proposals to the Board for the appointment of Independent Directors so that the Board may directly designate them (co-optation) or submit them to the Annual General Meeting as well as any re-elections or removals;
- (c) Report proposals for the appointment of the remaining Directors so that the Board may directly designate them (co-optation) or submit them to the Annual General Meeting as well as any re-elections or removals;
- (d) Report any proposals for the appointment or removal of senior executives and the basic conditions of their contracts;
- (e) Propose to the Board the members of each of the Committees;
- (f) Propose to the Board the remuneration policy for Directors and Senior Managers or those who perform senior management functions under the direct supervision of the Board, Executive Commissions or CEO, as well as individual compensation and other contractual conditions for Executive Directors, also ensuring their observance. Regularly review the remuneration policy to ensure its appropriateness and performance;
- (g) Ensure transparency in remuneration;
- (h) Report on any transactions that imply or may involve conflicts of interest and, in general, on matters related to the duties of Directors in accordance with Regulations;
- (i) Coordinate the report on the quality and efficiency of the functioning of the Board of Directors and the Commissions defined by the Board;
- (j) Examine and organize the succession of the Chairman and Chief Executive of the Company make proposals where appropriate to the Board of Directors to ensure that said succession takes place in an orderly and organized manner;
- (k) Report in advance to the Board of Directors on all the matters defined in the Law, Company Bylaws and Regulations. The Committee must consider all suggestions made by the Chairman, members of the Board, Directors or shareholders of the Company. Executive Directors may attend Committee sessions at the request of its Chairman and take part, but not vote. Any member of the management team or Company personnel must attend and cooperate, if invited, in Commission sessions and allow access to all the information at their disposal, to optimise its performance, the Appointments and Remuneration Committee may seek the support of external experts.

It is considered that the Committee performs or can perform all the functions defined in recommendation 50 of the

Code of Good Governance of Listed Companies, given that Article 15.2 RCA regarding the functions of the Appointments and Remuneration Committee defines the same functions, without prejudice to any other functions established by the Law, Company Bylaws and Regulations.

The explanation continues in section H as a note to section C.2.1

C.2.2 Complete the following table with information on the number of female directors sitting on Board Committees over the last four years:

	Number of female directors							
	Year 2017		Year 2016		Year 2015		Year 2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	20,00%	1	20,00%	0	0,00%	1	25,00%
APPOINTMENTS AND REMUNERATION COMMITTEE	1	25,00%	1	25,00%	1	25,00%	2	50,00%

C.2.3 Section repealed.

C.2.4 Section repealed.

C.2.5 State, if applicable, the existence of regulations for the Board Committees, where they can be consulted and any amendments made to them during the year. Also state whether an annual report on the activities of each committee has been drawn up voluntarily.

1. APPOINTMENTS AND REMUNERATION COMMITTEE Regulated in Article 39 ter of Company Bylaws and Article 15 of the Regulations of the Board. Both documents can be viewed on the Company website, [www.meliahotelsinternational.com](http://www.meliahotelsinternational.com). At every Board of Directors meeting, information is provided on the main issues and most relevant conclusions dealt with in Committee meetings. The Committee has prepared an Activities Report for fiscal 2017 which is available on the corporate website.

2. AUDIT AND COMPLIANCE COMMITTEE Regulated in articles 39bis of Company Bylaws (modified by the resolutions adopted by the Annual General Meeting of June 23, 2016) and Article 14 of the Regulations of the Board (modified by the resolutions of the Board of Directors of June 23, 2016). Both documents can be viewed on the Company website, [www.meliahotelsinternational.com](http://www.meliahotelsinternational.com). At every Board of Directors meeting, information is provided on the main issues and most relevant conclusions dealt with in Committee meetings. The Committee has prepared an Activities Report for fiscal 2017 which is available on the corporate website.

C.2.6 Section repealed.

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

D.1 State, if applicable, the procedure for approving related party and intragroup transactions.

### **Procedure for reporting approval of related party transactions.**

According to Article 32.1 of the Regulations of the Board of Directors, the Board of Directors must be aware of and authorise any transaction made by the Company with its significant shareholders and directors and executives. According to article 32.2 of the Regulations of the Board, under no circumstances must any transaction be authorized unless a report has been issued by the Audit and Compliance Committee evaluating the transaction from the point of view of equality of treatment of the shareholders and of the

market conditions. Article 32.3 of the Regulations of the Board of Directors also states that the Board of Directors must ensure compliance with the law and the duties of information and transparency in the communication of such transactions.

D.2 State any transactions that are significant because of their amount or relevant because of their subject matter carried out between the company or its group companies, and the company's significant shareholders:

Name of significant shareholder (person or company)	Name or corporate name of the company or its group company	Nature of the relationship	Type of operation	Amount (thousand euros)
HOTELES MALLORQUINES ASOCIADOS, S.L.	Prodigios Interactivos S.A.	Contractual	Operational lease contracts	1.848
HOTELES MALLORQUINES ASOCIADOS, S.L.	Meliá Hotels International S.A.	Contractual	Receipt of services	518
HOTELES MALLORQUINES ASOCIADOS, S.L.	Aresol Cabos S.A. de C.V.	Contractual	Receipt of services	78
HOTELES MALLORQUINES ASOCIADOS, S.L.	Meliá Hotels International S.A.	Contractual	Purchase of financial assets	8.992
HOTELES MALLORQUINES AGRUPADOS S.L.	Meliá Hotels International S.A.	Contractual	Purchase of financial assets	8.992
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	Meliá Hotels International S.A.	Contractual	Purchase of financial assets	10.065

D.3 State any transactions that are significant because of their amount or relevant because of their subject matter carried out between the company or its group companies, and the company's directors or senior managers:

Name of the directors and/or senior managers (person or company)	Name of the related party (person or company)	Nature of relationship	Nature of transaction	Amount (thousands of euros)
MR. JUAN VIVES CERDA	Meliá Hotels International S.A.	Commercial	Provision of services	269
MR. JUAN VIVES CERDA	Prodigios Interactivos S.A.	Commercial	Provision of services	301

D.4 State the significant transactions in which the company has engaged with other companies belonging to the same group, except those that are eliminated in the process of drawing up the consolidated financial statements and that do not form part of the company's usual trade with respect to its object and conditions.

In any case, any intra-group transaction with entities based in countries or territories considered to

be tax havens will be reported:

**Name of the group entity:**

SOL MELIÁ FUNDING

Amount (thousands of euros): 4,748

Brief description of the operation:

Cession of clients of American companies in the vacation club segment to Sol Meliá Funding for their management.

**Name of the group entity:**

SOL MELIÁ FUNDING

Amount (thousands of euros): 29,815

Brief description of the operation:

Variation of the intergroup loan with the mother company, framed within the centralized treasury management policy.

**D.5 Detail the amount of the transactions carried out with other related parties.**

0 (in thousands of euros).

**D.6 State the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/ or its group, and its directors, managers and/or significant shareholders.**

Directors must inform the Company whenever a situation of direct or indirect conflict of interest with the interests of the Company arises, pursuant to Article 28 of the Regulations of the Board.  
Moreover, pursuant to Article 15.2. of the Regulations of the Board of Directors, the Appointments and Remuneration Committee, must report to the Board of Directors on transactions that involve or may involve direct or indirect conflicts of interest and, if applicable, propose the measures that should be taken.

**D.7 Are more than one of the Group's companies listed in Spain as publicly traded companies?**

Yes

No

Identify the subsidiaries listed in Spain:

**Subsidiary listed**

State whether the respective areas of business and possible business connections between them and any between the listed subsidiary and the other group companies have been publicly and precisely defined;

Define the possible business connections between the parent

company and the listed subsidiary and between this latter and the other group companies

Identify the mechanisms established to resolve any potential conflicts of interest between the listed subsidiary and the other companies of the group:

Mechanisms to resolve potential conflicts of interest

## **E RISK MANAGEMENT SYSTEM**

### **E.1 Explain the scope of the company's Risk Management System, including risks of a tax-related nature.**

Meliá Hotels International (MHI) has an integrated and continuous risk management model that generates a Group Risk Map, based on the consolidation of the Individual Risk Map for the different Departments and business areas. The model is based on the COSO II Enterprise Risk Management (ERM) methodology and includes the following stages:

1. Identification of the relevant risks, including tax risks through the collection and analysis of internal and external information.
2. Analysis and evaluation of those risks in each of the business areas and support units, prioritizing the most relevant risks and obtaining the different Risk Maps.
3. Risk management: assignment of responsibilities for the most relevant risks and definition of action plans to effectively contribute to their management.
4. Regular monitoring and control of risks, updating the indicators defined for the most relevant risks, annually updating Risk Maps, and monitoring projects designed for to mitigate them.
5. Regular and transparent communication of results to Senior Management and the Audit and Compliance Committee and Board of Directors to allow constant improvement.

The MHI management team regularly identifies the risks that threaten the achievement of objectives (Stage 1) and evaluates them regarding the probability of them happening and the impact if they did happen (Stage 2).

In February fiscal 2017, the MHI Board of Directors approved the updating of the Risk Control, Analysis and Valuation Policy, applicable to the entire Group in the different countries in which it operates, and which defines the basic principles that govern risk management and the general framework for actions to control, analyse and assess risks, including tax risks. These basic principles are:

- a. Encourage an appropriate internal environment and a culture of risk awareness.
- b. Align strategy to the risks identified.
- c. Guarantee an appropriate degree of independence between the areas responsible for risk management (and their elimination or mitigation) and the area responsible for their control and analysis.
- d. Identify and evaluate the diversity of risks that affect the Group, ensuring their correct allocation.
- e. Guarantee the appropriate management of the most relevant risks.
- f. Improve processes and decisions in response to risks.
- g. Provide integrated responses to multiple risks.
- h. Report and communicate transparently and consistently at all levels of the Organization with regard to the Group's risks.
- i. Ensure that the Group's actions at all times are perfectly aligned with current legislation, the Group's internal regulations and the Code of Ethics.

In fiscal 2017, the Internal Risk Control and Analysis Regulations was also updated to ensure the correct and efficient functioning of the MHI Risk Control system, defining the rules, guidelines and criteria to be followed in updating Risk Maps to completely align them with global strategy, the leadership model and the culture and values of MHI. The Regulations also define the basic responsibilities in risk management of governance bodies and the different areas of the organization.

### **E.2 Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System, including tax-related risks.**

The Risk Control & Compliance Department (part of the Legal & Compliance Department) is in charge of ensuring the operation and constant development of the risk management model, as well as coordinating the investment prioritization process based on risk criteria. Among other functions, it is responsible for control and risk analysis. Responsibility for managing risks lies directly with each of the different departments and business areas. This Department reports on its activities to the Audit and Compliance Committee both periodically and through an Annual Report.

The Board of Directors has a general supervisory function and a specific responsibility to identify the main risks for the Company, including tax risks, and the implementation and monitoring of the appropriate internal control and information systems (Article 5 of the Regulations of the Board). The Audit and Compliance Committee is responsible for supervising internal audit services and the financial information process and internal control systems (Art. 14.2 of the Regulations of the Board)

In addition to the above, MHI has other bodies or departments with responsibilities and/or functions related to risk management:

1. Executive Committee.
2. Strategic Planning Committee
3. Expansion Committee
4. Investment Committee
5. Internal Audit
6. Corporate Governance
7. Credit and Insurance Management
8. Occupational Health
9. Works and Maintenance.

The bodies/departments responsible for the preparation and implementation of the Risk Management System count on the support of the Code of Ethics, Complaints Channel, and MHI Internal Policies and Regulations as key tools in risk management.

### E.3 State the principal risks, including tax-related risks, that could prevent business targets from being met.

All business and business activity involve inherent risks, whose identification, assessment and control are essential to achieve objectives

The risks faced by the Group have not changed with respect to previous years and is classified in the following categories:

1. Global risks. Beyond the capacity for action of the Company itself and economic agents such as: natural catastrophes or disasters, pandemics, sanitary or alimentary crises, geopolitical risks...

In destinations where there is greater exposure to this type of risk, the Company has the relevant coverage required for this type of events, as well as the protocols to ensure the health and safety of customers and employees, and normal operations or, where appropriate, their protection and restoration.

2. Financial risks. Those that make it difficult for the company to meet its financial commitments or make its assets liquid. This includes, for example, liquidity, credit or exchange rate risks. The management of these risks lies mainly with the Finance and Administration Department.

3. Business risks. Derived from changes in the variables intrinsic to the business such as the nature of demand, competition and the market, strategic uncertainty or scenario changes. Among others, risks related to customers and suppliers, the market, competition, Group investments, expansion, etc. are analysed.

4. Operational Risks. A consequence of possible deficiencies in internal processes, human resources, equipment or computer systems.

5. Compliance Risks. Derived from regulatory changes and/or non-compliance with applicable legislation or internal policies and regulations.

MHI policies and internal regulations, the Code of Ethics and Complaints Channel are some of the tools the Group has to mitigate this type of risk. The Risk Control & Compliance Department is responsible for the implementation of the Crime Prevention and Detection Model.

6. Information Risks. Caused mainly by inappropriate use, generation and communication of information.

The Internal Control over Financial Reporting (ICFR) described in section F of this report deserves special attention.

Fiscal risks, depending on the specific risk, are included within the category of Operational or Compliance Risks.

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

In the update of the Risk Control, Analysis and Assessment Policy approved by the Board of Directors in February fiscal 2017, tolerance levels are defined for the different risk categories.

In addition, when preparing the Group Risk Map, the risk assessment is carried out at the residual risk level (considering existing control mechanisms) and based on two variables, probability and impact. These variables are evaluated using quantitative and qualitative criteria (financial, operational, regulatory, reputational, strategic,

etc.), defining ranges to create standardized rating scale as a basis for defining acceptable risk and categorizing all the risks identified.

Once the Group Risk Map is completed, an analysis is made by risk type at the Group level and Area or Departmental level. All this information is contained in an annual report to the Audit and Compliance Committee and Board of Directors.

The Risk Map is aligned with the Strategic Plan and the process for defining objectives. Every year we aim to ensure that measures for mitigating the most important risks are linked to annual objectives and/or the Strategic Plan. Monitoring and the degree of achievement of objectives and the Strategic Plan thus also define the degree of tolerance to those risks.

## E.5 Identify what risks, including tax-related risks, have occurred during the year.

Global risks: Natural disasters

The Caribbean was hit by hurricanes Irma and María in fiscal 2017, affecting operations in several of our hotels in Cuba and Puerto Rico.

The impeccable coordination of the response and implementation of the protocols allowed the Company to ensure the safety and comfort of customers and employees at all times, and also allowed affected hotels to restore services and return to normal operations very soon, with the exception of the hotel in Puerto Rico which will remain closed until November 2018 as the destination continues to suffer from infrastructure issues caused by the hurricanes.

Global risks: Geopolitical

In fiscal 2017 there were several geopolitical risks that have materialized and had an impact on our industry. These factors include political instability in certain regions where the company operates (for example, the situation in Catalonia in the final quarter of the year) and the effects of Brexit.

International diversification and a strong presence in the regions with the highest growth, such as the Caribbean, Spain or Asia, and the recovery of markets such as Paris or London also helped mitigate the negative impacts of both natural disasters and geopolitical risks.

## E.6 Explain the response and supervision plans for the principal risks faced by the company, including tax-related risks.

As a first line of defence, each of the different departments/areas (business and support units) are responsible for managing their most important risks, including tax risks. This management is fully integrated into the day-to-day activities of the areas themselves and fully aligned with strategy and objectives.

One of the functions of the MHI Executive Committee regarding risk management is to analyse the Risk Map and assign responsibilities for mitigation of the Group's most important risks. Subsequently, it is the areas affected that define the action plans to be carried out throughout the year to mitigate the risks (Stage 3 of the model).

Annual KRIs (Key Risk Indicators) are defined to monitor and control the most important risks (Stage 4 of the model). These indicators are reported periodically to the Executive Committee.

The results of updating the Risk Map are subject to debate and form part of the agenda of the Executive Committee, as well as of other MHI governing bodies. The Audit and Compliance Committee and Board of Directors are also periodically informed regarding both the results of the Risk Map and the actions derived from it (Stage 5 of the model).

The Risk Control & Compliance Department is in charge of coordinating, supporting, controlling and monitoring every stage of the model.

## **F** INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS FOR THE PROCESS FOR ISSUANCE OF FINANCIAL INFORMATION (SCIIF)

Describe the mechanisms comprising the risk control and management systems for the process for issuance of financial information (SCIIF) in your entity

### F.1 The entity's control environment

Provide information, stating their main features, if at least the following exist:

**F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.**

The bodies within the MHI Group responsible for ensuring the existence, maintenance, design, implementation and supervision of an adequate and effective Control System for Financial Information and the functions and responsibilities attributed to them are as follows:

**Board of Directors**

Article 5 of the Regulations of the Board of Directors give the Board the responsibility, among others, to "Identify the most important risks for the Company, especially fiscal risks and those arising from operations with derivatives, and the implementation and monitoring of appropriate internal control and information systems."

**Audit and Compliance Committee**

Article 14 of the Regulations of the Board of Directors attributes to the Audit and Compliance Committee, among others, responsibility for "c) Supervising the effectiveness of internal control in the company, Internal Audit services and risk management systems, including fiscal risks, as well as discussing with the auditor any significant weaknesses in internal control detected during the audit, all without prejudice to their independence, being able to submit recommendations or proposals to the Board of Directors and the corresponding deadline for compliance." and "d) Supervising the preparation and presentation of mandatory financial information and recommendations or proposals to the Board of Directors aimed at safeguarding its integrity".

The organization and functioning of the Audit and Compliance Committee is regulated in the aforementioned article 14 of the Regulations of the Board of Directors. It currently consists of five Directors, three of them independent, one external Director and a fifth Director who have all held positions of responsibility in financial areas and positions as Director in different companies. Representatives of the internal and external auditors and representatives of the Group Senior Management also attend Committee meetings depending on the issues to be discussed.

**Senior Management**

The Internal Control over Financial Reporting in the MHI Group attributes to Senior Management responsibility for the design, implementation and maintenance of the System, with each Region or Department responsible for its area of influence. This responsibility thus affects the entire Organization insofar as the financial information is nourished by the activity and the information generated by the business areas and by the rest of the support areas.

**Internal Audit Department**

The Audit Committee is in charge of supervising the Internal Control over Financial Reporting (ICFR) and it is the responsibility of the Internal Audit Department to verify its correct functioning, keeping the Board of Directors (through the Audit and Compliance Committee) and Senior Management informed about whether the mechanisms implemented by management effectively mitigate the risk of errors with a material impact in financial information.

**F.1.2. If, especially in the process of drawing up the financial information, the following elements exist:**

The definition and review of the organizational structure is regulated by the Group's Human Resources Regulations and applies to all the Group companies. In accordance with the Regulations approved by Senior Management, the Human Resources Department is responsible for ensuring equity, balance and the optimization of the organizational structure and its periodic review. The managers of the different areas of the Group must ensure that the size of its staff is appropriate and optimal.

Any change in the organizational structure, as well as the appointment and dismissal of senior executives and their compensation, must be approved by the Board of Directors after a proposal by the Appointments and Remuneration Committee.

The Organization area within the Human Resources Department for working with the different areas of the Group to analyse and define processes and job descriptions, functions and responsibilities, including positions related to the preparation of financial information. The Human Resources Regulations and updated Group organizational chart are available to employees through the Intranet.

...

The MHI Group has several documents that refer to the conduct of its employees:

- Code of ethics

The MHI Group has a Code of Ethics that was distributed to the entire Organization in December 2012. The Code and all the information required for its understanding are accessible to all Group employees through the Group Intranet.

In March 2012, the Board of Directors approved the contents of the Code. The Remuneration and Appointments Committee approved the operational channels in October 2012.

The Code of Ethics is a collection of principles that order and provide meaning to the values of the Company, helping to understand them and learn how they should be applied and prioritized. The Code of Ethics is the summit of the entire internal regulatory framework. It establishes the bases from which policies, regulations, processes and internal procedures are created.

The Code of Ethics contains a series of standards that are mandatory. It consists of four main areas:

1. Values on which it is based.
2. Company commitments.
3. Principles for employee activity.
4. Operating systems.

The Code of Ethics includes a section that regulates the principles applicable to relationships with shareholders and investors, explicitly mentioning a commitment to ensure maximum reliability and accuracy of accounting and financial information as well as compliance with obligations regarding transparency in the stock market.

Ultimate responsibility lies with the Board of Directors, which assumes the obligation for implementation through the Appointments and Remuneration Committee. Responsibility for ensuring compliance and resolving issues lies with Senior Management, including Regional Directors and Hotel Managers and other business areas. The duty to keep the Code in operation lies with the Code of Ethics Office, an independent body created to review and permanently update the Code of Ethics and resolve any questions regarding its content and application that may come up in ordinary operations.

#### - Internal Code of Conduct in Issues Related to the Stock Market

Applicable to members of the Board of Directors and the Recipients defined in the subjective scope of application. Among other things, it contains "Procedures for the Treatment of Privileged Information".

This regulation is delivered in writing to the people to whom it applies when they are contracted and/or when they are declared a Recipient in accordance with the regulation. It must be signed and accepted by Recipients. The senior manager of the Legal & Compliance area is also in charge of monitoring compliance and reporting activities to the Audit and Compliance Committee.

#### - Executive Behaviour and Human Resources Regulations

Meliá Hotels International, S.A. also has Executive Behaviour and Human Resources Regulations which regulate the conduct of executives (in the first case) and Group employees (in the second) regarding certain matters.

...

After publication of the Code of Ethics in 2012, the MHI Group set up a Complaints Channel for employees to register complaints related to non-compliance with any the aspects in the Code of Ethics, especially business principles, current regulations, potential conflicts of interest or any other issue related to irregularities or potential or existing anomalous situations detected as a result of regulatory noncompliance, lack of internal control, financial irregularities or situations or events that may require the attention and immediate action of Senior Management.

The procedure establishes that complaints cannot be anonymous, always guaranteeing an independent and confidential analysis. The Chairman of the Audit and Compliance Committee has direct access to all the complaints received.

The complaints channel is managed by the Ethics Committee, which acts independently and with the utmost respect for confidentiality regarding the complaints received, reporting directly to the Audit and Compliance Committee and the Chief Executive Officer whenever it is deemed appropriate in addition to producing a regular report on the activities carried out.

The Ethics Committee's main function is to receive, manage and coordinate and investigate complaints and is the only body with access to the complaints received, thus guaranteeing confidentiality.

Operation of the channel is regulated in corporate procedures and can be viewed by all employees through the intranet.

The channels available for the presentation of complaints are: Intranet (Employee Portal), Internet and regular mail addressed to the Ethics Committee.

In 2016, the existence of the complaints channel communicated to all business areas and corporate offices worldwide, reporting its implementation to the Audit and Compliance Committee.

...

Managers responsible for departments that prepare financial information must ensure that employees working in this area have access to updated information and appropriate training.

Corporate team members who take part in the preparation and review of financial information receive specific training every year to update their knowledge in different matters related to their functions. In fiscal 2017, they took part in training sessions on the implementation of new international accounting standards (IFRS 9, IFRS 15 and IFRS 16), new requirements for the disaggregation of non-financial information and alternative performance measures, workshops on the prevention, detection and investigation of fraud and workshops on the evaluation of business processes based on the new requirements of Data Protection legislation.

In addition to the mentioned actions, the Company also receives external advice to support the development of the team members

involved and is also subscribed to several publications as corporate partners.

## F.2 Financial reporting risk assessment,

Provide information on at least:

### F.2.1. The key features of the risk identification process, including error or fraud risks, regarding:

The Meliá Hotels International Group has:

- A Risk Control, Analysis and Assessment Policy approved by the Board of Directors.
- A Risk Control Regulation created and approved by the Audit and Compliance Committee.
- A Risk Map preparation process.

...

The Risk Control Department leads the periodic review of the Group Risk Map and monitors the definition and implementation of actions and assignment of responsibilities to mitigate the most important risks.

In the annual update of the Risk Map Update, senior managers in all Departments and areas identify and assess the different risks that affect them, including risks related to financial information. This means that in addition to a Consolidated Group Risk Map, Risk Maps are also generated for each of the different Departments and areas in the Organization.

In cooperation with the Internal Audit Department, every year the Group Risk Inventory is reviewed to detect which of the identified risks may affect the financial information objectives defined by the CNMV: existence and occurrence, integrity, valuation, presentation, breakdown and comparability.

...

In order to be able to identify the consolidation perimeter at all times, the Annual Accounts and Consolidation Department maintains an up-to-date corporate register that includes all of the Group's interests, whatever their nature.

The procedures for updating the consolidation perimeter are defined in a manual which complements the provisions of Corporate and Joint Venture Regulations. The consolidation perimeter is updated every month in accordance with International Accounting Standards and other local accounting regulations.

...

The process of updating the Risk Map considers the impact that risks may have on financial statements, regardless of the type of risk. The Meliá Hotels International Group has categorized risks as follows:

- Global risks.
- Financial risks.
- Business risks.
- Operations Risks.
- Compliance Risks.
- Information Risks.

...

The results obtained are reported to and reviewed by Senior Management as well as by the Audit and Compliance Committee and Board of Directors.

## F.3 Control activities

Provide information, stating their main features, if at least the following exist:

**F.3.1. Procedures for review and authorization of the financial information and the description of the SCIIF, to be published on the securities markets, indicating who is responsible for it, and the documentation describing the activity flows and controls (including those concerning risk of fraud) for the different types of transactions that may have a material impact on the financial statements, among them, the procedure for closing the accounts and the specific review of the relevant opinions, estimates, assessments and projections.**

Meliá Hotels International, S.A. provides securities markets with financial information for the consolidated group on a quarterly basis. This financial information is prepared by the Administration and Finance Department.

The Chief Financial and Administration Officer analyses the reports received, provisionally approving the financial information for submission to the Audit and Compliance Committee, which is then responsible for supervising the financial information presented.

Since 2012, the Company submits financial statements for the first half of the year to a limited review by the Company's external auditor. This means that the Audit and Compliance Committee also information prepared by external auditors in the semi-annual accounting closures.

In the semi-annual closures, the Audit and Compliance Committee reports its conclusions to the Board of Directors on the financial information presented so that, once approved by the Board of Directors, it can be published in securities markets.

Since 2013, two ad hoc meetings of the Audit and Compliance Committee have been held to approve the Intermediate Management Report for the first and third quarter. Once approved, the information is made available to the Board of Directors for approval.

The MHI Group has a procedures manual which defines the internal process for the preparation and publication of consolidated financial information. This covers the entire process of preparation, approval and publication of the financial information to be sent periodically to the CNMV.

All the areas that are able to significantly affect the Group's Annual Accounts have controls defined in critical processes to ensure the reliability of financial information. These controls are included in internal procedures or in the way IT systems work to create the basis for the preparation of financial information.

The methodology uses the analysis of the Consolidated Annual Accounts to select the most relevant accounting headings and memoranda in accordance with quantitative (materiality) and qualitative criteria (automation, susceptibility to fraud or error, accounting complexity, degree of estimation and risk of loss or contingent liabilities).

The selected synopses and notes are grouped into processes. The majority of the critical processes and their associated control activities have been systematically documented. This documentation is descriptive and with process flowcharts and matrices of risks and controls. Throughout the process risks of potential fraud have also been identified along with controls to mitigate them.

The activities that are required to be formally documented are included in processes in the areas of Administration, Tax, Treasury and Finance, Personnel Administration, Hotel Business and Vacation Club.

The different Departments are responsible for documenting and updating each of these processes, detecting possible control weaknesses, and defining appropriate corrective measures.

The relevant opinions, estimates and projections needed to quantify certain assets, liabilities, revenues, expenses and commitments recorded or disclosed in the Annual Accounts are made by the Administration and Finance Department with the support of the other Departments.

The annual accounts of the Meliá Hotels International Group report the most relevant areas in which there are elements of opinion or estimation, as well as the key hypotheses related to them. The most important estimates relate to the valuation of goodwill, provision for taxes on profits, fair value of derivatives, fair value of real estate investments, pension contributions and the useful life of tangible and intangible assets.

One of the documented processes is an accounting closure procedure which defines the closure, review and authorization of financial information in the different units before it is consolidated.

**F.3.2. Internal control procedures and policies for information systems (among others, access security, change control, their operation, operational continuity and segregation of functions) that support the relevant processes in the entity with respect to the drawing up and publication of the financial information.**

The Information Systems Department at the Meliá Hotels International Group has security regulations and procedures designed to guarantee the control of access to business applications and systems to ensure the confidentiality, availability and integrity of information.

The Meliá Hotels International Group has formalized procedures for changes to the financial management platform and a transaction development and maintenance process. These procedures define controls that ensure the correct development and maintenance of applications, evaluating the impact of changes and associated risks. There are also processes to test changes before they are implemented in production.

There is a management model for access and authorization based on the segregation of functions on the systems that support financial management processes, having defined control procedures and avoiding users becoming judge and jury in the handling of such information.

Controls have also been defined for the appropriate management and monitoring of the assignment of special privileges in systems that support financial information.

In 2018 there is a project related to the management of users of work stations and SAP using an identity management solution to enhance the management and governance throughout the entire life cycle of the users.

### F.3.3. Internal control procedures and policies designed to supervise the management of activities subcontracted to third parties, and those aspects of the evaluation, calculation or assessment outsourced to independent experts, which may have a material impact on the financial statements

When the Group uses the services of independent experts, it ensures their competence and technical skills by only hiring third parties with proven experience and prestige.

To validate the reports of independent experts, the Group has trained internal personnel able to validate the reasonableness of the conclusions, defining and managing the appropriate service levels in each case.

There is also an internal Regulation on Service Contracts that regulates the approval by senior management in the contracting area and verification that the supplier possesses sufficient professional qualifications to deliver the contracted services and that they are registered in the corresponding professional body..

## F.4 Information and communication

Provide information, stating their main features, if at least the following exist:

### F.4.1. A specific function in charge of defining and keeping the accounting policies up to date (accounting policy department or area) and dealing with queries or conflicts arising from their interpretation, ensuring fluent communication with those in charge of operations in the organization, and an updated manual of accounting policies, communicated to the units through which the entity operates.

The definition and updating of accounting policies and their interpretation and that of other accounting regulations that affect the financial statements of the Meliá Hotels International Group is the responsibility of Annual Accounts and Consolidation Department. Among others, the functions of this department are:

- Define Group accounting policies.
- Analyse operations and individual transactions carried out or planned by the Group to determine their appropriate accounting.
- Monitor the new IASB regulations and new standards approved by the IASB and adopted by the European Union and analyse the impact implementation will have on the Group's Consolidated Accounts.
- Resolve any doubts of Group companies regarding the application of Group accounting policies

There is a formal communication channel to coordinate doubts about accounting policies, through which the different business areas can ask for advice on specific issues which, due to their specificity or complexity, may raise doubts about the way they should

be registered in accounts.

The channel was launched with a message on the Group intranet explaining how it works. Users send an email to a specific address which is managed and answered by the Annual Accounts and Consolidation Department.

Meliá Hotels International presents its Consolidated Annual Accounts in accordance with International Financial Reporting Standards adopted by the European Union. The company has an updated accounting policy manual that is reviewed whenever accounting regulations applicable to Group financial statements are modified in any significant way.

All personnel responsible for preparing financial statements for the companies in the Group have access to this document through the Intranet.

#### F.4.2. Mechanisms to capture and prepare the financial reporting in standardized formats, for application and use by all the units of the entity or group, that support the main financial statements and the notes, and the information given on SCIIF.

The Meliá Hotels International Group has an integrated financial management tool which covers the reporting needs of individual financial statements and facilitates consolidation and analysis.

The tool centralizes all the accounting information for subsidiaries of the Group, which serves as the basis for the preparation of individual annual accounts and the consolidated Group annual accounts. The system is managed centrally from Head Office.

### F.5 Supervision of the system's operations.

Provide information, stating their main features, if at least the following exist:

#### F.5.1. The SCIIF supervision activities carried out by the Audit Committee and whether the entity has an internal audit function whose powers include providing support to the Audit Committee in its task of supervising the internal control system, including the SCIIF. Likewise, provide information on the scope of the SCIIF assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the entity has an action plan listing the possible corrective measures and whether its impact on the financial reporting has been taken into account.

The supervision activities for Internal Control over Financial Reporting (ICFR) carried out by the Audit Committee mainly includes: (i) regular meetings with external auditors, internal auditors and senior management to review, analyse and discuss financial information, accounting criteria, and, where applicable, significant internal control weaknesses, and (ii) review with the Internal Audit Department of the effectiveness of and compliance with processes defined in the internal control system.

At the meetings of the Audit and Compliance Committee, information on the ICFR evaluation made by the Internal Audit Department is included as an item on the agenda.

As indicated in Company Bylaws and Internal Auditing Regulation of the Group, the Internal Audit Department is responsible for verifying the correct functioning of Internal Control systems, including the reliability of Financial Reporting (ICFR), keeping the Board of Directors (through the Audit and Compliance Committee) and Senior Management informed about the existence, suitability and effectiveness of existing methods, procedures, rules, policies and instructions available to Group employees.

The Internal Audit department depends functionally on the Audit and Compliance Committee and hierarchically on the Chief Legal & Compliance Officer, who in turn reports to the Vice President and Chief Executive Officer. The head of the Internal Audit Department has direct access to both the Vice President and Chief Executive Officer and the Audit and Compliance Committee and, where appropriate, the Board of Directors. Among the attributes of the Audit and Compliance Committee that affect the Internal Audit department are: to ensure the independence and effectiveness of internal audits, approve the budget and annual audit plan, receive periodic reports on its activities, and verify that senior management considers the conclusions and recommendations of its reports.

To ensure the independence of the Internal Audit team with respect to the operations or areas they audit, and over which they have no authority or responsibility, internal auditors are not assigned any other attributions or functions other than those of internal audit.

In the internal audit plan for fiscal 2017, several actions were included to evaluate the degree of compliance with internal control through different types of audit, but mainly business or operational audits (hotels, vacation clubs and other businesses), computer system audits, financial audits and evaluation of the control activities associated with processes in Corporate Administration and Finance, including processes associated with ICFR.

The method used by the Internal Audit team has mainly been direct personal evaluation by auditors, although continuous

monitoring, massive data analysis and self-evaluations of controls have also been used. The use of new review models has allowed the Group to get a company-wide vision of the degree of alignment of processes and focus resources on situations that pose the greatest risk to the organization.

The most important business area for the Group is the hotel business. In relation to the control of financial information in this area, in fiscal 2017, 8 processes have been audited, divided into 25 subprocesses and 3,238 control activities have been carried out. These reviews have been carried out in 129 hotels in EMEA (107), America (10) and APAC (12).

Regarding the reviews carried out in the main business units, a total of 267 evaluations have been made: Operational Audits (130), Accounting Audits (54), Information Systems Audits (15), and Corporate Departments and others (68).

As established in Auditing Regulations, if an Audit Department review detects control weaknesses in the audited area or process, this is reported to the management of the area, and also to Senior Management and the Audit and Compliance Committee if deemed appropriate. Those management of the area must then respond with regard to the weaknesses, either through corrective measures and/or the implementation of preventive plans.

**F.5.2. Whether there is a discussion procedure by which the auditor (in line with the provisions of the NTAs), the internal audit function and other experts can inform the senior management and the audit committee or the directors of the entity of significant weaknesses in the internal control identified during the review processes for the annual accounts or any others that may have been assigned. Likewise, provide information on whether there is an action plan to try to correct or mitigate the weaknesses observed.**

The Senior Executive Team, of which the Vice President and CEO is a member, meets regularly, thus assuring the correct flow of information between the Board of Directors and senior management.

As indicated in its Regulations, the Board of Directors must meet at least six times a year. Coinciding with these meetings, the Audit and Compliance Committee also meets up, with the meetings being regularly attended as guests by internal and external auditors and company Senior Management when appropriate.

At the very least, the accounts auditor attends the Board meeting in which Annual Accounts are approved and may also attend any other in which its presence is requested.

The Internal Audit Department periodically reports to Senior Management and the Audit and Compliance Committee any internal control weaknesses detected in internal audits. On an annual basis, the auditor presents the Audit and Compliance Committee with a report detailing the internal control weaknesses detected. Those areas affected by the weaknesses detected must respond to the report.

## F.6 Other relevant information.

Not applicable.

## F.7 Report of the external auditor

Report of:

**F.7.1. Whether the SCIIF information disclosed to the markets has been submitted for review by the external auditor, in which case, the entity must attach the corresponding report as an annex. Otherwise, explain the reasons why it was not.**

The information on the system of internal control of financial reporting included in the Annual Corporate Governance Report has been reviewed by an external auditor, whose report is attached to the Group's Management Report.

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

Indicate the extent to which the company follows the recommendations of the Code for Good Governance of listed companies.

Should any recommendation not be followed or only partially, a detailed explanation should be given of the reasons so that the shareholders, investors and the market in general have enough information to assess the way the company works. General explanations will not be acceptable.

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

Complies  Explain

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

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.
- b) The mechanisms provided to resolve possible conflicts of interest that may arise.

Complies  Partially compliant  Explain  Not applicable

3. During the ordinary general meeting, the chairman of the Board of Directors should verbally inform shareholders in enough detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

- a) Changes taking place since the previous ordinary general meeting.
- b) The specific reasons for the company not to follow a given Corporate Governance Code recommendation and any alternative rules applied, if any.

Complies  Partially compliant  Explain

In the speeches by the President and Chief Executive Officer at the Ordinary General Shareholders' Meeting held on June 8, 2017, information was added on progress made in Corporate Governance by the Board of Directors. This was accompanied by a speech by the Chairman of the Audit and Compliance Committee (with directly assigned functions in examining company governance regulations and making proposals for improvement) explaining the work carried out by the Commission over the year.

The company provides information on relevant changes in Corporate Governance matters in the Annual Corporate Governance Report. Available to all shareholders, this includes information on the degree of compliance with recommendations and, in if appropriate, reasons why they are not implemented or implemented in a different way to the recommendations.

The foregoing is without prejudice to the possibility that shareholders may request any clarification or additional information in accordance with the systems defined in the applicable regulations.

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

And this policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies  Partially compliant  Explain

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

And, when the Board of Directors approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as stated in the mercantile legislation.

Complies

Partially compliant

Explain

On June 4, 2015, the Company submitted to the General Shareholders' Meeting a proposal for the delegation of powers to increase capital and issue bonds. Although the amounts subject to approval exceed the percentage indicated in the recommendation, as explained in the reports made available to shareholders, this power was required to be able to raise funds on the stock market which were required for the appropriate management of company interests, giving the Board the broadest capacity to respond. The possibility of suppressing the right to preferential subscription is a faculty that must be analysed and applied in each specific case depending on the precise conditions for the issue. It should also be noted that the approved authorization is within the legal maximum.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not mandatory:

- a) Report on auditor independence.
- b) Reports on the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Report on corporate social responsibility policy

Complies

Partially compliant

Explain

The company prepared these reports for fiscal year 2017 and publication is planned prior to the General Shareholders' Meeting in 2018.

7. The company should broadcast its general meetings live on the corporate website.

Complies

Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting of shareholders without limitations or qualifications in the auditor's report. In the exceptional case that qualifications do exist, both the chairman of the audit committee and the auditors should give a clear account to the shareholders of the scope and content of such limitations or qualifications.

Complies

Partially compliant

Explain

9. The company should display permanently on its website, the requisites and procedures that it will accept for proving share ownership, the right to attend general meetings of shareholders and the exercise or delegation of voting rights.

Such requisites and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

Partially compliant

Explain

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

- a) Immediately circulate these supplementary items and new resolution proposals.

- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative resolution proposals can be voted on in the same terms as those submitted by the Board of Directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, including, in particular, presumptions or deductions about the direction of votes.
- d) After the general meeting of shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies  Partially compliant  Explain  Not applicable

11. In the event that the company plans the payment of premiums for attendance at the general meeting of shareholders, it should first establish a general policy on these premiums and that this policy should be a stable one.

Complies  Partially compliant  Explain  Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgment, giving the same treatment to all shareholders in the same position, being guided by the company's best interest, understood as the creation of a profitable business that is sustainable in the long term, while promoting its continuity and maximizing the economic value of the company.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but should also strive to reconcile its own corporate interests with, as appropriate, the legitimate interests of its employees, suppliers, clients and other stakeholders that may be involved, as well as with the impact of its activities on the broader community and the environment.

Complies  Partially compliant  Explain

13. The Board of Directors should be of the right size to achieve efficient and participatory functioning, recommending between five and fifteen members.

Complies  Explain

14. The Board of Directors should approve a director selection policy that:

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

The results of the prior analysis of the Board's needs should be written in the appointments committee's explanatory report, to be published when the general meeting of shareholders is convened that will be asked to ratify the appointment or re-election of each director.

The director selection policy should seek the goal of having at least 30% of total board seats occupied by female directors by the year 2020.

The appointments committee should verify annually compliance with the director selection policy and state its findings in the annual corporate governance report.

Complies  Partially compliant  Explain

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum required, taking into account the complexity of the corporate group and the percentage holding of executive directors in the company's capital.

Complies

Partially compliant

Explain

16. The percentage of proprietary directors out of the total of non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion may be relaxed:

- a) In companies with large capital where only a few equity stakes can be considered legally significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board of Directors but not related to each other.

Complies  Explain

17. Independent directors should be at least half of the total board members.

However, when the company does not have large capital, or when a company with large capital has a shareholder or several shareholders acting together, who control over 30 percent of the share capital, the number of independent directors should be at least one third of the total board members.

Complies

Explain

18. Companies should disclose on their websites and keep them regularly updated with the following information concerning its directors:

- a) Professional and biographical profile.
- b) Directorships held in other companies, listed or otherwise, and other paid activities that they carry out, whatever their nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member of the company and of subsequent re-elections.
- e) Shares held in the company, and any options on them.

Complies  Partially compliant

Explain

19. The annual corporate governance report, first checked by the Appointments Committee, will explain the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 30% of the capital and shall state the reasons why, if applicable, formal requests to be present on the Board from shareholders whose shareholding is equal to or more than that of others who were appointed proprietary directors when they so requested were refused.

Complies

Partially compliant

Explain

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. Also, if such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter shall resign in the relevant numbers.

Complies

Partially compliant

Explain

Not applicable

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as established by the Bylaws, except where there is just cause, assessed by the Board of Directors on the basis of a report from the Appointments Committee. In particular, just cause will be presumed when the directors take up new posts or responsibilities that prevent them from allocating enough time to the work as a board member, or are in breach of their duties as members or come under one of the disqualifying grounds for classification as independent director enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, when these changes in the structure of the Board of Directors arise from the proportionality criterion established in recommendation 16.

Complies  Explain

22. Companies should establish rules obliging directors to disclose and, if applicable, tender their resignation in any circumstances that might harm the company's name or reputation and, in particular, to inform the Board of Directors of any criminal charges brought against them and the progress of the trial.

When a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation as soon as possible and, in the light of the particular circumstances, decide if he/ she should continue in his/her office. The board of directors should give a reasoned account of all such determinations in the annual corporate governance report..

Complies  Partially compliant  Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independent directors and other directors not subject to potential conflicts of interest should oppose any decision that could harm the interests of shareholders without Board representation.

When the Board of Directors makes significant or reiterated decisions about which a director has expressed serious reservations, then he/she must draw the pertinent conclusions. If the director resigns for such causes, he/she should explain his/her reasons in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the Board, even if he or she is not a director.

Complies  Partially compliant  Explain  Not applicable

24. Directors who step down from their office before their tenure expires, through resignation or otherwise, should explain their reasons in a letter sent to all members of the Board of Directors. And, whether or not such resignation is disclosed as a material event, the reason should be explained in the annual corporate governance report.

Complies  Partially compliant  Explain  Not applicable

25. The Appointments Committee should ensure that non-executive directors have enough time available to perform their functions properly.

The regulations of the Board of Directors should establish the maximum number of company boards on which directors can serve.

Complies  Pratically compliant  Explain

The Company does not consider it necessary to define a maximum number of Boards of Directors of which the members of its Board of Directors may form part. Among the points reviewed prior to the appointment or re-election of Board Members is the

availability of candidates as stipulated in the Director Recruitment Policy. The Company considers that, this availability analysis achieves the same objective pursued by Recommendation 25, i.e. to make sure that Directors will devote sufficient time to collect information, be aware of the reality of the company and the evolution of the business and to participate in Board meetings and Commissions.

26. The Board of Directors should meet with the necessary frequency to perform its functions efficiently, eight times a year at least, in accordance with a calendar and agendas set out at the start of the year, to which each director individually may propose the addition of initially unscheduled items on the agenda.

Complies  Partially compliant  Explain

The Regulations of the Board of Directors require a minimum of six meetings. In fiscal year 2017 it was not necessary to increase this number to meet the needs of the company.

Article 25 of the Regulations of the Board of Directors states that the obligations of Directors include urging those persons with the capacity to call extraordinary meetings of the Board to call one or include the items it deems appropriate in the agenda of the first session scheduled to be held.

27. Director absences should be reduced to essential cases and quantified in the annual corporate governance report. And, when an absence must occur, directors should grant a power of representation with the proper instructions.

Complies  Partially compliant  Explain

28. When directors or the secretary express concern over some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved by the Board of Directors, they should be recorded in the Minutes, if the person expressing them so requests.

Complies  Partially compliant  Explain  Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to perform their functions properly, including if circumstances so require, external assistance at the company's expense.

Complies  Partially compliant  Explain

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

Complies  Explain  Not applicable

31. The agenda of the board meetings should clearly indicate on which points the Board of Directors must arrive at a decision or resolution, so that they can study or gather together beforehand the information they need for them to arrive at such a decision or resolution.

When, on an exceptional basis, for reasons of urgency, the chairman wishes to present decisions or resolutions for Board approval that were not on the meeting agenda, their inclusion will require the express prior consent of the majority of directors present, duly stated in the Minutes.

Complies  Partially compliant  Explain

32. Directors should be regularly informed of movements in share ownership and of the opinions that significant shareholders, investors and rating agencies have on the company and its group.

Complies  Partially compliant  Explain

33. The chairman, as the person in charge of the efficient functioning of the Board of Directors, in addition to exercising the functions assigned to him by the law and bylaws, should prepare and submit to the Board of Directors a schedule of meeting dates and agendas; organize and coordinate regular evaluations of the Board and, if appropriate, of the company's chief executive officer; be responsible for management of the Board and the effectiveness of its functioning; ensure that enough time is given to the discussion of strategic issues, and agree and review knowledge refresher courses for each director, when circumstances so advise.

Complies  Partially compliant  Explain

34. When a coordinating director has been appointed, the Bylaws or the regulations of the Board of Directors should grant him or her the following powers in addition to those conferred by law: to chair the Board of Directors in the absence of the chairman and vice chairmen, if there are any, to give voice to the concerns of non-executive directors; to maintain contacts with investors and shareholders to hear their views in order to form an opinion on their concerns, especially those that have to do with the company's corporate governance; and to coordinate the plan for succession to the position of chairman.

Complies  Partially compliant  Explain  Not applicable

The Company considers that, given the absence of an Executive Chairman since December 2016, the figure of Coordinating Director is not mandatory. Nevertheless, bearing in mind best practices, it decided to maintain the figure of a Coordinating Director, although the functions assigned to the Director do not entirely match the content in the recommendation, with the Director being especially empowered to: (i) request a meeting of the Board of Directors or the inclusion of new points on the agenda for a meeting already convened, (ii) coordinate and arrange meetings with external directors, and (iii) lead, if appropriate, the periodic appraisal of the Chairman of the Board of Administration. These powers do not entirely match the powers included in the recommendation.

35. The secretary of the Board of Directors should particularly ensure that the Board's actions and decisions are informed by the good governance recommendations of this Code that are of relevance to the company.

Complies  Explain

36. The Board of Directors in full session should conduct an annual evaluation, adopting, if necessary, an action plan to correct weaknesses detected in:

- a) The quality and efficiency of the performance of the Board of Directors.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and abilities.
- d) The performance of the chairman of the Board of Directors and of the company's chief executive.
- e) The performance and contribution of each individual director, with particular attention to the chairmen of various Board committees.

The evaluation of Board committees will be based on the report that they send to the Board of Directors, while that of the Board itself should be based on the report made on it by the Appointments Committee.

Every three years, the Board of Directors will be assisted in the evaluation process by an external consultant, whose independence should be verified by the Appointments Committee.

Any business dealings that the consultant or any company in its corporate group maintain with the company or any company in its corporate group should be detailed in the annual corporate governance report.

The process and areas evaluated should be described in the annual corporate governance report.

Complies  Partially compliant  Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the Board of Directors and its secretary should be the secretary of the Board of Directors.

Complies  Partially compliant  Explain  Not applicable

38. The Board of Directors should be always informed of the matters discussed and decisions made by the executive committee and all Board members should receive a copy of the Minutes of the Executive Committee's meetings.

Complies  Partially compliant  Explain  Not applicable

39. The members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing or risk management matters, and the majority of its members should be independent directors.

Complies  Partially compliant  Explain

40. Under the supervision of the Audit Committee, the company should have a unit in charge of the internal audit function to monitor the proper functioning of the reporting and internal control systems. This unit should report functionally to the Board's non-executive chairman or to the chairman of the Audit Committee.

Complies  Partially compliant  Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents emanating from its performance and submit an activities report at the end of each year.

Complies  Partially compliant  Explain  Not applicable

42. The Audit Committee should have the following functions in addition to those assigned by law:

1. With respect to internal control and reporting systems:

a) To monitor the preparation process and the integrity of the financial information prepared on the company and, if appropriate, the group, checking for compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.

b) To ensure the independence of the unit handling the internal audit function; to propose the selection, appointment, re-election and removal of the head of the internal audit service; to propose the service's budget; to approve its preferences and work programmes, ensuring that it focuses primarily on the main risks of the company; to

receive regular reports on its activities, and to verify that the Senior Management takes into account the findings and recommendations of its reports.

c) To establish and supervise a mechanism that enables staff to report, confidentially and, if appropriate and possible, anonymously, any potentially significant irregularities, in particular, financial or accounting irregularities, that they detect in the company.

2. In relation to the external audit:

a) Investigate the issues giving rise to the resignation of the external auditor, should this occur.

b) Ensure that the remuneration of the external auditor for its work does not compromise its quality or its independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements with the outgoing auditor and the content thereof.

d) Ensure that the external auditor has an annual meeting with the full session of the Board of Directors to inform it of the work undertaken and the developments in the company's risk and accounting situation.

e) Ensure that the company and the external auditor follow the current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, other rules concerning auditor independence.

Complies  Partially compliant  Explain

43. The Audit Committee should be able to meet with any employee or manager of the company, even ordering their appearance without the presence of another manager.

Complies  Partially compliant  Explain

44. The Audit Committee should be informed of any structural or corporate change operations that the company is planning, so that the Committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, in particular, if applicable, the exchange ratio proposed.

Complies  Partially compliant  Explain  Not applicable

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risks the company faces (including, amongst others, operational, technological, legal, social, environmental, political and reputational), including among the financial or economic risks the contingent liabilities and other off balance-sheet risks.

b) The determination of the risk level the company considers acceptable.

c) The measures in place to mitigate the impact of identified risks in case they occur.

d) The internal control and reporting systems to be used to control and manage the abovementioned risks, including contingent liabilities or off-balance sheet risks.

Complies  Partially compliant  Explain

46. Under the direct supervision of the Audit Committee or other specialized Board committee, the company should establish an internal risk control and management function attributed to one of the company's internal department or units with the following responsibilities expressly given to it:

- a) To ensure that risk control and management systems are functioning correctly and, specifically, that the major risks that may affect the company are correctly identified, managed and quantified.
- b) To participate actively in the preparation of risk strategies and in key decisions about their management.
- c) To ensure that risk control and management systems mitigate risks effectively within the framework of the policy defined by the Board of Directors.

Complies  Partially compliant  Explain

47. Appointees to the Appointments and Remuneration Committee – or of the Appointments Committee and Remuneration Committee, if separately constituted – should have the right knowledge, skills and experience for the functions they are called upon to perform and the majority of their members should be independent directors.

Complies  Partially compliant  Explain

48. Companies with large capital should have separately constituted Appointments and Remuneration Committees.

Complies  Explain  Not applicable

At the close of fiscal 2017, the Company considers that the existence of a single Appointments and Remuneration Committee performs its functions appropriately, especially considering the composition of the Board (11 members) and the Committee itself (4 members, External Directors of which 3 are Independent Directors). It is currently believed that the creation of two different Committees would not add any value and could lead to a loss of synergies.

49. The Appointments Committee should consult with the company's Chairman and chief executive, especially on matters relating to Executive Directors.

And any Director may approach the Appointments Committee to propose potential candidates that it might consider suitable to cover vacancies on the Board.

Complies  Partially compliant  Explain

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

- a) To propose to the Board of Directors the standard conditions for the contracts of the senior officers.
- b) To monitor compliance with the remuneration policy established by the company.
- c) To review periodically the remuneration policy established for directors and senior officers, including share-based remuneration systems and their application, and to ensure that their individual remuneration is proportionate to the amounts paid to other directors and senior officers in the company.
- d) To ensure that possible conflicts of interest do not undermine the independence of any external advice provided to the Committee.

e) To verify the information on remuneration of directors and senior officers contained in the various corporate documents, including the annual directors' remuneration report.

Complies  Partially compliant  Explain

51. The Remuneration Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies  Partially compliant  Explain

52. The rules on the composition and functioning of the supervision and control committees should be established in the regulations of the Board of Directors and should be consistent with those applicable to the legally mandatory committees, as specified in the preceding recommendations, including:

- a) Committees should be formed exclusively of non-executive directors, with a majority of independent directors.
- b) Their chairmen must be independent directors.
- c) The Board of Directors should appoint the members of such committees with regard to the knowledge, skills and experience of the directors and each committee's terms of reference; discuss their proposals and reports; and provide accounts of their activities at the first full session of the Board of Directors after each committee meeting, and be responsible for the work carried out.
- d) The committees may seek external advice, when they consider it necessary for the performance of their functions.
- e) Minutes of their meetings should be drawn up and made available to all the directors.

Complies  Partially compliant  Explain  Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be assigned to one Board committee or split between several, which may be the Audit Committee, the Appointments Committee, the corporate social responsibility committee, if there is one, or a specialized committee that the Board of Directors decides to create for the purpose under its powers of self-organisation, with at the least the following functions specifically assigned to them:

- a) To monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Supervision of the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) Periodic evaluation of the effectiveness of the company's corporate governance system, to confirm that it is accomplishing its mission to promote the corporate interest and taking into account, as appropriate, the legitimate interests of the remaining stakeholders.
- d) To review the company's corporate social responsibility policy, ensuring that it is aimed to the creation of value.
- e) To monitor corporate social responsibility strategy and practices and to assess their degree of compliance.
- f) Supervision and evaluation of the company's processes for interaction with its various stakeholder groups.

g) The evaluation of all aspects of the non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordination of the non-financial and diversity information reporting process, in accordance with applicable legislation and international benchmarks

Complies

Partially compliant

Explain

The regulations of the Board of Directors do not expressly include a detailed description of the recommendations it incorporates, although the Audit and Compliance Committee effectively assumes supervision of Corporate Governance regulations in the Company. Among its functions and in accordance with article 14.2 paragraph i) of the Regulations of the Board of Directors, the Audit and Compliance Committee is responsible for the analysis of compliance with Internal Code of Conduct in the Securities Markets, the Regulations of the Board of Directors and, in general, the rules for Company Governance and proposals for improvements.

All the listed functions are assumed by the Committee or directly by the Board of Directors, in particular:

a) the Annual Report with information on all activities related to corporate responsibility is approved by the Board of Directors;

b) the report on non-financial risks is validated by the Audit and Compliance Committee and subsequently submitted to the Board of Directors as part of the Risk Map;

c) The Appointments and Remuneration Committee supervises monitoring of the code of conduct in the Executive Behaviour Regulations, compliance and periodic updating.

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

a) The objectives of the corporate social responsibility policy and the deployment of supporting instruments.

b) The corporate strategy regarding sustainability, the environment and social issues.

c) Specific practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of application of the specific practices referred to in the above letter, the associated risks and their management.

e) The mechanisms for the supervision of non-financial risk, ethics and business conduct.

f) The channels for communication, participation and dialogue with the stakeholder groups.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity

Complies

Partially compliant

Explain

At the close of fiscal 2017, in addition to a Code of Ethics in which its values, principles and commitments are defined, the Company had a Corporate Responsibility Policy and an Environmental Policy, both approved by the Board of Directors on February 27 and June 8, respectively. The documents describe the commitments assumed by the Company in matters subject to regulation.

55. The company should report, in a separate document or in the management report, matters relating to corporate social responsibility, using any of the internationally accepted methods for this.

Complies  Partially complies

Explain

56. Directors' remuneration should be enough to attract and retain directors with the desired profile and to compensate the dedication, qualifications and responsibility that the post demands, but not so high as to compromise the independent judgment of nonexecutive directors.

Complies  Explain

57. Variable remuneration linked to the performance of the company and to personal performance and remuneration by the award of shares, options or rights over shares or instruments on the basis of share value, and membership of long-term savings schemes such as pension plans, retirement systems or other social welfare systems should be confined to executive directors.

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

Complies  Partially complies  Explain

58. In the case of variable remuneration, remuneration policies should include limits and specific technical safeguards to ensure that such remuneration reflects the professional performance of the beneficiaries and does not simply derive from the general development of the markets or of the company's activity sector, or from other circumstances of that kind.

And, in particular, variable remuneration items:

- a) should be linked to predetermined and measurable performance criteria and that these criteria should take into consideration the risk assumed in order to obtain a result.
- b) Promote the sustainability of the company and include non-financial criteria that are appropriate to the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies
- c) Be focused on accomplishing a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over enough time to appreciate its contribution to the sustainable creation of value, so that performance measurement is not based exclusively on specific, occasional or extraordinary events

Complies  Partially compliant  Explain  Not applicable

59. Payment of a relevant part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have been met.

Complies  Partially compliant  Explain  Not applicable

60. Remuneration linked to company results should bear in mind any qualifications stated in the external auditor's report that reduce these results.

Complies  Partially compliant  Explain  Not applicable

61. A relevant part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share or instrument price.

Complies  Partially compliant  Explain  Not applicable

The Company understands that the recommendation intends to guarantee the involvement of Executive Directors in the results of the Company and its performance.

In view of the specific situation, the Company considers that it is not necessary to distribute shares to Executive Directors given that they (and other members of the family indicated in the IAGC) are already direct or indirect shareholders. This linkage thus already exists without the need for the distribution of additional shares as a means of remuneration.

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

The condition mentioned above will not apply to any shares that the director must dispose of in order to meet the costs related to their acquisition.

Complies  Partially compliant  Explain  Not applicable

63. Contractual agreements should include a clause that allows the company to reclaim variable components of remuneration when payment was out of step with the performance conditions or based on data afterwards found to be misrepresented.

Complies  Partially compliant  Explain  Not applicable

This type of clause is not foreseen, although, in line with Good Governance criteria, the payment of short-term variable remuneration is only made a certain time after the close of the financial year, taking place within the first 60 days after the formulation of the annual accounts, prior approval of the Board after proposal by the Appointments and Remuneration Committee.

When the variable remuneration is accrued and paid out after verification of the achievement of objectives, a clawback clause is not included in the CEO's contract. The Company understands that the purpose of the recommendation to ensure that variable remuneration is not paid out under the aforementioned conditions, would be covered due to the fact that both in the short and long term variable remuneration payment is carried out only after the analysis and verification of the achievement of objectives (in the case of short term variable remuneration, within the periods indicated above), all in accordance with the all of the information held by the Company, the proposal being duly reviewed by the Appointments and Remuneration Committee and subject to the approval of the Board of Directors.

64. Contract termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company has been able to confirm that the director has met the predetermined performance criteria.

Complies  Partially compliant  Explains  Not applicable

## **H** OTHER INFORMATION OF INTEREST

1. If there is any other aspect relevant to the corporate government in the company or in the group entities that has not been set out in the rest of the sections of this report, but that it is necessary to include in order to provide more comprehensive and well-grounded information on the structure and practices in the entity or its group, detail them briefly

2. This section may also include any other relevant information, clarification or detail related to previous sections of the report insofar as they are relevant and not repetitive.

Specifically, state whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the information that it is mandatory to provide when different from that required by this report.

3. The company may also state whether it has voluntarily signed other international, industry-wide or any other codes of ethical principles or best practices. If applicable, the code in question shall be identified along with the date of signing.

The company is associated with:

- ECPAT - Code of Conduct for the Protection of Children (2006)
- The Code (2007)
- Global Compact (2008)
- FTSE4Good Ibex (2008)
- UNWTO Private Sector Commitment to the Global Code of Ethics for Tourism (2011)
- Carbon Disclosure Project - CDP (2011)
- Agreement with the International Union of Workers IUF-IUF (2013)
- United Nations Paris Conference on Climate Change (2015)
- ICC International Chamber of Commerce - Corporate Responsibility and Anticorruption Commission (2016)
- World Travel & Tourism Council (2016)
- Transparency, Governance and Integrity Cluster - Forética (2017)
- Climate Change Cluster - Forética (2017)

In 2012, the Meliá Hotels International Code of Ethics was approved.

The company does not subscribe to the Code of Good Tax Practices of July 20, 2010.

Note to sections A.2, A.3, A.4, A.7 and C.1.17:

The company reported in the aforementioned sections and named "Majorcan Hotels Exlux, SL" is the same as "Majorcan Hotels Luxembourg SARL" reported in previous years. In 2017, it changed its name and relocated to Spain. Note to section C.2.1:

In regard to the table in this section that indicates the number of years the president has been in the position: Fernando d'Ornellas Silva has been Chairman of the Audit and Compliance Committee since June 23, 2016.

Continuation of the explanation of the most important activities carried out by the Appointments and Remuneration Committee in financial year 2017:

i) Composition of the Board and Commissions: Annual verification of the nature of the Directors. Proposals and reports for re-election of Directors submitted by the Board for the approval of the General Shareholders' Meeting.

ii) Evaluation of the Board, Commissions and Chief Executive: Supervision of the annual self-assessment procedure and analysis of results for presentation to the Board. The evaluation for financial year 2017 has been carried out with the help of an external consultant.

iii) Annual Report on Directors' Remuneration and Corporate Governance: Supervision of the process of preparing the Annual Report on Directors' Remuneration for 2016 for subsequent submission to the Board. Review of internal regulations linked to its functions. Preparation of the Committee Activities Report for the 2016 financial year.

iv) Remuneration: Review of the achievement of objectives by the CEO and proposal of new objectives for subsequent submission to the Board. Review and proposal to update the remuneration of Directors and Senior Management, and analysis of the corporate salary position for the 2016 financial year.

v) Other matters:

Proposed review of global salary policy and indicators of long-term remuneration. Succession plan and COO training plan. Quality and climate surveys. Monitoring of Talent Management.

Continuation of the explanation of the most important actions carried out by the Audit and Compliance Committee in fiscal 2017:

i) External Audit: relationship with external auditors, follow-up on comments letter, proposal for renewal of external auditors for fiscal 2018, beginning of selection process for new external auditors, approval processes for services other than auditing, receipt of the auditor's letter of independence and preparation of the corresponding report.

ii) Financial Information: analysis and review of economic-financial information to be published periodically.

iii) Corporate Governance: IAGC review for submission to the Board for approval. Supervision of proposals for the creation or modification of internal regulations.

iv) Internal control: supervision of information on the description of Internal Control over Financial Reporting (ICFR) after referral to the Board for approval.

v) Internal audit: analysis of the 2016 Annual Report and Audit Plan 2017. Review and approval of the Annual Audit Plan and Budget 2018.

vi) Risk Management / Compliance: review of the 2016 Risk Map. Supervision of Crime Prevention and Detection Model and its updates.

vii) Other matters:

- Preparation of the Annual Activity Report for the Commission for fiscal 2016.
- Security of information systems.
- Monitoring of the operation and management of the complaints channel.
- Actions linked to information on related operations.
- Treasury stock situation and liquidity contracts.
- Group fiscal and corporate structure.
- Analysis of regulatory changes.

This annual corporate governance report was approved by the company's Board of Directors at its meeting of 23/03/2018.

State whether any directors have voted against or have abstained in relation to the approval of this Report.

Yes

No