

**REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL SHAREHOLDERS'
MEETING ON THE MODIFICATION OF CERTAIN ARTICLES OF THE BOARD'S
REGULATION OF 16th DECEMBER, 2014**

Following a report in favour from the Audit and Control Committee, in its meeting of 26th January, 2016, the Company's Board of Directors, in accordance with Article 528 of the Revised Text of the Law of Capital Companies, approved by Royal Legislative Decree no. 1/2010 of 2nd July, and with Article 3 of the Board's Regulation, Consolidated Text of 16th December, 2014, agreed to modify the Board's Regulation, basically in order to adapt them:

- a) To the Recommendations of the new Code of Good Governance of Listed Companies, approved by the National Securities Market Commission on 18th February, 2015.
- b) To the modification made to Article 529 *quaterdecies* of the Law of Capital Companies on the composition and functions of the Audit Committee, by Law 22/2015 of 20th July, on the Auditing of Accounts.
- c) To the provisions of the Bylaws.
- d) To technical details, in some articles, which do not materially affect their present content.

Specifically, the modified provisions of the Board's Regulation of 16th December, 2014, were the following:

- **Article 4.- Dissemination**, to specify the application of the Regulation to senior management.

- **Article 5.- General Monitoring Functions**

Its content is adapted to the provisions of Article 249 bis of the Law of Capital Companies, and to the new Code of Good Governance.

- **Article 6.- Aims of the Activities of the Board**

The concept of "social interest" is required, in accordance with the Code of Good Governance.

- **Article 7.- Categories of Directors**

Details of a merely technical nature are given.

- **Article 8.- Qualitative membership**

With regard to the proportions of proprietary and independent directors, its content is adapted to conform to the provisions of the Code of Good Governance.

- **Article 10.- The Chairman of the Board**

The Chairman's powers are widened.

- **Article 11.- The Vice-Chairman or Vice-Chairmen**

The powers of the Co-ordinating Director, who will have to be appointed, are specified, on the assumption that the Chairman is considered to be an Executive Director.

- **Article 14.1- The Deputy-Secretary of the Board**

It is adapted to conform to the wording of the By-laws.

- **Article 15.- The Board Committees**

It is envisaged that the Board of Directors will be able to create other Committees (in addition to the Committees for Audit and Control and for Appointments and Remunerations), and that these Committees will normally report to the Board on their activities.

- **Article 16.7- The Executive Committee**

The Executive Committee (if it exists) will be required to send the minutes of its meetings to all the Board Members.

- **Article 17.- The Audit and Control Committee**

- Lays down the minimum and maximum numbers of its members.
- Its functions are adapted to conform to the provisions of Article 529 *quaterdecies* of the Law of Capital Companies and of the new Code of Good Governance.
- The Committee will be required to have available to it the means that are necessary for its independent functioning.

- **Article 18.- Appointment and Remuneration Committee**

- Lays down the minimum and maximum numbers of its members.
- Its functions are adapted to conform to the recommendations of the new Code of Good Governance.

- **Article 19.- Board of Directors' Meetings**

- The minimum number of Board Meetings to be held during the year is fixed at eight.
- The system for convening meetings is completed.
- The annual evaluation of the Board and of its Committees is regulated. As regards the Chairman of the Board, the Chief Executive Officer and every Board Member, the evaluation of the performance of their functions is also regulated.

- **Article 20.- Constitution and development of Meetings**

- Introduces the obligation to record in the minutes any worries expressed by the Board Members about the functioning of the Company.
- Obliges the Board Members to express their attitude in relation to matters which could adversely affect shareholders who are not represented on the Board.

- **Article 21.- Adoptions of resolutions and majorities**

It lays down the manner of counting the votes of Directors involved in conflicts of interest.

- **Article 23.- Appointment of Non-Executive Directors. Incompatibilities.**

Its title is changed, becoming 'Eligibility and Incompatibilities', and it will be applicable to all the Board Members, and not, as hitherto, only to External Directors.

- **Article 25.- Term of Office**

A technical detail is introduced.

- **Article 26.- Removal of Directors**

- The reasons for discontinuing a Director are augmented (to include cases when their continuing in the post could affect the Company's credit or reputation, or when they are prosecuted).
- A decrease in the number of Proprietary Directors is envisaged when the shareholder whom they represent reduces his or her shareholding in the Company to a level which requires the said decrease in their number.
- Establishes that the Board may propose the cessation of an Independent Director for any just cause, and the obligation of any Director to explain the reasons for their cessation or resignation.

- **Article 29.- Help from Experts**

Any Director may request such assistance, and not only External Directors.

- **Article 30.- Directors' Compensation**

It gives the criteria and general guidelines governing the remuneration of the Board Members, as laid down by law and in the Code of Good Governance.

- **Article 33.- Director's General Duty of Diligence**

Its wording is adapted to conform to Recommendation no. 27 of the Code of Good Governance.

- **Article 39.- Approval of transactions with Directors and Significant Shareholders. Transparency.**

A technical detail is inserted into Paragraph 3.

- **Article 41.- Indirect Operations, Activities and Actions. Persons linked to the Director.**

A new technical detail is inserted into Paragraph 1, excluding people connected with a Director from the application of the provisions of Articles 42.2 and 42.3 (Duty to report the possession of shares or options on shares in the Company, and changes in their professional situation, or other changes).

- **Article 44.- Shareholders Relations**

- Specifies that the Board has to receive regular information about movements in the shareholding and about the opinions of significant shareholders.

- Relationships with institutional shareholders, which until now have been covered by Article 45, are now included here.

- Lays down that the Chairman of the Board will report orally to the Ordinary General Shareholders' Meeting on the most relevant aspects of the corporate governance of the Company that have arisen since the previous General Shareholders' Meeting.

- **Article 46.- Relations with Auditors**

Explicitly covers Recommendation no.8 of the Code of Good Governance, that the Audit and Control Committee should ensure that the Annual Accounts are presented to the General Shareholders' Meeting without any reservations in the Audit Report, and that, if there are reservations, the Chairman of the Committee should explain them to the Meeting.

- **Article 47.- Annual Corporate Governance Report**

A new technical detail is inserted.

- **Article 48.- Annual Report on Compensation of Directors**

It is specified that it is the General Shareholders' Meeting which, in an advisory capacity, has to approve the Report.

- **Article 49.- Corporate website**

Covers the information that must be included in the website, in accordance with the Code of Good Governance.

The Board of Directors, in the aforementioned meeting of 26th January, 2016, also approved a Consolidated Text of the Board's Regulation, which obviously includes the agreed modifications.

The foregoing Report is the one which was formulated and unanimously approved by the Board of Directors in its meeting of 26th January, 2016, for the information of the General Meeting of Shareholders, in accordance with Article 528 of the Law of Capital Companies.

Leganés, 26th January, 2016.

The Board Secretary Director,

Rafael de Juan López,