



**REPORT ON THE AMENDMENTS INCLUDED IN THE BOARD OF DIRECTORS REGULATIONS WHICH WILL BE SUBMITTED AT THE COMPANY'S ORDINARY GENERAL SHAREHOLDERS' MEETING AS ITEM EIGHT ON THE AGENDA**

**EIGHT.-** Report to the General Shareholders' Meeting on the amendments included in the Board of Directors Regulations, pursuant to article 528 of the Companies Act.

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In accordance with that established in the article 528 of the Companies Act, the shareholders at the ordinary General Shareholders' Meeting have been informed of the amendments to the Board of Directors Regulations that were approved by this body at its meetings on 28 September and 30 November 2016.

Throughout 2016, the Company amended its Board of Directors Regulations on twice with the aim of (i) reflecting an agreement of the Executive Committee regarding its own functioning and (ii) adapting the composition and competencies of the Audit Committee to the latest wording of article 529 *quaterdecies* of the revised text of the Companies Act, articulated through Law 22/2015, of 20 July on the Auditing of Accounts.

In particular, the approved amendments of the Board of Directors Regulations, of which the General Shareholders Meeting is now reported in accordance with the provisions of article 528 of the Companies Act, have affected the articles 18 (Executive Committee) and 19 (Audit Committee) of the Board of Directors Regulations.

**Executive Committee: frequency of its meetings.**

On 28 September 2016 the Board of Directors approved the amendment of article 18.4 of its Regulations to remove the requirement to hold monthly meetings of the Executive Committee and adapt it to the resolution adopted to such effect by the Committee itself.

**Audit Committee: Composition and competences.**

Law 22/2015, of 20 July, on the Auditing of Accounts which came into force on 17 June 2016, amended, among other concerns, article 529 *quaterdecies* of the Companies Act for the purposes of incorporating several new changes in relation to the composition and competences of the Audit Committee of public interest entities, of which the listed companies form part.

For the purposes of adapting the composition and competences of the Audit Committee to the latest wording of article 529 *quaterdecies* of the Companies Act, the Board of Directors, in its meeting on 30 November 2016, approved the amendment to article 19.1 of the Board of Directors Regulations regarding the requirements of the composition of said Committee and to include the implementation that the Act incorporates in relation to the competences previously attributed to the Audit Committee, the amendment to letters a), b), c), d), e), g) and h) of article 19.2 of the same Regulations.

In particular, the aforementioned letter a) of the aforementioned article 19.2, was amended to incorporate the obligation of the Committee to report at the General Shareholders' Meeting on the result of the audit and explain its contribution to the integrity of the financial information and the role performed by the Committee in this process, as well as including in its letter b) a reference to the responsibility of the Audit Committee in the selection process of an accounts auditor and under the terms established by the legislation in effect at that time.

Included in letters d) and e) of the same article and section are the powers of the Audit Committee to present proposals or recommendations relating to both the preparation process and supervision of the regulated financial information as well as concerning the supervision of the efficiency of the internal control of the Company and the risk control systems.

Letter g) of the aforementioned section 2 includes the reference to any provision of services beyond those of the audit carried out by the accounts auditors that are not the forbidden services shall be subject to authorisation by the Audit Committee.

Finally, letter h) of article 19.2, establishes the need to assess the reasons for the provision of each and every one of the additional services to the audit by the accounts auditors in the report that the Audit Committee must issue expressing an opinion of whether the independence of the auditors has been compromised.

In order to assist shareholders in comparing the wording of the articles amended in the Board of Directors Regulations and that of the articles prior to the amendment, a literal transcription of the amended articles in a double column is included in Annexes I and II of this report.

ANNEX I

TEXT OF THE AMENDMENTS MADE TO THE REGULATIONS OF THE BOARD OF DIRECTORS IN RELATION TO THE EXECUTIVE COMMITTEE

PREVIOUS WORDING	CURRENT WORDING
<p><b>Article 18.- Executive Committee</b></p> <p>[...]</p> <p>4. The Chairman shall call a meeting of the Executive Committee at least once a month, or whenever a meeting is requested by at least two of its members.</p> <p>[...]</p>	<p><b>Article 18.- Executive Committee</b></p> <p>[...]</p> <p>4. The Executive Committee shall meet when called <del>at least once a month, or</del> by its Chairman and <b><u>whenever</u></b> it is requested by at least two of its members.</p> <p>[...]</p>

**ANNEXE II**

**TEXT OF THE AMENDMENTS MADE TO THE REGULATIONS OF THE BOARD OF DIRECTORS IN RELATION TO THE AUDIT COMMITTEE**

PREVIOUS WORDING	CURRENT WORDING
<p><b>Article 19.- Audit Committee</b></p> <p>1. The Board of Directors shall set up an Audit Committee whose members, consisting of a minimum of three and a maximum of five Directors, shall be appointed and removed by the Board of Directors. All of the Committee members must be non-executive Directors, and the majority of them, under no circumstances less than two, must be independent Directors.</p> <p>[...]</p> <p>2. The Audit Committee shall have the following responsibilities:</p> <p>a) Report, via its Chairman, to the General Shareholders' Meeting in regard to the matters raised thereat by shareholders concerning issues that fall within the Committee's remit.</p> <p>b) Propose to the Board of Directors, to then be presented to the General Shareholders' Meeting for consideration, its recommendation to select, appoint, re-elect and remove external auditors or audit companies in accordance with the legislation applicable to the Company, and, if applicable, the terms of their engagement and the scope of their professional remit. The Committee shall investigate the issues giving rise to the resignation of any external auditor.</p> <p>c) Supervise the Company's internal audit services which shall be answerable to the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodic information in regard to its activities and verifying that senior management</p>	<p><b>Article 19.- Audit Committee</b></p> <p>1. The Board of Directors shall set up an Audit Committee whose members, consisting of a minimum of three and a maximum of five Directors, must be appointed and removed by the Board of Directors. All of the Committee members must be non-executive Directors, and the majority of them, <del>under no circumstances less than two,</del> must be independent Directors.</p> <p>[...]</p> <p>2. The Audit Committee shall have the following responsibilities:</p> <p>a) To report, via its Chairman, to the General Shareholders' Meeting in regard to the matters raised by shareholders that fall within the Committee's scope of competence. <b><u>Specifically, it shall report on the results of the audit and explain how it has contributed to the integrity of the financial information and the role played by the Audit Committee in this process.</u></b></p> <p>b) To propose to the Board of Directors, present to the General Shareholders' Meeting for consideration, its recommendation to select, appoint re-elect and remove external auditors or auditing companies, <b><u>taking responsibility for the selection process in accordance with applicable legislation in accordance with the legislation applicable to the company,</u></b> and if <b><u>applicable</u></b>, the terms of their engagement and the scope of their professional remit. The Committee shall investigate the issues giving rise to the resignation of any external auditor.</p> <p>c) To supervise the Company's internal audit services depend on the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodical information in regard to its activities and verifying that senior management</p>

takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the proceedings whereby Company personnel may anonymously report any irregularity in the internal control and risk management systems.

d) Monitor the preparation process and presentation of regulated financial information.

e) Monitor the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it shall supervise the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and shall discuss with the accounts auditors or, where applicable, the experts appointed for that purpose, any significant weaknesses detected in the auditing process.

f) [...]

g) Liaise with the external auditors in order to receive information on any issues that might jeopardise the latter's independence for examination by the Committee and any others connected with the auditing procedure, and to maintain with the auditors the communications envisaged in audit legislation and in the technical auditing regulations. The Committee shall also receive information from the external auditors on a regular basis regarding the audit plan and the results of its execution, ensuring that the auditors' recommendations are taken into consideration by senior management. The Committee shall also monitor compliance with the regulations in force concerning the provision of services other than auditing, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. In this regard, each year the external auditors will issue written confirmation of their independence from the Company, as well as information on any other type of service provided and the related fees received by the external

takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the proceedings whereby Company personnel may anonymously report any irregularity in the internal control and risk management systems.

d) To supervise the preparation and presentation of regulated financial information **and submit recommendations or proposals to the Board of Directors.**

e) To supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, the internal control and risk management systems shall be supervised by the Committee at least once a year, to ensure that the main risks are adequately identified, managed and reported, and will discuss with the auditors or experts appointed for that purpose any significant weaknesses detected in the auditing process. **For this purpose, the Audit Committee may submit recommendations or proposals to the Board of Directors.**

f) [...]

g) To liaise with the external auditors in order to receive information on any issues that might **threaten jeopardise** their independence for examination by the Committee and any others connected with the auditing procedure, **where appropriate, approve services other than those prohibited according to the terms and conditions established in the regulations,** and to maintain with the auditors communications envisaged in audit legislation and in the technical auditing regulations. The Committee shall also receive information from the external auditors on a regular basis regarding the audit plan and the results of its execution, ensuring that the auditors' recommendations are taken into consideration by senior management. The Committee shall also monitor compliance with the regulations in force concerning the provision of services other than auditing, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. Each year the external auditors will issue written confirmation of their independence from the Company, as well as **detailed and**

<p>auditors or persons or entities related thereto.</p> <p>h) Issue a report each year, prior to the auditor's report, stating an opinion on the independence of the auditors and on the valuation of the provision of any kind of additional service, considered individually or as a whole, other than the legally stipulated audit and in relation to the independence or regulations governing the audit.</p> <p>i) [...]</p>	<p><b>individualized</b> information on any other type of service provided and the related fees received by the external auditors or persons or entities related thereto.</p> <p>h) To issue a report each year, prior to the auditor's report, stating an opinion on <b>whether</b> the independence of the auditors and has been <b>compromised. This report should contain a reasoned assessment of the provision of each and every</b> additional services, <del>of any class</del>, considered individually or on a whole, other than the legally stipulated and in relation to the independence or regulations <b>governing the</b> audit.</p> <p>i) [...]</p>
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