

# REGULATIONS OF THE BOARD OF DIRECTORS OF PROSEGUR COMPAÑÍA DE SEGURIDAD S.A.

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## Chapter I

### PRELIMINARY

#### **Article 1. Purpose**

1. The purpose of the Regulations of the Board of Directors (the “**Regulations**”) of PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A. (the “**Company**”) is to set forth the main principles of action of said body, the basic rules governing its organization and operation, and the rules of conduct of its members.
2. The rules of conduct established in these Regulations for directors shall be applicable to the Company's senior executives, insofar as they are compatible with the specific nature thereof.

#### **Article 2. Interpretation**

These Regulations shall be interpreted in accordance with the applicable standards provided by the law and the Corporate Bylaws and with the principles and recommendations regarding the good governance of listed companies issued at the government's behest.

#### **Article 3. Modification**

1. These Regulations may only be modified at the behest of the Chairman, three Directors or the Audit Committee, and any such proposal must be accompanied by an explanatory report.
2. Proposed modifications must be reported by the Audit Committee.
3. The text of the proposal, the explanatory report by its authors, and, in the event, the Audit Committee's report must be attached to the announcement of the Board of Directors' Meeting at which the proposal is to be discussed.

The meeting must be called with at least seven days' notice, unless reasons of urgency force a meeting to be called with shorter notice, which in no case shall be less than three days.

4. To be valid, modifications to the Regulations shall require the agreement of a majority of two-thirds of the directors present at the meeting.

#### **Article 4. Dissemination**

1. Directors and senior executives are obliged to know, adhere to and enforce these Regulations. For this purpose, the Secretary to the Board of Directors shall provide them all with a copy.
2. The Board of Directors shall adopt the necessary measures for the Regulations to be disseminated among shareholders and the investing public in general.

### **Chapter II**

#### **BOARD OF DIRECTORS' MISSION**

#### **Article 5. General supervisory duties**

1. Except in respect of matters reserved for the competency of the General Shareholders' Meeting, the Board of Directors is the Company's most senior decision-making body.
2. It is the Board of Directors' policy to delegate the ordinary management of the Company to executive bodies and the management team, and to focus on general supervisory duties.
3. It shall not be possible to delegate those powers confined by law or by the Corporate Bylaws to the direct sphere of knowledge of the Board of Directors, nor others necessary for the responsible exercise of general supervisory duties.

For this purpose, the Board of Directors undertakes, in particular, to directly exercise the following faculties:

- a) The assurance of the effective operation of the constituted commissions and the action of the delegate bodies and the designated directors.
- b) The determination of the Company's general policies and strategies, and, in particular:
  - (i) the strategic or business plan, as well as the annual management and budget targets;
  - (ii) investment and financing policy;
  - (iii) definition of the structure of the group of companies;
  - (iv) corporate governance policy of the Company and of the group of which it is the parent company;
  - (v) corporate social responsibility policy;
  - (vi) remunerations policy and the evaluation of the performance of senior executives;
  - (vii) treasury share policy and, in particular, the limits thereof;

- (viii) dividend policy;
- (ix) risk containment and management policy, including taxes, as well as the supervision of internal reporting and control systems.
- c) The authorisation or dispensation of the obligations derived from the duty of loyalty as provided in article 230 of the Capital Corporations Act.
- d) Its own organisation and operation.
- e) The drawing up of annual accounts and their presentation to the General Shareholders' Meeting.
- f) The drawing up of any kind of report required by law to the board of administration provided the operation to which the report refers cannot be delegated.
- g) The appointment and dismissal of the Company managing directors and the establishment of the conditions of their contract.
- h) The appointment and dismissal of directors directly dependent on the Board of Directors or any of its members, and the establishment of the basic conditions of their contracts, including their pay.
- i) The decisions relative to the directors' remuneration, within the framework of the Bylaws and the remuneration policy approved by the General Shareholders' Meeting.
- j) The calling of the General Shareholders' Meeting and the preparation of the agenda and proposed agreements.
- k) All faculties that the General Shareholders' Meeting might have delegated to the Board of Directors, except for those expressly authorised thereby for sub delegation.
- l) The organisation and operation of the Board of Directors and particularly the approval and modification of these Regulations.
- m) The approval of such financial information as, due to its being a listed company, the Company is obliged to make public periodically.
- n) The definition of the structure of the group of companies of which the Company is the parent entity.
- o) The approval of investments and operations of all kinds which, due to their large amounts or special characteristics, are considered to be strategic or of special tax risk, except when they must be approved by the General Shareholders' Meeting.
- p) The approval of the creation or acquisition of participations in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens,

as well as any other similar transactions or operations which, due to their complexity, might undermine the transparency of the Company and its group.

- q) The approval, according to the report of the Audit Committee, of the eventual operations conducted between the Company or companies of its group and directors, in the terms of articles 229 and 230 of the Capital Corporations Act or with shareholders, albeit individually or in association with others, of a significant participation, including shareholders represented on the Board of Directors of the Company or of other companies part of the same group or with persons related thereto (“related-party transactions”), in the terms and conditions established herein.
  - r) The determination of the Company tax strategy.
  - s) All other decisions specifically provided for herein.
4. Notwithstanding the foregoing, when there are duly justified urgent circumstances, the decisions corresponding to the matters above may be taken by the delegated bodies or persons, which must be ratified at the first Board of Directors held after the decision has been made.

#### **Article 6. Unlocking value for shareholders**

1. The criterion which must at all times prevail in respect of the Board of Directors' actions is the sustained maximization of the value of the company and its long-term success.
2. In application of the aforementioned criterion, the Board of Directors shall determine and revise the Company's business and financial strategies in accordance with the following indications:
  - a) The adoption of new investment projects must be based on obtaining adequate returns in relation to the Company's cost of capital.
  - b) Discretionary cash not necessary for new investment projects or to maintain the Company's financial solidity must be distributed to shareholders.
3. In the sphere of corporate organization, the Board of Directors shall take the necessary measures to ensure:
  - a) that the Company's management seeks to unlock value for shareholders and has the correct incentives to do so;
  - b) that the Company's management is under the effective supervision of the Board of Directors;
  - c) that no person or small group of persons holds decision-making powers not subject to counter-weight and control;
  - d) that no shareholder receives privileged treatment over the others;

- e) that relations with the Company's shareholders and stakeholders are conducted in accordance with the principles of respect for the law, the regulations governing the Company, and the customs and good practices of the securities markets.

#### **Article 7. Other interests**

Maximization of the Company's value in the interest of shareholders must necessarily be achieved by the Board of Directors upholding legal requirements, complying in good faith with explicit and implicit agreements with workers, suppliers, financiers and customers and, in general, observing all those ethical duties that are reasonably imposed by a responsible conduct of business.

### **Chapter III**

#### **COMPOSITION OF THE BOARD OF DIRECTORS**

##### **Article 8. Qualitative composition**

1. The members of the board of the Company will be classified between executive and non-executive or external, and in this last category may be proprietary, independent or other external, all according to what is provided in law.
2. The Board of Directors, in exercising its powers of proposal to the General Shareholders' Meeting and of co-option in order to cover vacancies, shall strive to ensure that in its composition external directors constitute a broad majority of the Board of Directors and that the number of executive officers is the minimum necessary, considering the complexity of the group of companies and the percentage shareholding of each of the executive officers in the Company's capital.
3. In order to establish a reasonable balance between proprietary directors and independent directors, the Board of directors shall pay heed to the ownership structure of the Company, so that the relationship between one and another kind of director best reflects the relationship between stable and floating capital.

##### **Article 9. Quantitative composition**

1. The Board of Directors shall comprise the number of directors established by the General Shareholders' Meeting within the limits set by the Company's Corporate Bylaws.
2. The Board of Directors shall propose to the General Shareholders' Meeting the number which, in accordance with the changing circumstances of the Company, is most adequate to ensure the due representativeness and efficient operation of the body. In no case may the number proposed exceed fifteen.

### **Chapter IV**

#### **STRUCTURE OF THE BOARD OF DIRECTORS**

##### **Article 10. The Chairman of the Board of Directors**

1. The Chairman, who is the Company's highest representative, is considered a key position

for achieving, maintaining and promoting the efficient performance by the Board of Directors and its members of their tasks and responsibilities, and for ensuring the existence of the necessary conditions for this, being responsible for leading the Board of Directors and playing an essential role in developing the Company's strategy (while respecting executive responsibilities too). In addition to the powers granted to him/her under the law, Corporate Bylaws, General Meeting Regulations and these Board Regulations, he/she will carry out the following:

- a) Convene and chair meetings of the Board of Directors, in the manner provided in the Bylaws and these Board regulations, setting the agenda for the meetings, and directing their discussions and deliberations.
- b) Chair the General Meeting and direct its discussions and deliberations.
- c) Submit to the Board of Directors proposals he/she considers appropriate for the sound running of the Company and, particularly, those relating to the working of the Board of Directors itself and other company bodies, as well as propose the appointment of internal positions on the Board of Directors.
- d) Direct the Board of Directors and set its agenda, taking into consideration all the relevant aspects and concerns of the directors.
- e) Ensure that all Board members receive accurate, timely and clear information, especially on the running of the Company, its strategy, challenges and opportunities, so that the Board of Directors can take appropriate decisions and monitor the Company's performance.
- f) Ensure effective communication with shareholders and the markets.
- g) Ensure that the Board of Directors devotes enough time to the discussion of complex, sensitive or relevant issues, organising where necessary informal meetings with both directors and managers and advisers, to enable adequate preparation for Board meetings and discussions.
- h) Lead the training and introductory processes of new directors ensuring that these are complete and personalised.
- i) Identify and meet the individual development needs of Board members, and the development needs of the Board as a whole, in order to improve its effectiveness as a team.
- j) Ensure that the performance of directors, the Board as a whole and Board committees is evaluated at least annually.
- k) Encourage the active commitment from all Board members to responsibly, diligently and faithfully carry out their duties.
- l) Lead Board discussions in order to provide effective decision-making and constructive debate on the Company's progress, strategy and goals.

- m) Provide support and advice to the Chief Executive Officer on the Company's strategy and operations, including the preparation of any Board discussion on the Company's strategy.
  - n) Supervise the proper implementation of decisions adopted by the Board of Directors.
  - o) Act as the Company's highest representative before public agencies and external bodies.
  - p) Supervise the Company's corporate communications policy.
  - q) In general, promote the very highest standards of corporate governance ensuring that this is respected by the Board of Directors.
2. The Chairman of the Board shall hold the ordinary power of calling a meeting of the Board of Directors, drafting the agenda of its meetings and chairing the debates. Nevertheless, the Chairman must call a meeting of the Board of Directors to discuss such matters as are requested by the Deputy Chairman or three or more directors, and must include new points on the agenda when any director so requests. Furthermore, it is up to the Chairman, as the most senior person responsible for the efficient operation of the Board of Directors, to ensure that the directors previously receive the necessary and sufficient information to perform their activity and stimulate debate and for the active participation of directors during the Board of Directors' meetings. Likewise, the Chairman shall organize and coordinate with the chairmen of the Appointments and Remuneration Committee the periodic evaluation of the Board of Directors and, in the event, that of the Chief Executive Officer.
  3. Without prejudice to the powers attributed pursuant to the above sections to the Chairman and Deputy Chairman of the Board of Directors, the Board of Directors may, with the abstention of the executive directors, name an independent director as a coordinator, and must do so when the Chairman acts also in the capacity of Chief Executive Officer.
  4. The coordinator director is enabled to perform the following duties: (i) ask to call a Board meeting or to include new items on the agenda of a Board Meeting already called; (ii) coordinate and gather the non-executive directors and notify the Chairman of the Board of Directors of their concerns; and (iii) lead the periodic evaluation of the Chairman of the Board of Directors.

#### **Article 11. The Deputy Chairman of the Board of Directors**

1. The Board of Directors may choose from among its members one or more Deputy Chairmen to temporarily replace the Chairman of the Board of Directors in the event of a vacancy, absence, illness or incapacity.
2. The Deputy Chairman shall call a meeting of the Board of Directors in the event that the Chairman has failed to comply with his request to do so.
3. In the event that there is more than one Deputy Chairman of the Board of Directors, an order shall be established when they are appointed in accordance with which they shall

replace the Chairman. In this event, the position defined in the previous section shall be for the First Deputy Chairman.

**Article 12. The Secretary to the Board of Directors**

1. The Secretary to the Board of Directors need not necessarily be a director.
2. The Secretary shall assist the Chairman in his duties and shall provide for the correct operation of the Board of Directors, in particular providing the directors with the necessary advice and information, safeguarding the company documentation, duly reflecting in the record of minutes the contents of the meetings and certifying the agreements of the Board of Directors.
3. In any event the Secretary shall take care of the formal and material legality of the actions of the Board of Directors and shall ensure that its procedures and rules of governance are upheld and regularly reviewed. Furthermore, the Secretary shall ensure that the actions of the Board of Directors are in accordance with the Articles of Incorporation, the regulations of the General Shareholders' Meeting and the Board of Directors and the recommendations regarding good corporate governance.
4. The appointment and removal of the Secretary to the Board of Directors shall be subject to a report by the Appointments and Remuneration Committee and must be approved by the Board of Directors in plenary session.

**Article 13. The Deputy Secretary to the Board of Directors**

1. The Board of Directors may appoint a Deputy Secretary, who need not necessarily be a director, to assist the Secretary to the Board of Directors or replace him, discharging his duties, in the latter's absence.
2. Unless otherwise decided by the Board of Directors, the Deputy Secretary may attend the meetings in order to assist the Secretary in drafting the meeting minutes.

**Article 14. Collegiate bodies of the Board of Directors and consultative committees**

1. Without prejudice to the powers granted individually to the Chairman or any other director (executive officers) and the power invested in the Board of Directors to set up collegiate committees for specific areas of activity, the Board of Directors shall in any event set up an Executive Committee, with general decision-making powers.
2. Furthermore, the Board of Directors must set up an Audit Committee and an Appointments and Remuneration Committee and may set up other committees or consultative commissions, with such attributes as the Board of Directors itself determines.
2. The Appointments and Remuneration Committee shall evaluate the profiles of the persons most suited to sit on the various committees and shall submit the resulting proposals to the Board of Directors. In any event, it shall take into consideration the suggestions submitted to it by the Chairman and Deputy Chairman.
3. The Committees shall regulate their own operation and shall meet when convened by the Chairman. Having regard to all aspects not specifically provided, the rules of operation



established herein in respect of the Board of Directors shall apply, provided they are compatible with the nature and purpose of the Committee.

**Article 15. The Executive Committee**

1. The Executive Committee shall comprise at least three and at most seven Directors.
2. The adoption of resolutions regarding the appointment of members of the Executive Committee shall require the favourable vote of at least two-thirds of the members of the Board of Directors.
3. The Chairman of the Board of Directors shall act as Chairman of the Executive Committee and the Secretary to the Board of Directors shall act as Secretary to the Executive Committee; the Secretary may be assisted by a Deputy Secretary.
4. The permanent delegation of powers by the Board of Directors to the Executive Committee shall comprise all the powers of the Board of Directors, except those which by law or according to the Corporate Bylaws may not be delegated pursuant to the provisions of these Regulations.
5. The Executive Committee shall hold at least seven ordinary sessions per year.
6. In those cases in which, in the opinion of the Chairman or of three members of the Executive Committee, the importance of the matter so advises, the resolutions adopted by the Executive Committee shall be submitted to the Board of Directors in plenary session for ratification. This shall be equally applicable in relation to those matters which the Board of Directors has referred to the Executive Committee for examination, reserving for itself the final decision thereon. In any other case, the resolutions adopted by the Executive Committee shall be valid and binding with no need for subsequent ratification by the Board of Directors in plenary session.
7. The Executive Committee must report to the Board of Directors regarding the matters and decisions adopted. Moreover, the Committee's meeting minutes shall be available to members of the Board of Directors.

**Article 16. The Audit Committee**

1. The Audit Committee shall comprise at least three and at most five non-executive directors. At least two of them must be independent board members and one shall be appointed based on his knowledge and experience in accounting, auditing or both.
2. The Board of Directors shall appoint the Chairman of the Audit Committee from among the independent directors belonging to it. The Audit Committee shall appoint its Secretary, who need not be either a director or a member of the Committee.

The post of Chairman of the Audit Committee shall be held for at most four years, at the end of which the Chairman may not be re-appointed until after, at least, one year since leaving the post, without prejudice to his continuity or re-appointment as a member of the Committee.

3. Without prejudice to other duties assigned in accordance with the Corporate Bylaws or by the Board of Directors, the Audit Committee shall have the following basic responsibilities:
- a) To report at the General Shareholders' Meeting regarding the matters raised by shareholders and falling under its competencies.
  - b) To supervise the efficiency of the Company's internal control, the internal auditing and the risk management systems including tax risks, verifying their adequacy and integrity and reviewing the appointment and replacement of the persons in charge and to discuss all significant weaknesses of the internal control system detected in the audit with the accounts auditor.
  - c) To supervise the internal auditing services, for which purpose the person in charge of the internal audit must annually submit a plan and a report of incidents and activities to the Committee.
  - d) To know the process of financial reporting and internal control systems, and for this purpose to identify the types and levels of risk, measures to mitigate the impact of the risks identified and the risk control, reporting and management systems.
  - e) To supervise the process of preparing and presenting regulatory financial information.
  - f) To revise the Company's accounts, to monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as to report the proposed changes of principles and accounting criteria suggested by management.
  - g) To report to the Board of Directors all proposals for selecting, appointing, re-electing and replacing the external auditor, and the conditions of their hiring and to regularly receive information from them on the auditing plan and its performance as well as preserving their independence in the exercise of their functions.
  - h) To establish all opportune relations with the external auditor in order to receive information on questions which might jeopardise their independence for examination by the Committee, and any others related to the process of performing the accounts auditing, and all other communications provided in account auditing legislation and auditing regulations. In any case, the Audit Committee shall each year receive a declaration from the accounts auditor of their independence from the entity or entities directly or indirectly related to this, and information on additional services given of any kind and the corresponding fees received from these entities by the mentioned auditor or by all people or entities related thereto as provided in the regulations on account auditing.
  - i) To serve as a communication channel between the Board of Directors and the auditors, to assess the results of each audit and the responses of the management team to their recommendations and to mediate in the event of discrepancies between the Board of Directors and the auditors in relation to the applicable principles and criteria in the preparation of the financial statements, as well as

discussing with the accounts auditors any significant weaknesses in the internal control system detected during the audit.

- j) To monitor compliance with the audit contract, endeavouring to ensure that the opinion on the accounts and the main content of the audit report are worded clearly and accurately.
  - k) To annually issue, prior to the issuance of the audit report, a report expressing an opinion regarding the independence of the accounts auditor. This report must, in all cases, contain an opinion regarding the provision of the additional services to which the previous point refer, considered individually and as a whole, over and above the legal audit and in relation to the system of independence or the auditing regulations.
  - l) To revise issue prospectuses and any other significant information which the Board of Directors must report to the markets and their supervisory bodies. To examine compliance with internal codes of conduct, these Regulations and, in general, the Company's rules of good corporate governance, and to draft the proposals necessary for their improvement.
  - m) In particular, the Audit Committee shall receive information and, in the event, issue reports on (i) actions and resolutions adopted by the Regulatory Compliance Management in discharging its duties in accordance with the provisions of the Company's Internal Code of Conduct; and (ii) the disciplinary measures applicable, in the event, to members of the Company's senior management team.
  - n) To establish, if deemed appropriate and, in the event, to monitor, a system to enable employees to confidentially and, if considered appropriate, anonymously, report any potentially significant irregularities, especially relating to finance and accounting, detected within the company; and
  - o) To previously report to the Board of Directors regarding all matters attributed to it according to law, the company Bylaws and this Regulation, and particularly concerning:
    - 1. the financial information that the Company must periodically make public; and
    - 2. the creation or acquisition of participations in entities with a special purpose or located in countries or territories considered tax havens.
4. The Audit Committee shall meet periodically as the need arises and at least four times a year.
5. Any member of the management team or any employee of the Company asked to attend a session of the Audit Committee and to cooperate and provide access to information they hold shall be obliged to do so. The Audit Committee may also ask auditors to attend their meetings.
6. To better discharge its duties, the Audit Committee may seek the advice of external

professionals, for which purpose the provisions of Article 27 herein shall apply. Furthermore, in discharging its duties, the Audit Committee may ask any employee or manager of the Company to attend its meetings.

7. The Chairman of the Audit Committee must report to the Board of Directors regarding the matters discussed and decisions adopted by the Committee, in the first meeting of the Board of Directors subsequent to the meeting of the Committee. Moreover, the Audit Committee's meeting minutes shall be available to members of the Board of Directors.

#### **Article 17. The Appointments and Remuneration Committee**

1. The Appointments and Remuneration Committee shall comprise at least three and at most five non-executive directors. At least two of them shall be independent directors.
2. The Board of Directors shall appoint the Chairman of the Appointments and Remuneration Committee from among the independent directors belonging to it. The Appointments and Remuneration Committee shall appoint its Secretary, who need not be either a director or a member of the Committee.
3. Without prejudice to other duties assigned in accordance with the Corporate Bylaws or by the Board of Directors, the Appointments and Remuneration Committee shall have the following basic responsibilities:
  - a) To assess the necessary competence, knowledge and experience of the Board of Directors.
  - b) To report to the Board of Directors the proposed appointments (for appointment by co-option or for approval at the General Shareholders' Meeting) of independent directors, and all proposals for renewals or removals of said directors by the General Shareholders' Meeting.
  - c) To inform on the proposed appointment of the remaining directors (for appointment by co-opting or for approval at the General Shareholders' Meeting), and all proposals for renewals or removals of said directors by the General Shareholders' Meeting.
  - d) To inform on all proposed appointments and removals of senior directors and the basic conditions of their contracts.
  - e) To prepare and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates, reporting on the proposed appointments of directors and senior executives in the Company and its subsidiaries, assessing the necessary competencies, knowledge and experience of candidates to fill vacancies. For this purpose, it will define the necessary functions and skills of the candidates that have to cover each vacancy and will assess the time and dedication required for them to effectively carry out their work; any director may submit to the Committee the names of prospective candidates to fill vacancies.
  - f) To examine and organise the succession of the Chairman and the Chief Executive

Officer of the Company and, if necessary, to make proposals to the Board of Directors to ensure that the succession occurs in an organised and planned way.

- g) To propose to the Board of Directors the remuneration policy of the directors, the general managers or of whosoever should perform their senior management functions directly dependent on the Board, on executive committees or managing directors, and the individual retribution and other contractual conditions of the executive directors, ensuring that they are observed.
  - h) To propose to the Board of Directors the names of the members of each one of its committees.
  - i) To periodically review remuneration programmes, considering their adequacy and returns.
  - j) To report with regard to transactions involving or potentially involving conflicts of interest and, in general regarding the matters envisaged in Chapter IX herein.
  - k) To report to the Board of Directors in regard to matters relating to gender diversity, and to establish a goal for the representation of the gender least represented on the Board of Directors and to draw up guidelines on how to achieve this goal.
4. The Appointments and Remuneration Committee must consider the suggestions submitted by the Company's Chairman, members of its Board of Directors or its managers or shareholders.
  5. The Appointments and Remuneration Committee shall meet whenever the Board of Directors or its Chairman requests a report or the adoption of resolutions and, in any event, whenever appropriate in order to correctly discharge its duties. In any event, it shall meet once a year to prepare the information regarding directors' remuneration to be approved by the Board of Directors and to be included in its annual public documentation.
  6. The Chairman of the Appointments and Remuneration Committee must report to the Board of Directors regarding the matters discussed and decisions adopted by the Committee, in the first meeting of the Board of Directors subsequent to the meeting of the Committee. Moreover, the Appointments and Remuneration Committee's meeting minutes shall be available to members of the Board of Directors.

## **Chapter V**

### **OPERATION OF THE BOARD OF DIRECTORS**

#### **Article 18. Meetings of the Board of Directors**

1. The Board of Directors shall hold as many ordinary meetings and meetings at the Chairman's request as the latter considers appropriate for the good operation of the Company and the correct performance of the duties assigned to the Board of Directors, and no less than once a quarter.

2. Calls for regular meetings shall be made by letter, fax, telegram or e-mail and shall be authorized with the signature of the President or of the Secretary or Deputy Secretary by order of the President. The notice shall be sent at least three days in advance and always include the agenda of the meeting and be accompanied by the relevant information.
3. Extraordinary meetings of the Board of Directors may be called by telephone and the period of notice and other requirements provided in the preceding paragraph shall not apply, when in the Chairman's opinion the circumstances so warrant.
4. The Board of Directors must meet at least once a year to discuss: (i) The operation of the Board of Directors; (ii) the performance of their duties by the Chairman and the Chief Executive Officer of the Company, based on the report in this connection issued by the Appointments and Remuneration Committee; and (iii) the operation of the Committees of the Board of Directors, based on the reports which they submit to it, and, based on the result, to propose a plan of action to correct all detected deficiencies.

#### **Article 19. Sittings**

1. The Board of Directors meetings shall be validly convened when more than half of its members are either present or represented at the meeting. Directors shall make every effort to attend Board of Directors meetings and, when they are unable to do so, they shall endeavour to confer powers of representation upon a director of equal category and to include the pertinent instructions. In any case, the executive directors may only delegate their representative on another non-executive.
2. Except in cases where other *quorums* have specifically been established, the resolutions shall be adopted by an absolute majority of the Board members present and represented. In the event of a tie, the Chairman shall hold the casting vote.
3. When directors or the Secretary express concern regarding proposals for debate by the Board of Directors and these are not resolved during the session, said concerns must be recorded in the minutes of the meeting, provided that the director or Secretary so requests.

### **Chapter VI**

#### **APPOINTMENT AND REMOVAL OF DIRECTORS**

#### **Article 20. Appointment of directors**

1. Directors shall be appointed by the General Shareholders' Meeting or Board of Directors in accordance with legal provisions.
2. Proposals for the appointment of directors that are submitted by the Board of Directors for consideration at the General Shareholders' Meeting and the appointments approved by said body pursuant to the co-option powers legally attributed to it must be preceded by the relevant proposal (in the case of independent directors) or report (in the case of the remaining directors) by the Appointments and Remuneration Committee. When the Board of Directors diverges from the recommendations of the Appointments and Remuneration Committee it must explain why and record its reasoning in the minutes.
3. The proposal must be accompanied in all cases by a justifying report from the Board of

Directors assessing the competence, experience and merits of the proposed candidate, which will be attached to the minutes of the General Shareholders' Meeting or that of the Board. The proposed appointment or renewal of any non-independent board member must also be preceded by a report from the Appointments and Remuneration Committee.

4. The above will equally be applicable to all physical persons appointed representatives of a legal entity board member. The proposed representative must be subject to the report of the Appointments and Remuneration Committee.
5. The Company shall perform such actions as are necessary to provide adequate support to new directors in order that they may quickly acquire sufficient knowledge of the Company, as well as of its rules of corporate governance.

#### **Article 21. Appointment of external directors**

1. The Board of Directors and the Appointments and Remuneration Committee, within the scope of their competencies, shall endeavour to ensure that selected candidates are persons of recognized solvency, competency and experience, with particular rigour being applied to those persons filling vacancies as independent directors pursuant to Article 8 herein.
2. The Board of Directors may not propose or appoint as an independent director anyone not meeting the requirements for independent directors, in accordance with the definition set forth in Article 8 above.

#### **Article 22. Re-election of directors**

Proposals for the re-election of directors which the Board of Directors decides to submit to the General Shareholders' Meeting are subject to the same rules contained in article 20, and to a formal process, necessarily involving a report by the Appointments and Remuneration Committee evaluating the quality of the work and the dedication to the post of the proposed directors during their previous mandate.

#### **Article 23. Term of office**

1. Directors shall discharge their duties during the period provided in the Corporate Bylaws, and may be re-elected in the terms established therein. Notwithstanding the foregoing, independent directors may not remain in office for more than twelve years without a break, unless they become proprietary, executive or other external directors.
2. Directors appointed by co-option shall serve their term until the date of the next General Shareholders' Meeting, without prejudice to their ratification or re-election.
3. Directors terminating their term or for any other reason ceasing to perform their duties may not provide services to other entities with a similar corporate purpose to that of the Company for a period of two years. Where deemed appropriate, the Board of Directors may release outgoing directors from this obligation or shorten its duration.

#### **Article 24. Removal of directors**

1. Directors' terms shall terminate when the period of time for which they were appointed

has elapsed or when so decided by the General Shareholders' Meeting or the Board of Directors in the use of the powers conferred to them by law or by the Corporate Bylaws.

Notwithstanding the foregoing, the Board of Directors shall not propose the removal of any independent director unless he has failed to discharge his duties and the Appointments and Remuneration Committee issues a report in this connection.

2. Directors must tender their resignation to the Board of Directors and, if the latter sees fit, vacate office, in the following cases:
  - a) When they are no longer discharging the executive duties associated to their appointment as directors.
  - b) When they are involved in any of the incompatibility or prohibition scenarios provided by law.
  - c) When they are the subject of legal proceedings for a presumed criminal offence or the subject of disciplinary proceedings conducted by supervisory authorities for a serious or very serious fault.
  - d) When they are seriously reprimanded by the Audit Committee for having infringed their obligations as directors.
  - e) When their remaining on the Board of Directors could jeopardize the Company's interests or when the reasons for which they were appointed no longer apply (for example, when a proprietary director disposes of his stake in the Company).

#### **Article 25. Objectivity and secrecy of voting**

1. Directors affected by proposals for appointment, re-election or removal shall refrain from intervening in the deliberations and voting in that connection.
2. All voting in the Board of Directors with regard to the appointment, re-election or removal of directors shall be public unless one or more of the directors asks for the vote to be conducted by secret ballot.

### **Chapter VII**

#### **DIRECTORS' INFORMATION**

#### **Article 26. Powers of information and inspection**

1. Directors are granted the broadest powers to receive information regarding any aspect of the Company, to examine its books, records, documents and other background information regarding corporate transactions and to inspect all of its facilities. The right to information extends to subsidiaries, whether national or foreign.
2. In order not to disrupt the ordinary conduct of the Company's business, the exercise of the



rights to information shall be channelled through the Chairman of the Board of Directors, the Secretary or the Chief Financial Officer of the Company, who shall deal with the requests of directors, directly providing them with the information, offering the appropriate interlocutors at a suitable level of the organization and implementing measures so that directors may conduct the inspections or examinations they wish *in situ*.

#### **Article 27. Expert support**

1. In order to be supported in the exercise of their duties, external directors may request that the Company hire legal advisors, accountants, financial or other experts. The commission must necessarily refer to specific issues of a certain significance and complexity which arise during the course of discharging their duties.
2. The decision to hire such experts must be notified to the Chairman of the Board of Directors and may be vetoed by the Board of Directors if it is accredited:
  - a) that it is not necessary for the correct performance of the duties falling under the mandate of external directors;
  - b) that the cost is not reasonable in relation to the significance of the problem and to the assets and revenues of the Company; or
  - c) that the technical assistance requested may be adequately provided by experts and technical personnel belonging to the Company.

### **Chapter VIII**

#### **DIRECTORS' REMUNERATION**

#### **Article 28. Directors' remuneration**

1. Directors shall be entitled to obtain the remuneration established by the Board of Directors in accordance with the provisions of the Corporate Bylaws, the remuneration policy approved by the General Shareholders' Meeting and the indications of the Appointments and Remuneration Committee.
2. The Board of Directors shall endeavour to ensure that remuneration to directors is in line with market requirements and, in the event, and where deemed appropriate, that part of said remuneration be linked to the Company's returns.
3. Annually, the Board of Directors shall approve a report on directors' remunerations policy in accordance with the applicable regulations.

#### **Article 29. External directors' remuneration**

The Board of Directors and the Appointments and Remuneration Committee shall adopt such measures as are in its power to ensure that the remuneration to external directors is in accordance with the following guidelines:

- a) External directors must be remunerated in accordance with their effective dedication.
- b) External directors must be excluded from the benefit systems funded by the Company in the event of termination, death or any other circumstance.
- c) The amount of remuneration to external directors must be calculated in such a way as to offer incentives for their dedication, but so as not to compromise their independence.

## **Chapter IX**

### **DIRECTORS' DUTIES**

#### **Article 30. Directors' general obligations**

1. In accordance with the provisions of Articles 5 and 6, the directors' duty is to guide and control the Company's management, in order to maximize in a sustained manner the Company's economic value, for the benefit of shareholders, and in order to ensure its long-term success.
2. In discharging their duties and in fulfilling the duties imposed by the laws and the Corporate Bylaws, directors shall conduct themselves with the diligence of an orderly businessman and a loyal representative in defence of the Company's interests, bearing in mind the nature of the post and the functions attributed to it, working in good faith and in the best interest of the Company, in particular undertaking to:
  - a) devote the time and effort necessary to perform the duties of a director;
  - b) require the adequate and necessary information to help them in discharging their duties;
  - c) adequately prepare the meetings of the Board of Directors and the Executive Committee or other committees to which they belong, diligently reporting on the performance of the Company and on the matters discussed at said meetings;
  - d) attend the meetings of the bodies to which they belong and to participate actively in the deliberations so that their criteria may contribute effectively to the decision-making; in the event that, due to a justified cause, they are unable to attend the meetings to which they are called, they must instruct the director representing them; external directors shall endeavour to be represented by external directors;
  - e) perform any specific task commissioned to them by the Board of Directors and reasonably included in their sphere of commitment;
  - f) investigate any irregularity in the management of the Company which has come to their attention and to monitor any situation of risk;
  - g) urge persons so empowered to call an extraordinary meeting of the Board of Directors or to include in the agenda of the next meeting any items they consider to

be appropriate;

- h) oppose any resolutions that are against the law, the Company's internal regulations or its interests, and to request that their opposition be recorded in the minutes;
- i) not to exercise their faculties for purposes other than those for which they were conceded; and
- j) to take all necessary measures to avoid situations in which their own or external interests might come into conflict with the interests of the company and with their duties in the Company.

### **Article 31. Directors' duty of confidentiality**

Except in the cases in which the law should allow or require, Directors shall keep secret all deliberations and resolutions of the Board of Directors, the Executive Committee or any of the committees to which they belong, and, in general, shall refrain from revealing information, data, reports or records to which they have had access during the course of discharging their duties, and from using them for their own benefit, for the benefit of the shareholder who, in the event, proposed or made their appointment or any other third party, without prejudice to the transparency and reporting obligations applicable by law.

The confidentiality obligation shall continue even after directors leave their posts.

### **Article 32. Non-competition obligation**

Directors may not be the administrators or executives and neither may they provide services to another company or entity whose corporate purpose is completely or partially the same as that of the Company or which is a competitor of the Company. Excepted from this provision are posts that may be occupied at group companies.

### **Article 33. Conflicts of interest**

1. A conflict of interest shall be considered to exist in those situations in which the interests of the Company or group companies are directly or indirectly in conflict with the personal interests of a director. There will be personal interests of the director when the matter affects him or Related Persons, or in the case of a proprietary director, the shareholder or shareholders who proposed or made his appointment or Persons Related thereto.

For the purposes of these Regulations “**Related Persons**” shall be those designated in Article 231 of the Spanish Capital Companies Act and any company in which the director occupies a post in the administration or management or in which he holds a significant shareholding.

2. The director must notify the Board of Directors, via its Chairman or Secretary, of any direct or indirect conflict of interest that has arisen.
3. In particular, unless the corresponding dispensation has been given as provided in article 230 of the Capital Corporations Act, Directors must refrain from:

- a) performing transactions with the Company, unless they are ordinary operations made under standard conditions for customers and of scarce importance, these being understood as those whose information is not necessary in expressing the true and faithful image of the wealth, the financial situation and the results of the entity;
- b) obtaining advantages or remuneration from third parties other than the Company and its group associated with the performance of their post, unless they are for mere courtesy; and
- c) generally attending meetings or participating in deliberations and voting with regard to matters in which they are in a situation of conflicting interest.

**Article 34. Use of corporate assets**

- 1. Directors may not use the Company's assets nor their own position in the Company in order to obtain an increment in their wealth unless adequate compensation has been paid.
- 2. Exceptionally and in accordance with the requirements of law, directors may be released from the obligation to pay the compensation, but in these cases the financial benefit shall be considered to be indirect remuneration and must be authorized by the Board of Directors, subject to a report by the Appointments and Remuneration Committee.

If the benefit is received as a partner, it will only be appropriate if the principle of equal treatment of shareholders is upheld.

**Article 35. Information that is not public**

- 1. The use by directors of non-public information regarding the Company for private use shall only be admissible in the following terms:
  - a) said information is not applied in connection with the sale or purchase of securities in the Company or financial instruments relating thereto;
  - b) it does not imply an advantage for directors with respect to third parties, including suppliers and customers;
  - c) its use does not cause any damage whatsoever to the Company; and
  - d) the Company does not hold exclusive rights or a legal position of a similar nature with regard to the information directors wish to use.
- 2. Furthermore, directors must observe the rules of conduct established in the securities market legislation and in the Internal Code of Conduct of the securities market in which the Company operates.

**Article 36. Business opportunities**

- 1. Directors may not use for their own benefit or for that of Related Persons a business opportunity pertaining to the Company, unless it has previously been offered to the

Company, the latter has ceased to exploit it without the influence of the director and their using the opportunity is authorized by the Board of Directors, subject to a report by the Appointments and Remuneration Committee.

2. For the purposes of the previous point a business opportunity shall be understood to be the possibility of undertaking an investment or commercial operation which has emerged or been discovered in connection with the discharging of the director's duties, or by using the Company's information and media, or under circumstances that suggest that the third-party's offer was in fact aimed at the Company.
3. Furthermore, directors must refrain from using the name of the Company and invoking their position as directors of the Company in order to conduct transactions on their own behalf or on behalf of Related Persons.

#### **Article 37. Indirect transactions**

A director shall infringe his duty of loyalty to the Company if, knowingly, he allows or fails to reveal the existence of transactions conducted by Persons Related to him that have not been subject to the terms and controls provided in the previous articles.

#### **Article 38. Directors' duty of disclosure**

1. Without prejudice to their legal obligations, directors must disclose to the Company any shareholding or interest (through agreements or instruments of any kind, such as deposit certificates, derivative instruments, etc.) which they hold in the Company's share capital either directly or via Related Persons. Furthermore, directors must submit the relevant communiqués in accordance with the Internal Code of Conduct.
2. Directors must disclose to the Company any shareholding or interest (through agreements or instruments of any kind, such as deposit certificates, derivative instruments, etc.) which they hold, either directly or via Related Persons, in any company with the same, a similar or complementary kind of activity to the corporate purpose of the Company, and the posts or duties they hold therein, as well as the performance, on their own behalf or on behalf of third parties, of any kind of activity complementary to that which constitutes the corporate purpose of the Company.
3. Directors must also disclose any posts they occupy and any activities they perform in other companies and entities and, in general, any fact or situation which might prove to be relevant to their actions as administrators of the Company.
4. Furthermore, directors must fulfil the reporting obligations contained in the Company's Internal Code of Conduct in Matters Relating to the Securities Market.

#### **Article 39. Related Party Transactions**

1. The Board of Directors formally reserves the right to approve, following a report from the Appointments and Remuneration Committee, any transaction which the Company or group companies conduct with directors, shareholders holding, albeit individually or in association with others, a significant participation, including shareholders represented on the Board of Directors of the Company or other companies forming part of the same

group, as well as persons related thereto (“Related Party Transactions”).

2. In no case shall it authorize a related party transaction with a shareholder unless a report has previously been issued by the Appointments and Remuneration Committee assessing the transaction based on the criteria of equal treatment to all shareholders and in accordance with market conditions.
3. If such transactions are part of the ordinary conduct of business and are habitual or recurring, a generic prior authorization will suffice for the line of operations and their terms of execution, to be issued by the Board of Directors, subject to a report by the Appointments and Remuneration Committee.
4. The authorization of the Board of Directors shall not, however, be understood to be precise in relation to those transactions which simultaneously meet all three of the following conditions: (i) they are conducted pursuant to contracts whose terms are standardized and applied en masse to a large number of customers; (ii) they are conducted at prices or rates established generally for the party acting as a supplier of the good or service in question; and (iii) their amount does not exceed one percent of the Company's annual revenues, in accordance with the audited financial statements of the last closed financial year at the date of the transaction in question.

#### **Article 40. Principle of transparency**

Without prejudice to compliance with its legal obligations, the Board of Directors shall reflect in its annual public information a summary of the transactions conducted by the Company with its directors and significant shareholders.

The information shall include the global volume of the transactions and the nature of the most significant ones.

### **Chapter X**

#### **RELATIONS OF THE BOARD OF DIRECTORS**

#### **Article 41. Relations with shareholders**

1. The Board of Directors shall provide the adequate channels to receive proposals formulated by shareholders concerning the management of the Company.
2. The Board of Directors, through one or more of its directors and with the cooperation of the members of senior management it considers appropriate, may organize informative meetings regarding the progress of the Company and its group, for shareholders residing in the location of the leading financial markets of Spain and other countries.
3. Public requests for the delegation of votes performed by the Board of Directors or by any of its members must indicate how the representative must vote in the event that the shareholder does not issue instructions and, when appropriate, may reveal the existence of conflicts of interest.
4. The Board of Directors shall promote the informed participation of shareholders in the

General Shareholders' Meeting and shall adopt all opportune measures to help the General Shareholders' Meeting effectively perform the duties which, according to the law and the Corporate Bylaws, correspond to it.

In particular, the Board of Directors shall adopt the following measures:

- a) it shall endeavour to provide the shareholders, prior to the General Shareholders' Meeting, with all information legally required and which, while not legally required, might prove of interest and may be reasonably provided;
- b) it shall respond, with the utmost diligence, to requests of information filed by shareholders prior to the General Shareholders' Meeting;
- c) it shall respond, with equal diligence, to the questions raised by shareholders during the General Shareholders' Meeting.

#### **Article 42. Relations with institutional shareholders**

1. The Board of Directors shall likewise establish adequate mechanisms to exchange regular information with the institutional investors that are shareholders in the Company.
2. In no case may relations between the Board of Directors and institutional shareholders translate into the delivery to the latter of any information which might afford them a privileged position or advantage with respect to other shareholders.

#### **Article 43. Relations with markets**

1. The Board of Directors shall immediately report:
  - a) significant events that might have a material impact on the formation of share prices;
  - b) changes in the Company's ownership structure, such as variations in significant shareholdings, syndication agreements and other coalitions, of which it is aware;
  - c) substantial changes to the Company's rules of good governance.
2. The Board of Directors shall adopt such measures as are necessary to ensure that the quarterly, half-yearly and any other financial information which prudence requires be supplied to markets is prepared in accordance with the same principles, criteria and professional practices with which the annual accounts are prepared and is just as reliable as the latter. For this purpose, said information shall be revised by the Audit Committee.
3. The Board of Directors shall approve an annual corporate governance report each year in accordance with applicable regulations.

#### **Article 44. Relations with auditors**

1. The Board of Directors' relations with the Company's external auditors shall be channelled through the Audit Committee.
2. The Board of Directors shall refrain from hiring audit firms in which the fees estimated

for all items are higher than five percent of the Company's total revenue in the last year.

3. The Board of Directors shall publicly report the global fees paid by the Company to the audit firm for the various audit services.
4. The Board of Directors shall endeavour to prepare the accounts definitively so as to avoid any qualification by the auditors. Nevertheless, when the Board of Directors considers that it must maintain its criterion, it shall publicly explain the content and scope of any discrepancy.

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