

**2016**

**ACGR  
Annual  
Corporate  
Governance  
Report**

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
LISTED LIMITED COMPANIES**

**IDENTIFICATION INFORMATION OF ISSUER**

<b>YEAR END DATE</b>	31/12/2016
<b>TAX CODE</b>	A81787889
<b>COMPANY NAME:</b>	Realia Business, S.A.
<b>REGISTERED ADDRESS:</b>	Paseo de la Castellana, 216 Madrid 28046 (Spain)

## A OWNERSHIP STRUCTURE

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

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
10/11/2015	110,580,335.52	460,751,398	460,751,398

Please indicate whether shares are divided into different categories with different Rights attached:

Yes

No

### A.2 Please provide information on both direct and indirect owners of significant shareholdings in your organization at the close of the fiscal year, excluding board members:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Fomento de Construcciones y Contratas, S.A.	158,178,834	11,888,406	36.91
Inversora Carso, S.A. de C.V.	139,759,216	170,067,240	32.91
JP Morgan Chase & CM	0	28,000,329	6.08
Lansdowne Partners International Limited	0	107,346	0.02

Name or corporate name of shareholder	Via: Name or corporate name of direct shareholder	Number of voting rights
Fomento de Construcciones y Contratas, S.A.	PER Gestora Inmobiliaria, S.L.	1,664,377
Fomento de Construcciones y Contratas, S.A.	Asesoría Financiera y de Gestión, S.A.	10,224,029
Inversora Carso, S.A. de C.V.	Fomento de Construcciones y Contratas, S.A.	158,178,834
Inversora Carso, S.A. de C.V.	Asesoría Financiera y de Gestión, S.A.	10,224,029
Inversora Carso, S.A. de C.V.	PER Gestora Inmobiliaria, S.L.	1,664,377
JP Morgan Chase & CM	JP Morgan Securities PLC	28,000,329
Lansdowne Partners International Limited	Lansdowne Investment Company LTD	107,346

Indicate the most significant changes that have occurred in the shareholder structure over the last fiscal year:

Name or corporate name of shareholder	Date of operation	Description of operation
Inversora Carso, S.A. de C.V.	13/01/2016	Exceeded 30% of share capital

Inversora Carso, S.A. de C.V.	26/07/2016	Exceeded 60% of share capital
Fomento de Construcciones y Contratas, S.A.	13/01/2016	Exceeded 35% of share capital
JPMorgan Chase & CM.	18/08/2016	Exceeded 5% of share capital

**A.3 Complete the following tables on the membership of the Company's Board of Directors holding the voting rights of the company's shares:**

Name or corporate name of board member	Number of direct voting rights	Number of indirect voting	% of total voting rights
Ms. María Antonia Linares Liébana	4	0	0.00
Ms. Carmen Iglesias Cano	1,773	0	0.00
E.A.C. Inversiones Corporativas, S.L.	1,500	0	0.00
Mr. Juan Rodríguez Torres	700,000	0	0.15

<b>Total % of voting rights held by the Board of Directors</b>	0.15%
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**Complete the following tables on the membership of the Company's Board of Directors holding rights on the company's shares:**

**A.4 Indicate, where appropriate, any relationships of a family, commercial, contractual or corporate nature that exist between the owners of significant shareholdings, as far as the company is aware, unless they are immaterial or derive from normal commercial trading or transactions:**

Name or corporate name related
E.A.C. Inversiones Corporativas, S.L.
Fomento de Construcciones y Contratas, S.A.

**Kind of relationship:** Corporate

**Brief description:**

EAC Inversiones Corporativas is a board member of the reference shareholder Fomento de Construcciones y Contratas, S.A.

Name or corporate name related
Mr. Juan Rodríguez Torres
Fomento de Construcciones y Contratas, S.A.

**Kind of relationship:** Corporate

**Brief description:**

Mr. Juan Rodríguez Torres is a board member of the reference shareholder Fomento de Construcciones y Contratas, S.A.

**A.5 Indicate, where appropriate, any relationships of a commercial, contractual or corporate nature that exist between the owners of significant shareholdings, and the company and/or its group, unless they are of no particular relevance or derive from normal commercial trading or transactions.**

Name or corporate name related
Fomento de Construcciones y Contratas, S.A.
Realia Patrimonio, S.L.U.

**Kind of relationship:** Contractual

**Brief description:** Described in D.2.

Name or corporate name related
Fomento de Construcciones y Contratas, S.A.
Hermanos Revilla, S.A.

**Kind of relationship:** Contractual

**Brief description:** Described in D.2.

Name or corporate name related
Inversora Carso, S.A. de C.V.
Realia Business, S.A.

**Kind of relationship:** Contractual

**Brief description:** Described in D.2.

**A.6 Indicate whether the company has been informed of any shareholders' agreements affecting it as per articles 530 and 531 of the LMV. If so, please provide a brief description and detail the shareholders involved in the agreement:**

Yes

No

**Indicate if the company is aware of any concerted action among shareholders. If any exist, please provide a brief description:**

Yes

No

**If any such pacts, agreements or concerted actions have been modified or cancelled over the last fiscal year, please specify:**

**A.7 indicate if any individual or organization exercises or could exercise control over the company under article 4 of the Securities and Exchange Law (Ley del Mercado de Valores). If so, please identify that person:**

Yes

No

Name or corporate name related
Inversora Carso, S.A. de C.V.

Notes
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**A.8 Complete the following tables on the company's treasury shares:**

At the end of the fiscal year:

Number of direct shares	Number of indirect shares (*)	% of the total share capital
610,000	0	0.13

(\*) Via:

**Describe any material variation that have taken place during the fiscal year, in accordance with the specifications of the Royal Decree Law 1362/2007**

Describe the material variation
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There has been no material variation during FY 2016. However, as the share capital has been increased, the percentage of treasury stock has been reduced compared to previous years.

**A.9 Describe the conditions and term of office and conditions of mandate of the General Shareholders' Meeting to the Board of Directors to issue, repurchase or transfer treasury shares**

The agreement of the General Shareholders' Meeting, reached at its meeting dated June 22, 2015, held as an Ordinary Meeting, agreed by an absolute majority to authorize Realía Business, S.A., and the Group companies that comply with any of the circumstances set forth in Article 42, paragraphs 1 and 2, of the Code of Commerce, to undertake the derivative acquisition of own shares, with the purchase at any Stock Exchanges on which these shares are admitted to trading, at the price of the stock market value on the date of the acquisition, which must be between the minimum and maximum values detailed below:

- Maximum value: the value resulting from a 10% increase of the maximum quotation in the three months prior to the date on which the acquisition takes place.
- Minimum value: the value resulting from deducting 10 per cent from the minimum quotation, also in the three months prior to the moment at which the acquisition takes place.

By virtue of this authorization, either the Board of Directors or the Executive Committee could purchase own shares under the terms described in Art. 146 of the Revised Text of the Law on Capital Companies.

This authorization was granted for the maximum period permitted by law, whilst also respecting the limit of share capital applicable, in accordance with legislation in force at the time of acquisition.

Acquisition of the shares, which will be fully paid up, must allow the company to allocate the reserves described in rule c) of Article 148 of the Law on Capital Companies.

**A.9 Bis Estimated Free Float:**

	%
<b>Estimated Free Float</b>	26.51

**A.10 Indicate whether there are any restrictions on the transfer of securities and / or any restrictions on voting rights. In particular, the existence of any restrictions that may impede the acquisition of control of the company through the purchase of shares in the market will communicate.**

Yes

No

**A.11 Indicate whether the General Shareholders' Meeting has agreed to adopt measures to counter any possible takeover bid pursuant to the provisions of Law 6/2007.**

Yes

No

**Where appropriate, explain the measures approved and the circumstances under which the restrictions would cease to have an impact:**

**A.12 Indicate whether the company has issued shares that are not traded on an EU regulated market.**

Yes

No

**Where applicable, indicate the different classes of shares and, for each class of shares the rights and obligations conferred.**

**B GENERAL MEETING**

**B.1 Indicate and, where applicable, provide details on whether differences exist with the minimum quorum regime established by the CCA (Capital Companies Act) in terms of the constitutional quorum of the General Shareholders' Meeting.**

Yes

No

**B.2 Indicate and, where applicable, provide details on whether differences exist with the minimum quorum regime established by the CCA (Capital Companies Act) in terms of the adoption of company agreements.**

Yes

No

**Describe the differences with the regime planned in the CCA.**

**B.3 State the rules applicable to the amendment of the statutes. In particular, the majorities provided for the amendment of the articles will be communicated and, where appropriate, the rules laid down for the protection of the rights of the partners in the modification of the statutes.**

Article 16 of the Articles of Association concerning the constitution of the General Meeting, states that for the ordinary and extraordinary General Meeting to validly increase or reduction of capital and any other amendment to the bylaws, the issuance of bonds, the elimination or restriction of the right of first refusal on new shares as well as the transformation, merger, spin-off or transfer of assets and liabilities and the transfer of residence abroad, will be required on first call, the presence of shareholders present or represented holding at least fifty percent (50 %) of the share capital with voting rights, and on the second call will be sufficient for twenty-five percent (25 %) of the capital. When shareholders representing at least fifty percent (50 %) of the share capital with voting rights, the aforementioned agreements may only be validly adopted with the favorable vote of two -thirds of the capital present or represented at the Meeting.

The same is set out in paragraph 8 b) of Article 15 of the Rules of the General Meeting.

**B.4 Indicate the data on attendance at General Shareholders' Meetings held during the year covered by this report and the previous year:**

Date General Shareholders' Meeting	Attendance Data				% Total
	% of physical presence	% of representation	% absentee vote		
			Electronic vote	Other	
22-06-2015	37.14	30.73	0.00	0.00	67.87
21-06-2016	0.43	71.76	0.00	0.00	72.19

**B.5 Indicate whether there are any restrictions in bylaws on the minimum number of shares necessary to attend the General Meeting:**

Yes

No

**B.6 Paragraph repealed**



**B.7 Indicate the address and means of access to the company website to information regarding corporate governance and other information on general meetings to be made available to shareholders via the website of the Company.**

On the homepage of the website of Realia Business, SA ([www.realia.es](http://www.realia.es)) there is a specific section, there is a section entitled "Corporate Governance", after mouse over, displays all available information in accordance with the existing legislation, in particular that relating to Governing Bodies, General Meeting of Shareholders, Social Policy, Annual Report on Corporate Governance and Annual Report on Remunerations of Directors.

**C STRUCTURE OF THE COMPANY'S ADMINISTRATION**

**C.1 Board of Directors.**

**C.1.1 Maximum and minimum number of board members stipulated in the company's bylaws:**

Maximum number of board members	15
Minimum number of board members	5

**C.1.2 Complete the following table of Members of the Board:**

Name or corporate name of board member	Representative	Director's status	Position on the Board	Date of First appointment	Date of Last appointment	Election procedure
Ms. María Antonia Linares Liébana		Independent	Director	25/04/2007	26/06/2013	General Meeting
Ms. Carmen Iglesias Cano		Independent	Director	12/04/2007	05/06/2012	General Meeting
Meliloto, S.L.	Ms. Alicia Alcocer Koplowitz	Proprietary	Director	05/06/2012	05/06/2012	General Meeting
EAC Inversiones Corporativas, S.L.	Ms. Esther Alcocer Koplowitz	Proprietary	Director	15/12/2004	05/06/2012	General Meeting
Mr. Juan Rodríguez Torres		Proprietary	Chairman	06/10/2015	21/06/2016	General Meeting
Mr. Gerardo Kuri Kaufmann		Executive	CEO	27/02/2015	22/06/2015	General Meeting
Mr. Carlos Manuel Jarque Uribe		Proprietary	Director	06/10/2015	21/06/2016	General Meeting

<b>Total Number of Board Members</b>	<b>7</b>
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Indicate any resignations from the company's Board of Directors over the period:

**C.1.3 Complete the following tables on the membership of the Board and their positions:**

**EXECUTIVE BOARD MEMBERS**

Name or corporate name of Board Member	Position in Company Organization Chart
Mr. Gerardo Kuri Kaufmann	CEO

<b>Total Number of executive board members</b>	1
<b>Total % of board member</b>	14.29

**EXTERNAL PROPRIETARY BOARD MEMBERS**

Name or corporate name of Board Member	Name or corporate name of the significant shareholder represented or proposing the appointment
Meliloto, S.L.	Fomento de Construcciones y Contratas, S.A.
EAC Inversiones Corporativas, S.L.	Fomento de Construcciones y Contratas, S.A.
Mr. Juan Rodríguez Torres	Inversora Carso, S.A. de C.V.
Mr. Carlos Manuel Jarque Uribe	Fomento de Construcciones y Contratas, S.A.

<b>Total number of proprietary board members</b>	4
<b>% of entire Board</b>	57.14

**INDEPENDENT EXTERNAL BOARD MEMBERS**

Name or corporate name of Board Member	Profile
Ms. Carmen Iglesias Cano	Former Professor of History of Ideas at the Universidad Complutense de Madrid and the Universidad Rey Juan Carlos de Madrid. Former Member of the Advisory Committee (consultative committee) of FCC, member of the Board of Directors of the Instituto Cervantes, member of the Board for the Debate on the Future of the European Union, Member of the Board of Trustees of the ICO Foundation, member of the Governing Board of the Instituto de España, among other boards and boards of trustees. She has also been Chairperson of the Board of the Grupo Unidad Editorial,

	a subsidiary of the RCS Corriere de la Sera. She is currently a Member of the Board of Patrimonio Nacional, member of the Governing Board of the Real Academia Española and the Real Academia de la Historia, member of the Iberoamerican Forum, member of the Advisory board of the Royal Theatre and Prado Museum Patron.
Ms. María Antonia Linares Liébana	She was General Secretary and Board Member of Endesa Diversificación, S.A., Board Member of Electra de Viesgo, S.A., Board Member of Puerto de Carboneras, S.A., Secretary to the Board of Directors of Grupo Eléctrico de Telecomunicaciones, S.A., General Secretary and Board Member of Netco Redes, S.A., and AIE Secretary in Endesa, Unión Fenosa and Telecom Italia.

<b>Total number of independent board members</b>	2
<b>% of entire Board</b>	28.57

**Indicate whether any member qualified as an independent director perceives from the company or its group, any amount or benefit other than the concept of remuneration, or has or has had during the last financial year, a business relationship with society or any company of the group, either on their own behalf or as a significant shareholder, director or senior manager of a company that has or had such a relationship.**

No

**Where appropriate, a statement of advice on why it is considered that the counselor can perform their duties as independent director will be included.**

#### **OTHER EXTERNAL BOARD MEMBERS**

**Indicate why they may not be considered proprietary or independent, and their relations to company, its managers or shareholders:**

**Indicate any change occurred in each board member's status over the period:**

**C.1.4 Complete the following table with information on the number of female directors for the past 4 years, and the nature of such directors:**

	Number of female directors				% of the total number of directors of each typology			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	2	2	2	1	28.57%	20.00%	20.00%	20.00%
<b>Independent</b>	2	2	2	2	28.57%	20.00%	20.00%	20.00%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	4	4	4	4	57.14%	40.00%	40.00%	40.00%

**C.1.5 Explain the measures, if any, have been taken to seek to include in the board a number of women that would achieve a balanced representation of women and men.**

**Explanation of the measures**

The Board of Directors of REALIA Business, S.A. consists of seven (7) members, four (4) of them are women, so it is the majority. The presence of male and female members in the Board is considered balanced.

**C.1.6 Explain the measures, if any, had agreed the appointments for that selection procedures are implicitly based against the selection of directors and the company makes a conscious effort to include potential candidates, women who fit the profile professional searched for:**

**Explanation of the measures**

Because gender diversity that has characterized the Board of Directors of Realia Business, S.A. (where female representation was 40% in the last four years, and currently being majority, 4 directors on 7), the Appointments and Remuneration Committee has not seen it necessary to adopt any specific measures aim to promote the recruitment of female directors.

**When, despite the measures, if any, have been taken are few or no female directors, explain the reasons therefore:**

**Explanation of the reasons**

Given that, in the last four years, 40% of the members of the Board have been women and they are currently majority (four of the seven members are women), the number of female directors is not considered low.

**C.1.6 bis Explain the conclusions of the Appointments committee on the verification of compliance with the policy of selection of directors. And in particular, how such policy is promoting the goal that by 2020 the number of female directors represent, at least 30% of the total members of the board.**

<b>Explanation of the conclusions</b>
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The company does not have an express counseling policy. However, in the present composition of the Board, 57.14% of the Directors are women, so it is clear that in no case is it difficult to select female directors.

**C.1.7 Explain the way of representation on the Board of the controlling shareholders:**

Only the two major shareholders, Fomento de Construcciones y Contratas, SA (FCC) and Inversora Carso, S.A. de C.V., holders of a total stake of 64.66% (34.33% and 30.33%, respectively) are represented on the Board of Directors of Realia Business, SA Specifically, FCC has appointed three proprietary directors (EAC Investment Corporate Ltd., Meliloto, S.L. and Mr. Carlos Manuel Jarque Uribe) and Inversora Carso another one (Mr. Juan Rodríguez Torres), representing a total of 57.14% of the Board of Directors.

**C.1.8 Explain the reasons why proprietary board members have been appointed, if any, upon request of shareholders whose shareholding is below 5% of the capital:**

**Indicate if any formal request by any shareholder for the appointment of a proprietary member has not been addressed, where such shareholder held an interest equal to or greater than that held by other shareholders whose requests have resulted in proprietary board members being appointed. If any such case does exist, please explain the reasons why such requests where not addressed:**

Yes

No

**C.1.9 Indicate if any Board Members have resigned to their position before the end of their term, if their reasons have been explained to the Board and by what means, and, where such resignation was in writing to the entire Board, please include at least the reasons that such person provided:**

**C.1.10 Indicate the powers, if any, delegated to or granted upon the CEO(s):**

**Name or corporate name of the Board member:**

Mr. Gerardo Kuri Kaufmann

**Brief description:**

1. Open and close accounts.
2. Have accounts.
3. Domiciliary payments.
4. Hire Credits and Loans.
5. Credits and Loans lender.
6. Endorse certifications.
7. Perform income.
8. Receive.
9. To receive by registered documents.
10. Ridding and negotiate trade effects.
11. To request extracts.
12. Conform extracts.
13. Hire sureties on behalf of the principal.
14. To strengthen and guarantee to the principal and to its investees.
15. OK sign commercial paper and promissory notes.
16. Constitute and cancel deposits.
17. Pay.
18. Offer and tender.
19. Representation in tender opening.
20. Hire the execution of works, services and supplies sales.
21. Staking works.
22. Purchase and hire.
23. Water supply, electricity and telephone.
24. Insurance.
25. Licenses for foreign trade.
26. Receive correspondence.
27. Subscribe correspondence.
28. Ridding certifications.
29. Collective bargaining.
30. Industrial Relations.
31. Procedures labor.
32. Develop and parceled land plots.
33. Real rights on real estate.
34. Lease third parties' properties.
35. Transfer properties for rent.
36. Financial and Real Estate leasing.
37. Purchase of vehicles and furniture.
38. Lease vehicles and furniture of others.
39. Transfer leased vehicles and furniture.
40. Leasing Furniture.
41. Real rights on movables.

42. Purchase credits and other intangible rights.
43. Sale of credits and other intangible rights.
44. Establish Societies.
45. Establish Temporary Business Unions and other associations.
46. Representation before governing bodies of companies and other associations.
47. Representation.
48. Transaction.
49. Arbitration.
50. To empower lawyers and attorneys.
51. Accept the recognition of debt and payment in kind.
52. Attendance at meetings of creditors.
53. To urge affidavits.
54. Tax returns.
55. Buy securities.
56. Sell securities.
57. Buy treasury shares.
58. Sale of treasury shares.
59. Endorse and support to others.
60. Purchase of properties.
61. Sale of real estate units.
62. Sale of property developments.
63. Replacing powers.

These powers are developed in deed authorized by the Notary of Madrid, Mr. Emilio Recoder de Casso, on October 20, 2015, under number 2,320 of his protocol and registered in the Commercial Register of Madrid, volume 33719, folio 142, sheet M-197745, inscription 326th.

**C.1.11 indicate, any members of the Board, if any, that hold administrative or managerial positions in any other company that forms part of the listed company's group:**

<b>Name or corporate name of the Board Member</b>	<b>Corporate name of the company in the group</b>	<b>Position</b>	<b>Executive functions</b>
Mr. Gerardo Kuri Kaufmann	Realia Patrimonio, S.L.U.	Sole Director's Representative	Yes
Mr. Gerardo Kuri Kaufmann	As Cancelas Siglo XXI, S.L.	Director's Representative	No
Mr. Gerardo Kuri Kaufmann	Boane 2003, S.A.U.	Chairman's Representative	No
Mr. Gerardo Kuri Kaufmann	Hermanos Revilla, S.A.	Chairman's Representative	No
Mr. Gerardo Kuri Kaufmann	Planigesa, S.A.	Chairman's Representative	No

**C.1.12 provide details, where applicable, of any board members in your company that are known by the Company to form part of the Board of Directors of other companies listed in official stock markets that do not form part of your group:**

Name or corporate name of the Board Member	Corporate name of the listed company	Position
EAC Inversiones Corporativas, S.L.	Cementos Portland Valderribas, S.A.	Chairman
EAC Inversiones Corporativas, S.L.	Fomento de Construcciones y Contratas, S.A.	Member
Meliloto, S.L.	Cementos Portland Valderribas, S.A.	Member
Mr. Carlos Manuel Jarque Uribe	Cementos Portland Valderribas, S.A.	Member
Mr. Carlos Manuel Jarque Uribe	Fomento de Construcciones y Contratas, S.A.	CEO
Mr. Gerardo Kuri Kaufmann	Cementos Portland Valderribas, S.A.	CEO
Mr. Juan Rodríguez Torres	Cementos Portland Valderribas, S.A.	Member
Mr. Gerardo Kuri Kaufmann	Fomento de Construcciones y Contratas, S.A.	Member
Mr. Gerardo Kuri Kaufmann	Minera Frisco, S.A.B. de C.V.	Member
Mr. Gerardo Kuri Kaufmann	Telesites, S.A.B. de C.V.	Member
Mr. Gerardo Kuri Kaufmann	Elementia, S.A.B. de C.V.	Member
Mr. Juan Rodríguez Torres	Fomento de Construcciones y Contratas, S.A.	Member

**C.1.13 Indicate, and where applicable explain, if the company has established rules limiting the number of boards in which its board members may hold office:**

Yes

No

**C.1.14 Paragraph repealed.**

**C.1.15 Indicate the total remuneration of the board of directors:**

Remuneration of the board of directors (thousands of euros)	757
Amount of the remuneration corresponding to the benefits accrued by the current directors on pensions (thousands of euros)	0
Amount of the remuneration corresponding to the benefits accrued by the former directors on pensions (thousands of euros)	0

**C.1.16 Identify the members of upper management that are not board members, and indicate the total remuneration earned during the fiscal year:**



<b>Name or corporate name</b>	<b>Position</b>
Mr. Antonio Román Calleja	Head of Internal Audit
Mr. Agustín González Sánchez	Deputy Director Chief Property Officer
Ms. Ana Hernández Gómez	Chief Development Officer
Mr. Jaime Lloréns Coello	Deputy Director Corporate Strategy and IR Director
Mr. Juan Antonio Franco Díez	Deputy Director Chief Administration and Finance Officer
Mr. José María Richi Alberti	Law Department Director

<b>Total upper management remuneration (in thousands of euros)</b>	1,275
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**C.1.17 Indicate, where applicable, the identity of the Board Members who are also members of the Board of Directors of the Companies who hold a significant shareholding in the listed company and/or organizations in its group:**

<b>Name or corporate name of board member</b>	<b>Corporate Name of the significant shareholder</b>	<b>Position</b>
EAC Inversiones Corporativas, S.L.	Fomento de Construcciones y Contratas, S.A.	Member
Mr. Gerardo Kuri Kaufmann	Fomento de Construcciones y Contratas, S.A.	Member
Mr. Juan Rodríguez Torres	Fomento de Construcciones y Contratas, S.A.	Member
Mr. Carlos Manuel Jarque Uribe	Fomento de Construcciones y Contratas, S.A.	CEO
Meliloto, S.L.	Cementos Portland Valderribas, S.A.	Member
EAC Inversiones Corporativas, S.L.	Cementos Portland Valderribas, S.A.	Chairman
Mr. Juan Rodríguez Torres	Cementos Portland Valderribas, S.A.	Member
Mr. Gerardo Kuri Kaufmann	Cementos Portland Valderribas, S.A.	CEO
Mr. Carlos Manuel Jarque Uribe	Cementos Portland Valderribas, S.A.	Member

**Provide details, where applicable, of any relevant relationships involving Board Members other than those indicated in the table above, with significant shareholders and/or companies in their group:**

**Name or corporate name of related Board member:**

Mr. Gerardo Kuri Kaufmann

**Name or corporate name of related Board member:**

Inversora Carso, S.A. de C.V.

**Describe relationship:**

Mr. Gerardo Kuri Kaufmann holds positions of manager and / or manager in several companies of the Group Inversora Carso, S.A. de C.V.

**C.1.18 Indicate if any modification has been made to the Board's regulations during the Fiscal Year:**

Yes

No

Modification description
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The Board of Directors of Realia, at its meeting of May 3, 2016, approved the amendments to the Regulations of the Board of Directors proposed by the Audit and Control Committee at its meeting on that same date.

The amendment of the Regulation was justified by the need to adapt the previous regulatory text to the amendments to the Capital Companies Act (Ley de Sociedades de Capital) introduced by Law 22/2015, of July 20, Auditing of Accounts of 2015 (Law 22/2015), as well as for the amendments to the Bylaws that were to be submitted to the General Shareholders' Meeting for approval. In addition, it was intended to eliminate references to the Framework Agreement signed between FCC and Bankia, which became ineffective after the latter's sale of its shareholding in the company.

The modifications that were carried out were the following:

- Article 12 (Relations with shareholders): The last paragraph of this article was deleted, in which reference was made to the Framework Agreement.
- Article 25 (Conflicts of interests and related transactions): The second paragraph of section 3 of this article, which referred to the Framework Agreement, was deleted.
- Article 44 (Audit and Control Committee): With the modification of this article, its content was adapted to that of the new article 529. quaterdecies LSC.
- Article 45 (Appointments and Remuneration Committee): The amendment of this article adapted its content to the new article 529. quindecies LSC.

The revised text of the Regulations of the Board of Directors with the new wording of the amended articles was communicated to the National Securities Market Commission through Relevant Fact nº 242391, on September 2, 2016.

**C.1.19 Indicate the procedures used for the selection, appointment, re-election, appraisal and removal of Board Members. Provide details of competent bodies, and the processes and criteria applicable to each of the procedures:**

Selection of Board Members:

It corresponds to the Appointments and Remuneration assess the skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to perform its mission effectively.

Appointment of Board Members:

In accordance with the provisions of article 16 of the Board of Directors Rules, proposed appointments for Board Members submitted by the Board to the consideration of the General Shareholders' Meeting and the appointment decisions adopted by that body based on the co-optation powers that it legally possesses should involve well-known, creditworthy, technically competent and experienced people, upon prior report issued by the Appointments and Compensation Committee in the case of both executive and proprietary members, and it should propose appointments in the case of independent Board Members.

Board Members involved in appointment proposals, re-election or resignation, shall not participate in the deliberations and votes in which they are involved.

Re-election of Board Members:

Board members shall perform their duties during the period fixed in the Articles of Association, i.e. for a period of four (4) years, with the possibility of being re-elected on one or more occasions for periods of the same length (article 22 of the Articles of Association). Nevertheless, in accordance with article 17 of the Board Rules, prior to any re-election of Board Members submitted to the General Meeting, the Appointments and Remuneration Committee shall issue a report assessing the quality of work and dedication to the position of the Board Members proposed during the previous term of office.

Appraisal of Board Members:

It corresponds to the Appointments and Remuneration Committee evaluating the skills, knowledge and experience on the Board, defining the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to perform their duties.

In addition, the Board will dedicate the first of its annual sessions to assess their own performance during the previous year, from the report submitted by the Appointments and Remuneration Committee. In this evaluation will be assessed the quality of its work, the effectiveness of their rules will be evaluated and, where appropriate, those aspects which have been shown little functional will be corrected. In addition, the Board will assess the performance of their duties by the Chairman of the Board and the Chief Executive of the company, based on the report submitted by the Appointments and Remuneration Committee; and also the functioning of the Executive Committee, the Nomination and Remuneration Committee and the Audit Committee and Control, based on their report.

Removal of Board Members:

Board Members will cease to perform their duties once the period for which they were appointed has terminated or when the General Shareholders' Meeting so decides, by virtue of the powers it has been granted by the law and the Company's Bylaws. The Board of

Directors may not propose the removal of any independent Board Member before expiration of the term of office for which they have been appointed, except for reasonable cause in the opinion of the Board and upon prior consideration of the Appointments and Compensation Committee. In particular, there will be reasonable cause when a Board Member has failed to meet the responsibilities inherent in the position or incurred any of the circumstances that would have prevented their appointment as an independent Board Member. The removal of independent Board Members may also be proposed as a result of takeover bids, mergers or other similar corporate deals that result in a change in the capital structure of the company where such changes in the Board's structure are brought about by proportionality criteria applicable to proprietary and independent Board Members in accordance with the capital represented in the Board.

When, either through resignation or by any other reason, a Board Member ceases to perform its duties before expiration of its term of office, said person should explain their reasons for so doing in a letter to be sent to all of the members of the Board.

**C.1.20 Explain how far the annual evaluation of the board has led to significant changes in its internal organization and the procedures applicable to its activities:**

<b>Describe modifications</b>
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Self-assessment has not led to significant changes in its internal organization and the procedures applicable to its activities.

In the current composition of the Board, a large majority of its members (six of seven) are external; two are independent, and only one is executive. Given the shareholding structure of the company, it is considered that its current composition is quite reasonable.

Independent directors should meet the requirement of fulfilling their duties without being influenced by relations with the Company, its significant shareholders or managers. Proprietary directors meet the requirement of representing significant shareholders. And the executive director meets the requirement to perform functions as High Company management.

Therefore, the Board of Directors meets the requirements of composition and qualifications established in their own Regulation, considering these appropriate and best practices for the effective and diligent performance of their duties.

The Directors have fulfilled the duties imposed by law, the Statutes and Regulations of the Company, faithfully with the corporate interests. In carrying out its functions each and every one of the members of the Board have acted with the diligence of an orderly businessman and loyalty of a faithful representative, acting in good faith and in the best interest of the company.

The result of the evaluation is that during the year 2016 the Board has carried out its duties with unity of purpose and independent judgment, affording equal treatment to all shareholders and be guided by the interest of the company, understood as maximizing

steadily, the economic value of the society. It has also ensured so that, in its relations with the various stakeholders, the company respects the laws and regulations; meets good faith their obligations and contracts; respects the customs and good practices of the sectors and territories where it does business; and observes the principles of social responsibility that it has voluntarily accepted.

According to the above, it can be said that the Board is organized and operates in an appropriate and efficient manner, based at all times with the criteria established in the Constitution and in its own Regulations; assumes and responsibly performs the functions and powers attributed in these standards, attending diligently and efficiently the affairs of the Company that require constant attention and monitoring.

**C.1.20 bis Describe the assessment process and evaluated areas made by the board, if necessary, by an external consultant, respect for diversity in its composition and powers, operation and composition of its committees, the performance management chairman and chief executive of the company and the performance and contribution of each director.**

The Board of Directors, as well as the contribution of its members to the performance of their functions, have conducted performance evaluation of the Board through a formal process of evaluation of many aspects that influence the effectiveness and quality of actions and decisions taken. On the other hand, logically, in this assessment, RCA and ES of the Company were taken into account.

In preparing the Report have been involved and actively each and every one of the members of the Appointments and Remuneration Committee, under the direction and coordination of its Chairman, taking into account the comments, ratings, opinions and suggestions poured in this process for all of them.

In the evaluation, which was carried out from the report issued by the Appointments and Remuneration Committee has been analyzed the functions and powers of the Board of Directors, its current composition, the operation and the actions carried out by that body. The findings of this assessment are collected in the previous section C.1.20.

Similarly, the Board of Directors has evaluated the functioning of the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee, based in the report from each elevated to the Board.

It has also assessed the performance of its duties by the Chairman of the Board of Directors and the CEO of the company, based in the reports issued by the Appointments and Remuneration Committee.

Respect of the three Committees of the Board, we have analyzed the roles and responsibilities of each, its current composition, its performance and actions taken by such bodies. Regarding the Chairman of Board of Directors and the CEO of the company, its functions have been evaluated, the occupation of both positions during the year and the actions carried out by them.

This assessment is concluded, in summary, that those committees assume and responsibly perform the functions and powers delegated to them by the Board of Directors, serving diligently and efficiently the affairs of the Company that require constant attention and monitoring. Regarding the Chairman of Board of Directors and the CEO of the company, it is concluded, in summary, that have complied with their duties as holders of such positions, according to the principles of good corporate governance contained in the Statutes and Regulations of the Board of Directors.

**C.1.20 bis Breakdown, if any, business relationships that the consultant or any company in its group have with the company or any other company in its group.**

There is no external consultant.

**C.1.21 Indicate the circumstances in which Board Members are obliged to resign:**

Section 2, article 20 of the Board of Directors Rules establishes that Board Members should offer their resignation to the Board and, formalize their resignation when deemed appropriate, as per the following cases:

- a. Where Executive Board Members cease to hold a post, position or perform functions associated to their appointment as Executive Board Members.
- b. With respect to Proprietary Board Members, when the shareholder whose interest that Member represents transfers the entirety or reduces, by the relevant proportion, their shareholding in the Company.
- c. When a Board Member incurs any of the stipulated incompatibility cases or exceeds legal limits.
- d. When the Board itself so requests, by a majority of at least two thirds of its members, in the following cases:
  - (i) If, having infringed their obligations as a Board Member, they have been severely reprimanded by the Board, following a proposal or report from the Appointments and Compensation Committee; or
  - (ii) When their continued presence on the Board may put the Company at stake.

In any event, pursuant to article 29.2 of the Rules, if a board member is prosecuted or oral proceedings are opened against him for any of the offences stipulated in article 213 of the Capital Corporations Act, the Board shall examine the case as soon as possible and, in the light of the specific circumstances, shall decide whether the board member should continue in office or not. The Board shall give a reasoned account of all such events in the Annual Corporate Governance Report.

**C.1.22 Paragraph repealed.**

**C.1.23 Are super majorities, other than those established by law, required in any sorts of decision?**

Yes

No

**Where applicable, describe differences:**

**C.1.24 Explain whether there is any specific requirement other than those covering Board Members to be named Chairman of the Board.**

Yes

No

**C.1.25 Indicate whether the Chairman has the casting vote:**

Yes

No

**C.1.26 Indicate whether the bylaws or the Board of Directors Rules establish any age limit for Board Members:**

Yes

No

**C.1.27 Indicate whether the bylaws or the Board of Directors Rules set a limited term of office for independent Board Members, that established in the regulations:**

Yes

No

**C.1.28 Indicate whether the bylaws or rules of the Board of Directors specific rules for proxy voting at the board, how to do it and, in particular, the maximum number of delegations that may have a member, and if it has established any limitation related to the categories in which it is possible to delegate, beyond the limitations imposed by legislation. If applicable, detail these rules briefly:**

Attend personally those meetings of the organs of which they are part of, it is one of the main duties of directors. Nevertheless, in the event of being unable to attend a meeting for

inexcusable causes, may delegate their representation to another Director, in writing to the Chairman of the Board of Directors. In any case, non-executive directors may only delegate their vote to another non-executive director.

**C.1.29 Indicate the number of Board meetings held during the fiscal year. Furthermore, indicate, where appropriate, how many times the Board has met without its Chairman. In computing shall be considered attendances the representations made with specific instructions:**

Number of Board meetings	11
Number of Board meeting where Chairman was not present	1

**If the Chairman is an executive member, indicate the number of meetings held, without presence or representation of none executive members and under the presidency of the coordinating director.**

Number of meetings	0
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**Indicate the number of meetings held during the fiscal year by the different committees:**

Committee	Number of meetings
Executive Committee	3
Audit and Control Committee	10
Nominations and Retribution Committee	4

**C.1.30 Indicate the number of Board meetings held during the fiscal year where all members were present. The calculation considers representations where specific instructions were given:**

Number of meetings with all Members' attendance	5
% of attendances over the total votes during the year	90.91

**C.1.31 Indicate whether the individual and consolidated financial statements presented to the Board for its approval were previously certified:**

Yes  No

**Indicate, where applicable, the person(s) who certified the Companies' individual or consolidated financial statements to be prepared by the Board:**



Name	Position
Mr. Gerardo Kuri Kaufmann	CEO
Mr. Juan Antonio Franco Díez	CFO

**C.1.32 Explain the mechanism in place, if any, established by the Board of Directors to prevent the individual and consolidated financial statement it has prepared from being presented to the General Shareholders' Meeting with a qualified auditor's opinion.**

In accordance with article 44.4.a.i of the Rules of the Board of Directors, one of the duties of the Audit and Control Committee is to supervise the preparation process and presentation of the mandatory financial information relating to the Company and the Group, and to present recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity. Likewise, according to section c of the same article 44.4, the Audit and Control Committee is also responsible for supervising the preparation process of both the individual and consolidated Financial Statements and Management Report, their preparation by the Board in accordance with the Law, and for reporting the Board of Directors, the accuracy and reliability of both the individual and consolidated Financial Statements and Management Report, and financial information for the year released to the markets.

Furthermore, according with section 3 of the article 15 of the Rules of the Board of Directors, this Board should aim to draft the accounts in such a way that the auditor is not required to qualify its report. Nevertheless, when the Board believes that it should maintain its criteria, the Chairman of the Audit Committee, and the auditors, shall have to explain the content and the scope of the aforementioned qualifications to shareholders.

**C.1.33 Is the Secretary to the Board also a Board Member?**

Yes

No

**If the Secretary is not a board member, complete this information:**

Name or corporate name of the secretary	Representative
Mr. Jesús Rodrigo Fernández	Executive Chairman

**C.1.34 Paragraph repealed.**

**C.1.35 Indicate, where applicable, the mechanisms established by the Company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.**

The Audit and Control Committee is responsible for ensuring independence of the external auditor. Those mechanisms are covered in article 44 of the Board of Directors Regulations with reference to the Audit and Control Committee, in which, with respect to the external auditor and so as to ensure his independence:

- Establish appropriate relations with the external auditor to receive information on issues that may threaten its independence for consideration by the Committee, as well as on any other issues related to the process of developing the audit of accounts and, Where appropriate, the authorization of services other than those prohibited, in the terms contemplated in the regulation regulating the activity of the audit of accounts, as well as those other communications provided in this one.
- Will request annually from the Corporation's account external auditors written confirmation of their independence from the corporation or corporations directly or indirectly related to it, as well as detailed and individualized information on additional services of any kind rendered to by said auditors or individuals or corporations related to them, in accordance with the provisions of the regulations governing the activity of auditing accounts.
- The Company will communicate, as relevant information, any change of external auditor to the CNMV, and will accompany such communication with a statement on potential disagreements with the outgoing auditor and the nature of such disagreement, if any.
- In case the external auditor resigns, the Committee shall examine the circumstances that have led to such resignation.

Furthermore, this Committee must issue annually, before the account auditing report is issued, a report including an opinion on the independence of account auditors. At any rate, this report should issue an opinion on the provision of additional services of any kind rendered to the Corporation or companies directly or indirectly related to it, by the auditor or individuals or corporations related to him, according to the provisions of the Account Auditing Act.

Similarly, this Committee is responsible for:

- Supervise the preparation process and integrity of the financial information on the company and the group, according to the law, for its formulation by the Board;
- Inform the Board, for the formulation according to the law, about correctness and reliability of the individual and consolidated financial statements, and Management Reports, and the periodic information released to the markets.
- Ensure the independence and efficiency of the internal audit function;
- Inform the Board, previously to the adoption of the decisions, of the public financial information which the company has to report periodically because of its listing.

For the best performance of its duties, the Audit and Control Committee may retain the advice of external professionals.

**C.1.36 Indicate if the Company has changed external auditor during the fiscal year. If so, please identify both the incoming and outgoing auditor.**

Yes  No

**In such case as disagreements exist with the outgoing auditor, please explain their contents:**

Yes  No

**C.1.37 indicate if the auditors undertake work for the Company and/or Group, other than audit engagements and, if so, indicate the amount of the fees received for said work and the percentage it represents from the total fees billed to the Company and/or its Group:**

Yes  No

	Company	Group	Total
Amount for work performed other than audit engagements (thousands of euros)	171	238	409
Amount for work performed other than audit engagements / Total amount billed by auditors (%)	30.05	41.83	71.88

**C.1.38 Indicate whether the auditor's report accompanying the Financial Statements for the previous fiscal year includes a qualified opinion. If so, please indicate the reasons given by the Chairman of the Audit Committee to explain the content and the scope of such reservations or exceptions.**

Yes  No

**C.1.39 Indicate the number of years that the current auditor has been auditing the Company and/or Group's financial statements. Also, indicate the proportion that the number of years audited by the current auditors represents as a percentage of the total number of years that financial statements have been audited:**

Company	Group
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Number of running years	14	14
No. of years audited by the current auditors / No. of years that the company has been audited (in %)	82.35	82.35

**C.1.40 Indicate and, where applicable, describe whether a procedure exists so that Board Members can receive external advice.**

Yes  No

**Description the procedure**

The procedure is included in article 31 of the Board of Directors Rules, as follows:

1. With the aim of providing External Board Members with assistance in performing their duties, they may seek the advice of legal, accounting and financial advisers or other experts, to be paid for by REALIA.

Such assignments of tasks should be focused on specific prominent and complex problems they encounter when performing their functions.

2. Requests to hire external advisers or experts should be addressed to the Chairman of REALIA and be authorized by the Board of Directors if it considers that:

- a. it is necessary for the appropriate performance of the functions assigned to Independent Board Members;
- b. the cost involved is reasonable vis-à-vis the importance of the problem and the assets and turnover of REALIA; and
- c. the expert assistance request cannot adequately be provided by REALIA's experts or technicians.

3. Where expert assistance is requested by any of the Board's committees, it may not be denied, unless the Board resolves, by majority vote, that the conditions established in section 2 of this article are not met.

**C.1.41 Indicate, and where applicable, describe whether a procedure exists whereby Board Members can receive the necessary information to prepare meetings in administrative bodies with sufficient time:**

Yes  No

**Description the procedure**

Article 41 of Board Regulation provides that, in connection with the convening of such a body, taking care that these calls are made in advance of not less than ten days. Along with the announcement of each meeting always include the agenda of the meeting and relevant

documentation for Board members to form their own opinion and, where appropriate, to cast their vote in relation to the matters under consideration.

In addition, the same article provides that where the request of the Directors points to be included in the agenda, the Directors which would have required the inclusion shall either submit the application along with the relevant documentation, well identify it, in order that it be sent to other members of the Board.

Similarly, Article 23 of the Bylaws provides that among the duties of the Chairman is that of ensuring that the directors receive in advance sufficient information to discuss the items on the agenda; and between the Secretary, to assist the Chairman for fulfillment of that function.

**C.1.42 Indicate, and where applicable, explain if the Company has established rules that oblige Board Members to inform and, where applicable, resigned in such circumstances that may be prejudicial to the company and its reputation:**

Yes

No

**Explain the rules**

Article 20.2 of the Board of Directors Rules establishes that Board Members should offer their resignation to the Board and, formalize their resignation when deemed appropriate, as per the following cases:

(...)

(ii) Where their continued presence on the Board may put the Company at stake.

Similarly, in accordance with article 29 section 2 of the Rules, on the duty of board members to provide information, the latter shall be required to provide information on any criminal proceedings in which they are involved as accused, as well as their subsequent procedural vicissitudes. If a board member is prosecuted or oral proceedings are opened against him for any of the offences provided for in article 124 of the Limited Companies Act, the Board shall examine the case as soon as possible and, in the light of the specific circumstances, shall decide whether the board member should continue in office or not. The Board shall give a reasoned account of all such events in the Annual Corporate Governance Report.

**C.1.43 Please indicate if any member of the Board of Directors has reported to the Company that he has been indicted or a trial process has been opened against him for any of the crimes referred to in article 213 of the CCA (Capital Companies Act):**

Yes

No

Indicate whether the Board of Directors has analyzed the case. If so, please provide the rationale for the decision on whether or not the Board Member has remained in his position or, whether applicable, expose the actions taken by the board until the date of this report or it intends to make.

Yes

No

**C.1.44 Detail significant agreements entered into by the company and which come into force, be amended or terminate in the event of control of the company following a takeover bid, and its effects.**

Do not exist.

**C.1.45 Identify in aggregate and specify, in detail, the agreements between the company and its directors and executives or employees providing for compensation, indemnity or shield, if they resign or are dismissed without valid reason or if the contractual relationship is to an end during a takeover bid or other operations.**

**Number of beneficiaries:** 3

**Kind of beneficiary:** Several members of the Directors Committee.

**Description of agreement:** Of the three (3) contracts, it is provided a compensation for workers of forty-five (45) days per year worked, with a minimum of 24 and a maximum of 42 months, with regardless of what the applicable laws at all times. Nevertheless, in only one of these three cases, given his time in the company, a possible compensation would exceed the maximum legal.

**Indicate if the company or group companies should be notified of or approve those contracts.**

	Board of Directors	General Shareholders' Meeting
Clauses approved by	YES	NO

	Yes	No
Has the General Shareholders' Meeting been informed of the clauses?	X	

## C.2 Board of Directors' Committees

**C.2.1 Provide details of the Board of Directors' Committees, their members and the proportion of proprietary and independent directors within them:**

**DELEGATED EXECUTIVE COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Status</b>
Mr. Juan Rodríguez Torres	Chairman	Proprietary
Mr. Gerardo Kuri Kaufmann	Member	Executive
E.A.C. Inversiones Corporativas, S.L.	Member	Proprietary
Meliloto, S.L.	Member	Proprietary

<b>% of executive members</b>	25%
<b>% of proprietary members</b>	75%
<b>% of independent members</b>	0%
<b>% of other external members</b>	0%

**Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.**

The Board may permanently delegate to the Executive Committee all the powers vested in the Board of Directors, except those whose competence has reserved to the Board by the Law or the Regulations of the Board of Directors. The Executive Committee shall consist of a minimum of three (3) and a maximum of ten (10) members, including the Chairman, all of them members of the Board of Directors.

In general, it is responsible for monitoring and supervising day management of the Company that require continued attention and, if necessary, a quick and diligent adaptation, as well as those matters that may influence the positioning and projection future of the Company and its Group in the market.

In particular, according to the provisions of Article 43.1 of the Regulations of the Board of Directors, it is responsible for deciding on investments, disinvestments, credits, loans, endorsements or guarantee or any other financial facility, that the amount does not exceed eighteen million euros.

The Executive Committee shall meet whenever required by social interests, as often as called by its Chairman, or, if applicable, Vice Chairman who replace him, and may attend its meetings, to be heard, anyone, whether or not foreign to the society, to be convened for that purpose by agreement of the Commission or the Chairman thereof, for purposes to be determined, because the reason of the case in question.

The Executive Committee shall be convened by the Chairman at his own initiative, and where necessary, at the request of at least two of the components.

The notices will be made by letter, e-mail, telegram, or fax that justifies the receipt by the member called with a minimum of 24 hours. Along with the announcement of each meeting, the members of the Executive Committee will be forwarded the relevant documentation so they can form their opinion and vote.

It will be Chairman and Secretary of the Commission the Chairman and Secretary, respectively, of the Board of Directors. In the absence of the Chairman of the Executive Committee, the member elected for this purpose shall exercise his functions.

The Executive Committee will be validly constituted with the attendance, either present or represented, of at least most of its members; and shall adopt resolutions by an absolute majority. Members of the Commission may delegate their representation to another member, but no member may assume more than two representations, besides their own.

The resolutions of the Commission are carried in a minute book, which will be signed, for each of them, by the Chairman and the Secretary or, where appropriate, by those who have played these roles at the meeting in question.

As for his actions during the year, the Executive Committee has held three (3) meetings in 2016, in the months of January, July, and December. At its meetings, the Commission has addressed related matters with its various areas of competence. The actions carried out have been the following:

1. Self-evaluation. At the first meeting for the year 2016, the Commission assessed its own performance during the year 2015, analyzing the various issues addressed in the held meetings and other circumstances relating to their activities, all in accordance with the provisions of Article 41.6<sup>o</sup> RCA.
2. Control of the resolutions of the Commission. The Commission, at its meetings in January and July, conducted regular monitoring of the agreements reached in the previous year and during the current year, respectively, in order to check the degree of compliance with them and adopt, where appropriate, the necessary measures.
3. Taking position on the resolutions to be referred to the Board. The Chairman of the Commission, in each of the meetings of the same, informed the members about the progress of the society as well as on matters to be discussed at the next session of the Board in order to adopt a position on the possible resolutions to be taken.

**Indicate whether the delegate or executive composition reflects the participation on the Board of the different directors according to their category:**

Yes

No



**If not, explain the composition of the Executive or Delegated Committee**

The composition of the Executive Committee is 25% of executive directors and 75% of proprietary directors, while the composition of the Board is 14.29% of executive directors, 57.14% of proprietary directors and 28.57% of independent directors.

**AUDIT COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Status</b>
Ms. María Antonia Linares Liébana	Chairman	Independent
Ms. Carmen Iglesias Cano	Member	Independent
Mr. Juan Rodríguez Torres	Member	Proprietary

<b>% of proprietary members</b>	33.33%
<b>% of independent members</b>	66.67%
<b>% of other external members</b>	0.00%

**Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.**

The Company shall have an Audit and Control Committee, composed of a minimum of three and a maximum of six Directors appointed by the Board of Directors for a period not exceeding his mandate as Directors and without prejudice to be re-elected indefinitely, to the extent that they were also Directors. The Committee shall consist exclusively of non-executive directors, most of which, at least, must be independent directors and one (1) of them shall be appointed, taking into account their knowledge and experience in accounting, auditing or both. As a whole, the members of the Audit and Control Committee will have the relevant technical knowledge in relation to the sector of activity to which the company belongs.

The Committee shall elect from among its independent directors a Chairman and may also elect a Vice Chairman. The term of office may not exceed four years or their terms of office as members of the Committee and may be reappointed once after at least one year from ceasing.

It will act as Secretary, Undersecretary and, if applicable, the person, without specifying the quality of Director, appointed by the Committee.

Committee members may be assisted in its sessions for people with the quality of advisors, and up to two for each of these members, they consider appropriate. These advisers will attend the meetings with voice but no vote.

The primary function of the Committee is to support the Board in its supervisory duties by periodically reviewing the process of drafting the economic and financial information, the internal audit function and independence of the external Auditor. It shall also oversee the internal audit, which will ensure the proper functioning of information systems and internal control.

Its competences are those indicated below. They are developed in the Article 44 of the Board Regulation:

1. Inform the General Meeting of Shareholders on questions raised by shareholders on matters within its competence, and in particular, on the outcome of the audit, explaining how that audit has contributed to the integrity of the financial information and the role that the Committee has played in that process.
2. Monitor the effectiveness of internal control of the Company, internal audit and risk management systems, including prosecutors, as well as discuss with the auditors the significant weaknesses of internal control system detected during the audit, all without breaking their independence.
3. Supervise the process for preparation and presentation of the required financial information and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.
4. Submit to the Board of Directors proposals for the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process, in accordance with the applicable regulations, as well as the conditions of their recruitment and regularly collect information on the Audit and its execution, in addition to preserving its independence in the exercise of its functions.
5. Establish appropriate relations with the external auditor to receive information on issues that may pose a threat to its independence, for its consideration by the Committee, as well as on any other issues related to the process of developing the audit of accounts and, when the authorization of services other than those prohibited, in the terms contemplated in the regulations regulating the activity of auditing accounts, as well as those other communications provided in this one. In any case, they must receive, annually, from the external auditors the declaration of their independence in relation to the entity with the entity or entities related to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities related to it in accordance with the provisions of the regulations governing the activity of auditing accounts.

(The information related to the Commission is completed in the attached document, section H.1)

**Identify the member of the audit committee has been appointed considering their knowledge and experience in accounting, auditing or**

**both and report on the number of years that the Chairman of this committee has been in office counselor.**

<b>Name of the experienced member</b>	Mr. Juan Rodríguez Torres
<b>Number of years of the Chairman in the position</b>	4

#### **APPOINTMENTS AND COMPENSATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Status</b>
Ms. María Antonia Linares Liébana	Chairman	Independent
Ms. Carmen Iglesias Cano	Member	Independent
Mr. Juan Rodríguez Torres	Member	Proprietary
E.A.C. Inversiones Corporativas, S.L.	Member	Proprietary
Meliloto, S.L.	Member	Proprietary

<b>% of proprietary members</b>	60%
<b>% of independent members</b>	40%
<b>% of other external members</b>	0%

**Explain the functions assigned to this committee, describe the procedures and rules of organization and operation thereof and summarize their most important performances during the year.**

The Company shall have a Nomination and Remuneration Committee, composed of a minimum of three and a maximum of six Directors appointed by the Board of Directors for a period not exceeding his mandate as Directors and without prejudice to be reelected indefinitely, to the extent that they were also so as Directors. The Committee shall be composed exclusively of non-executive directors, two of whom, at least, must be independent and be elected taking into account their knowledge, skills and experience.

The Committee shall elect from among its independent directors a Chairman and may also elect a Vice Chairman. It will act as Secretary, Undersecretary and, if applicable, the person, without specifying the quality of Director, appointed by the Committee.

Its competences are those indicated below. They are developed in Article 45 of the Board Regulations:

1. Evaluate the skills, knowledge and experience on the Board of Directors. For this purpose, define the roles and capabilities required of the candidates to fill each vacancy and evaluate the time and dedication necessary for them to effectively perform their duties.
2. Set a goal of representation for sex less represented in the Board of Directors and develop guidance on how to achieve that objective.

3. Submit to the Board of Directors the proposals for appointment of independent directors to be appointed by interim basis or for submission to the decision of the General Meeting, as well as proposals for re-election or removal of such directors by the General Meeting.
4. Report on proposals for appointment of the remaining directors to be appointed by interim basis or for submission to the decision of the General Meeting, as well as proposals for re-election or removal by the General Shareholders' Meeting.
5. Report on proposals for appointment and removal of senior managers and the basic terms of their contracts.
6. Examine and organize the succession of the Chairman of the Board and Chief Executive of the Company and, where appropriate, make proposals to the Board for such succession occurs in an orderly and planned way.
7. Propose to the Board the remuneration policy for directors and general managers or those who develop their senior management duties reporting directly to the Board of the Executive Committee or CEOs, if any, as well as individual remuneration and other contractual conditions of the executive's directors, ensuring compliance.

Members of the Appointments and Remuneration Committee may be assisted during their meetings, by people who, with the quality of advisors and up to two for each member of the Committee, consider appropriate. These advisers will attend the meetings with voice but no vote.

For the best performance of its duties, the Nomination and Remuneration Committee may seek the advice of outside professionals.

The Commission shall meet at intervals to be determined and whenever convened by the Chairman or requested by two of its members. Annually, the Commission will prepare an action plan for the fiscal year to apprise the Board.

He is obliged to attend meetings of the Commission and to provide help and access to information available to any member of the management team and staff REALIA Group may be required for this purpose.

The Appointments and Remuneration Committee shall have access to the information necessary for the performance of its functions.

The Appointments and Remuneration Committee shall consult the Executive Chairman of the company, especially on matters relating to executive directors and senior managers. Any director may request the Appointments and Remuneration Committee to take into consideration if it finds them suitable, potential candidates to fill vacancies.

The Chairman of the Committee will report on the first full meeting of the Committee of its activity and accountable for the work done Board. Each year the Committee will submit a report to the Board on its operation.

(The information is completed to the Committee in the attached document, section H.1)

**C.2.2 Complete the following table with information on the number of female directors that integrate the committees of the board during the last four years:**

	Number of female directors							
	Year 2016		Year 2015		Year 2014		Year 2013	
	No	%	No	%	No	%	No	%
<b>Executive Committee</b>	2	50.00	2	40.00	2	25.00	2	25.00
<b>Audit Committee</b>	2	66.67	2	66.67	3	50.00	3	50.00
<b>Appointments an Compensation Committee</b>	4	80.00	4	80.00	3	50.00	3	50.00

**C.2.3 Paragraph repealed.**

**C.2.4 Paragraph repealed.**

**C.2.5 Indicate, where applicable, the existence of regulations covering the Board's committees, where they can be consulted, and any modifications that have been made to them over the fiscal year. Also, indicate if any voluntary annual reports have been prepared on the committees' activities.**

EXECUTIVE COMMITTEE:

The Executive Committee is regulated in art. 43º of the Board Regulations and art. 25th of the Bylaws. Both documents can be consulted on the website of the company ([www.realia.es](http://www.realia.es)).

On conformity with the expressed in the article. 41.6º of the Board Regulations on February 2 2017, the Board assessed the functioning of the Executive Committee during the year 2016, from the report that the Commission had raised him.

Conclusions: The Executive Committee assumes and responsibly performs the functions and powers that are delegated by the Board, serving diligently and efficiently the affairs of the Company that require attention and constant monitoring.

AUDIT COMMITTEE:

The Audit and Control Committee is regulated in art. 44th of the Board Regulations in the art. 27 of the Statutes and Title VIII of the Rules of Conduct. These documents can be consulted on the website of the company ([www.realia.es](http://www.realia.es)). The art. 44º of the Regulation

was amended by the Board at its meeting on 3 May 2016 to adapt its content to the new art. 529. quaterdecies LSC. For its part, art. 27 of the Statutes was amended by the General Meeting on 21 June 2016, with the same purpose as Regulation.

In accordance with the provisions of art. 41.6º of the Board Regulations on 2 February 2017 the Board assessed the functioning of the Audit and Control Committee in the year 2015 from the report that the committee had raised to it.

Conclusions: The Committee has been in permanent contact with the head of internal audit and external auditors on the issuance of its quarterly and annual reports, and can therefore check the quality and transparency of financial information provided to markets and the effectiveness of internal control systems and risk management. In summary, one can say that the Committee assumes and responsibly performs the functions and powers that are delegated by the Board, serving diligently and efficiently the affairs of the Company that require constant attention and monitoring.

#### APPOINTMENTS AND REMUNERATION COMMITTEE:

The Appointments and Remuneration Committee is regulated in art. 45 of the Board Regulations and art. 28º of the Statutes. These documents can be consulted on the website of the company ([www.realia.es](http://www.realia.es)). The art. 45 of the Regulation was amended by the Board at its meeting on 3 May 2016 to adapt its content to the new art. 529. quindecies LSC.

In accordance with the provisions of art. 41.6º of the Board Regulations on 2 February 2017 the Board assessed the performance of the Appointments and Remuneration Committee during the year 2016, from the report that the Commission had raised to it.

Conclusions: The Commission plays and responsibly assume the functions and powers delegated by the Board, serving diligently and efficiently the affairs of the Company that require constant attention and monitoring.

#### **C.2.6 Paragraph repealed.**

### **D RELATED TRANSACTIONS**

#### **D.1 Explain, if applicable, the procedure for approval of transactions with related and intragroup parties.**

<b>Appropriate body for approving related transactions</b>
--

Article 25 of the Regulations of the Board of Directors states that the operations that the company conducts with directors, significant shareholders or representatives on the Board, or with persons related thereto must be authorized by the Board of Directors following a report of the Audit and Control Committee.

That article goes on to say that the directors affecting such operations, in addition to not exercising or delegating their right to vote, should be absent from the meeting room while the Board deliberates and votes

on them. In any case, the relevant transactions of any kind, made by any director with the company Realia, its subsidiaries or affiliates shall be reported in the Annual Corporate Governance Report. This obligation also covers the relevant transactions between the Company and its significant -direct and indirect- shareholders.

**D.2 Provide details of those relevant transactions in amount or significance by its matter made between the company or its group companies and significant shareholders of the company:**

<b>Name or corporate name of the significant shareholder</b>	<b>Name or corporate name of its group company or entity</b>	<b>Nature of the relationship</b>	<b>Type of the operation</b>	<b>Amount (Thousands of euros)</b>
Fomento de Construcciones y Contratas, S.A.	REALIA Business, S.A.	Contractual	Provision of services	154
Fomento de Construcciones y Contratas, S.A.	Hermanos Revilla	Contractual	Provision of services	153
Inversora Carso, S.A. de C.V.	REALIA Business, S.A.	Contractual	Guarantees	184,000
Inversora Carso, S.A. de C.V.	REALIA Business, S.A.	Contractual	Financial Agreements: loans	20,396

**D.3 Provide details of the relevant transactions in amount or significance by its matter made between the company or its group companies and the Company's administrators or managers:**

**D.4 Provide details of the relevant transactions undertaken by the Company with other companies within the same Group, provided that, in the process of drafting the consolidated financial statements, they are not eliminated and they are not part of the normal operations of the Company in terms of their purpose and conditions:**

In any case, shall be informed of any intragroup transaction undertaken with entities established in countries or territories considered tax haven:

**D.5 Indicate the amount of transactions undertaken with related parties.**

207,208 (Thousands of Euros)

**D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group and its Board Members, Directors or significant shareholders.**

Article 25 of the Board of Directors' Rules with reference to conflicts of interest and related transactions, establishes the following:

1. The Board director should abstain from participating in the deliberation and voting agreements or decisions in which he or a related person has a conflict of interest, direct or indirect. They are

excluded from the obligation to abstain previous agreements or decisions that affect them in their capacity as administrator, such as designation or revocation for position in the board of directors or other similar meaning.

2. The Director shall inform the Board in due time of any situation which might involve a conflict of interest with the interest of Realia Group of companies or its related companies.
3. Operations that the company carried out with directors, significant shareholders or representatives on the Board, or persons related to them, must be authorized by the Board after a report from the Audit and Control Committee.
4. The Board shall decide on the related operations report by the Audit and Control Committee. The directors involving such operations, in addition to not exercising or delegating their voting rights, should be absent from the meeting room while the Board deliberates and votes on them.
5. In any case, the relevant transactions of any kind, made by any director with the company Realia, its subsidiaries or affiliates shall be reported in the Annual Corporate Governance Report. This obligation also covers the relevant transactions between the Company and its significant -direct and indirect- shareholders.

Similarly, the Internal Code of Conduct, in paragraph 4.7, refers to information on conflicts of interest, provides that subject to the same (among which are the directors and senior officers of the Company), persons are required to inform the Chairman of the Audit and Control Committee about possible conflicts of interest that are subject due to their family relationships, their personal assets, or for any other reason with any integrated in Realia Group company, by writing to the Chairman in which are exposed with sufficient detail such conflicts of interest.

Any questions regarding this matter should be consulted in writing to the Chairman of the Audit and Control Committee before adopting any decision that may be affected by such conflict of interest.

It is not considered a conflict of interest occurs due to family relationships when, not affecting Related Persons, the relationship exceeds the fourth degree of consanguinity or affinity.

In any case, it is considered that there is a potential conflict of interest, resulting from personal assets, when it arises in connection with a company in which the subject person participates, alone or together with persons with a relationship, defined in the preceding paragraph, by more than 15% of political or economic rights, or when, without reaching such percentage, may appoint a member, at least, of its board.

This information must be kept up to date, taking into account any modification or cessation of previously reported situations and the emergence of new potential conflicts of interest.

**D.7 Is more than one company in the Group listed in Spain?**

Yes

No

**Identify the subsidiary companies that are listed in Spain:**



<b>Subsidiary companies listed</b>
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**Indicate whether it has been publicly and precisely defined the respective areas of activity and any business relationships between them, as well as those of the subsidiary and other group companies:**

**Identify the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:**

<b>Mechanisms in place to resolve possible conflicts of interest</b>
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## **E RISK CONTROL SYSTEMS**

### **E.1 Explain the extent of the Risk Management System of the company, including fiscal matters.**

The Realia Group has developed a risk management system that takes into account both the characteristics of the group, such as those typical of the environments in which it operates, economically, geographically and regulatory. This system is based on three points:

- 1) an organizational structure implemented by the CEO of the Group, as first executive, under delegation from the Board of Directors, in which the functional roles and responsibilities are clearly specified;
- 2) a framework to identify, quantify and assess the risks that may affect the Group, and
- 3) a response to the risks identified, monitored by the Audit and Control Committee.

Currently, the risk management system of the Group is implemented at the corporate level and it is working to run in an integral and continuous way.

### **E.2 Identify the bodies of the company responsible for the development and implementation of the Risk Management System, fiscal included.**

Under Article 10 of the Articles of the Company, the Board of Directors is in charge of management, administration and representation of the Company. In the 2nd paragraph of Article 7 of the Regulations of the Board of Directors, is attributed to the Board of Directors itself defining the control and risk management policy, including those that may specifically affect the financial information that the Company must disclose by its listed status. Senior management of each of the functional areas delegated by the Board of Directors will be responsible for development and implementation the System Control and Risk

Management, overseen by the Audit and Control Committee, according to article 44 of Regulation of the Board of Directors.

### **E.3 Describe the main risks, fiscal included that may affect the achievement of business goals.**

In our activity, both real estate and property, we can come across different types of risks.

#### a) Financial Risks.

Given the Group's activities and operations through which runs these activities is currently exposed to the following financial risks:

#### a) Credit risk.

The main activities of the Company are the real estate promotion, the sale of land and the leasing of real estate assets. The first one has no credit risk since the delivery of the asset automatically entails the collection of the same. Respect to the sale of land, it is normal to grant to customers certain deferrals in payment. At present, the amount of commercial loans for sale of land without the corresponding guarantee is 13,704 thousand euros, of which the company has deteriorated the whole by the corresponding irrigation. Finally, regarding the lease of real estate assets the risk is not significant. The management of the Company based on the term of default or insolvency has provision for all these contingencies.

#### b) Interest rate risk.

Realia Business does not have hedging operations to manage its exposure to interest rate fluctuations.

The goal of the interest rate management is to reach a balance in the debt structure that allows for the minimization of cost through a multi-annual horizon, with reduced volatility in the P&L account. The comparative analysis of the financial cost included in the budget and the rate curve trends have made the company decide not to hedge for interest rate in order to minimize the cost of debt for such period.

The company management follows very closely the rate curves for short and long term and does not rule out the convenience of hedging for interest rates in the future.

#### c) Liquidity risk.

The situation of the residential real estate market has gradually deteriorated since mid-2007. The reduction in housing demand, together with the excess of supply and especially the international financial crisis, have brought about a tightening of the financing conditions

and greater restrictions to access financing, which caused financial problems to a great number of companies in the sector.

Over the last two years, there have been signs of improvement in the sector, although very concentrated in the demand for a very well located and medium-high segment product, as well as an improvement in financing, especially for individuals or self-developing projects; but restrictions on direct financing to developing companies continue. This trend has been confirmed in 2016, and the strong liquidity of the financial system, as well as low interest rates, have allowed for new financing possibilities, including real estate, but all with very restrictive and selective criteria, in terms of debtor.

During the year 2015, and in the negotiation with the financial creditors of Realia, on December 1, 2015, an agreement was reached whereby the total debt for the syndicated loan, amounting to € 802,759 thousand, remained reduced by 9% if the conditions that were imposed for repayment of the debt are fulfilled. The payment milestones were distributed in four, at a rate of 50% of the debt in December 2015, 12; 15% on January 29, 2016; 12.85% on February 29, 2016; and the remaining 25% on May 30, 2016.

On December 11, 2015, the Company made the first payment established in the calendar for 365,218 thousand euros; In addition, on January 29, 2016, the company paid the second and third milestone amounting to 183,104 thousand euros. The last milestone, amounting to 183,905 thousand euros with maturity on May 30, 2016, was paid on April 7, 2016 following the formalization by the Company of a loan agreement with a financial institution, on April 6, 2016, by amount of 183,649 thousand euros and maturing on June 30, 2018, thus canceling all of its syndicated debt of promotion and redeeming the guarantee given. This loan has been secured by Inversora Carso, S.A. de C.V.

At the end of 2016, Realia Business, S.A. maintains a long-term loan with its subsidiary Realia Patrimonio, SLU, for an amount of 465,036 thousand euros, due in 2018. Currently the subsidiary is in a process of financing its syndicated debt, which has fixed its maturing on April 27, 2017. The Sole Administrator of Realia Patrimonio, SLU expects to complete this process successfully in the first quarter of 2017.

The parent company Realia Business, S.A. has prepared a cash budget that shows the existence of liquidity to meet its payment commitments in the next 12 months.

The key figures of the cash flow projections for the year 2017 prepared on a minimum basis of recurring business, dividends, capital and other charges for services rendered to group companies, excluding extraordinary sales operations soils, yields a forecast of collections of € 26.7 million which, together with a payment forecast of € 21.9 million, result in a positive net cash flow of € 4.8 million, which together with the cash available, will serve to partially reduce the current debt.

d) Exchange rate risk.

Regarding the exchange rate risk, the Company has no significant risk.

(The content on the remaining Risks is included in the document attached to this Report).

#### **E.4 Identify whether the entity has a risk tolerance level, fiscal included.**

The Realia Group is currently working on updating the formal levels of tolerance to various risks that affect the development its activities (financial, operational, technological, etc.) as part of its strategy of creating value. These levels of tolerance and appetite for risk, based on quantitative and qualitative criteria, are reviewed considering the factors that contributed to its definition have varied along time.

#### **E.5 Indicate what risks, fiscal included, have materialized during the year.**

Market risks.

The situation of the real estate sector, where there is still a gap between supply and demand, has meant that during 2016 price adjustments have been continued in the different real estate products, with the consequent impact on the margins of the products, although only in land and finished product, in the latter case to a lesser extent than in previous years.

In the developments area, to solve the problem of housing stock, the company continues to adjust the sale price of real estate to the new demand, analyzing the needs of the markets, both by geographical areas and by products that are demanded. In addition, in view of the expected positive evolution of the residential market, the Company has analyzed all its products for sale and its selling rates and has decided in certain cases to postpone the sale until the market rebounds and allows it to recover provisions and even obtain profits in any such sales. Realia is also analyzing the launch of new promotions in cities and areas that offer little supply and an interesting demand for residential product.

Regarding to land, the company continues with all the necessary steps to develop in urban planning the land, as a means of increasing its value.

In order to mitigate the effects of this risk in the commercial property area, the Company has continued to strengthen its rental management by maintaining a high level of occupancy in its buildings, with quality and solvency renters, and minimizing expenses. In addition, adjustments have been made in the income to adapt them to the new market situation.

Reduction of value of real estate assets and housing stock

During 2016, the assets allocated to the developing of housing and land of the Group have decreased their value. Specifically, provisions for impairment of inventories amounted to 47.2 million euros, as a result of the new ECO valuations carried out by independent experts. Of these, 3.3 million have been allocated against the value of the finished product portfolio and 43.9 million against the value of the land (land and land with work in progress). This has meant an average fall of approximately 3% in comparable finished product (without taking into account the decrease of 20 million euros in sales for the year) and 17.9% in total, of 15.1% in homogeneous terms.

The company considers that the valuation that reflects more adequately the market value of its stock is their fair value, and it has adjusted its existing provisions for impairment according to it. Said market value is determined on the basis of appraisals by independent experts, according to the principles and methodology of Order ECO/805/2003 of March 27, amended by Order EHA/3011/2007 of October 4, and by Order EHA/564/2008 of February 28, which sets out the rules for the valuation of real estate properties and several rights for certain financial purposes.

Assets for lease in Spain have been highly demanded by high current investment has resulted in significant trading operations. These operations have positively influenced as a reference value for other assets. In the Portfolio of Realia Group, taking into account the gross value of assets, it has meant an increase of 49.2 M € of value, equivalent to 4.2%.

## **E.6 Describe the response and supervision plans for the main risks of the company, including fiscal risks.**

Control and risk management in Realia Group is settled depending on policies and procedures adapted to the different risks that might take place.

The company Board has a commitment with risk control and management processes, passing policies, procedures, limits and structures.

The company Managing Committee, in which all areas of the business are represented, as well as Financial Direction, in its periodical meetings, analyses the situation and evolution of the main risks affecting the Group, taking corrective measures if necessary.

The Area of Internal Audit, controlled by the Committee of Audit and Control, provides an independent evaluation of the adaptation, competence and efficiency of the internal control system and the risk management system.

The Managing Committee will treat any risk considered critical in its periodical meeting. The Committee will suggest, both the Board and the Audit Committee, the specific response plans before any critical risk. The Board of Directors, ultimately, will take into account the proposal, accepting it or modifying if necessary.

## **F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL INFORMATION EMISSION PROCESS (SCIIF)**

**Describe the mechanisms forming the risks and control management systems in relation to financial information emission process (SCIIF) of the entity.**

### **F.1 Company control environment.**

Describe and explain the main characteristics of:

**F.1.1 Organs and/or functions responsible for: (i) existence and maintenance of a suitable and effective SCIIF; (ii) its implantation; and its monitoring.**

According to article 10 of the Statutes of the Company, the Board of Directors is responsible for the management, administration and representation of the Company. In the 2<sup>nd</sup> point of the article 7 of the Regulation of the Board, the latter is given the definition of the strategy regarding risk management and control policy, including those that may affect financial information that the Company must publish due to its condition of listed. The Direction every functional area, after being delegated by the Board, will be responsible for its development and implementation, being the Risks Management and Control System monitored by part of the Committee of Audit and Control, according to the Regulations of the Board.

**F.1.2. If there are the following elements, especially regarding the elaboration process of financial information:**

- Departments and/or mechanisms in charge of: (i) the design and revision of the organizational structure; (ii) the clear definition of responsibility and authority lines, with a suitable distribution of tasks and functions; and (iii) the existence of enough procedures for a correct diffusion in the entity.

The highest position responsible for designing and organizing structure of Group is the Chairman, under the control of the Board. The organization of Group was updated in December 2001, through the emission of a Notice by the former Presidency in which were defined, specifically, the responsibilities of the Directors of Departments and/or Business Areas regarding SCIIF management.

Additionally, there is a defined power policy inside Group.

- Code of conduct, organ of approval, range of diffusion and instruction, principles and values included (indicating if there are specific mentions to record operations and elaboration of financial information), organ in charge of analyzing breaches and proposing corrective actions and sanctions.

Realia Group has its own binding Ethic Code of Conduct, passed by the Board of Directors in the session held on November 16, 2010. The Code aims to specify performance criteria for administrators, managers and employees in Group, independently of their type of contract, their position or their geographical area of work. Every employee of Realia Group must subscribe the Code formally and have a copy of it. The Code is accessible on the intranet of Group.

The conduct guidelines explained in the Ethic Code are classified in the following categories:

- Rule compliance and respect to ethic values.
  - Commitment to people.
  - Protection of personal data.
  - Commitment to clients.
  - Internal control and fraud prevention (including specific mentions to recording operations and elaboration of financial information).
  - Commitment towards the market, the company and the community.
  - Commitment towards society and environment.
- Complaint channel to communicate the audit committee irregularities regarding financial and accounting issues, as well as eventual breaches in the code of conduct and irregular activities in the organization, reporting about their confidentiality if relevant.

Realia Group has a general procedure of communication to issues related to the Ethic Code of Group and a procedure of trouble reporting in financial and accounting fields of potential importance. Both procedures are implemented through a confidential and not anonymous channel of trouble reporting, under the control of the Committee of Audit and Control, managed through the Delegate (responsible for Internal Audit). The channel of trouble reporting has its correspondent section in the intranet of Group. Written mailing is also admitted. Likewise, it is possible to use the Canal to propose improvements in the current internal procedures.

The principles governing this procedure are confidentiality, non-retaliation and the right to honor of persons.

- Training and periodical updating programs for the staff involved in the preparation and revision of financial information, as well as the SCIIF evaluation, covering at least accounting rules, audit processes, internal control and risk management.

Throughout the year, Realia Group has carried out several training actions related to accounting, fiscal, labor and mercantile rules, completing 41 training hours.

More specifically, Internal Audit Department has attended conferences and monographs associated to the profession of internal audit, and the role to be played by the internal auditor in the new business and technological environment. The annual audit plan includes training to be received by the head of the department.

## **F.2 Risk evaluation of financial information.**

Report, at least, of:

### **F.2.1 The main characteristics of the process of risk identification, including error or fraud, regarding:**

- If the process exists and if it is documented.

It starts with a preliminary identification of potential risks by the staff responsible for Functional Areas. Then, their occurrence and impact probability in case of them taking place is calculated, generating risk maps. Risks are prioritized by using such an assessment, analyzing the necessity of establishing potential improvements and carrying out their implementation on those functional areas and recording all this process in written format. A special monitoring of the evolution of the risks that require greater attention is carried out according to its valuation.

- If the process covers all the objectives of the financial information, (existence and occurrence; integrity; assessment; presentation, itemization and comparability; and rights and obligations), if it is updated and how often.

Realia Group risk identification process covers all the objectives of the financial information and it is updated, at least, once a year and when market and business circumstances require it.

- The existence of a process of identification of the consolidation perimeter, considering among other points, the possible existence of complex company structures, instrumental or special purpose entities.

On a regular basis, the suitability of the consolidated perimeter is assessed, considering the effective part and the influence degree in every company.

- If the process takes into account other risk typologies (operational, technological, financial, legal, reputational, environmental, etc.) regarding their effect on financial estates.

Control and Risk Management Policy takes into account not only financial risks, but also other typology such as regulatory, technological, reputational, fraud, human resources management risks, etc.

- What governing body of the entity monitoring the process.

The role of the Internal Audit area, under the supervision of the Audit and Control Committee, is to be responsible for coordinating, developing and supervising the periodic updating of risk maps together with those responsible for each of the Functional Areas, which are, in the end, who identify the risks to which the Group is subject, and evaluate them: in terms of probability of occurrence and economic impact, if materialize.



### F.3 Control activities.

Describe and explain the main characteristics of:

#### **F.3.1 Revision and permission procedures of the financial information and description of SCIIF, to publish in stock markets, indicating the person responsible for it, as well as description of the descriptive documentation of the control and activity flows (including those regarding fraud risk) of the different transactions affecting financial estates materially. This includes the accounting close and the specific revision of the pertinent judgments, estimations, valuations and projections.**

Realia Group has an internal revision procedure of financial information (including annual accounts, inter-year period account and the Annual Report of Corporate Government). It monitors the process since the information is created in the Area of Administration and Finance and by the Corporate Strategy and Relation with Shareholders Department, until it is passed by the Committee of Audit and Control; and finally, by the Board of Directors before being published.

Besides, the Policy of Risk Management and Control of Realia Group, which strategic definition corresponds to the Board and is implemented by the Direction of every functional area and monitored by part of the Committee of Audit and Control, incorporates the necessity of establishing a System of control of the financial information to collect related criteria, policies, procedures, controls and documentation. The implementation of such a system has been carried out from the identification of 22 key processes. Those processes separate the duality of business brought together in Realia Group: on the one hand the property development and on the other hand property patrimony business:

Property business:

1. Asset Management (office buildings)
2. Asset Management (malls)
3. Contracting with customers
4. Collection Management
5. Contracting with suppliers
6. Payment Management
7. Tax and legal adviser
8. Accounting closure
9. Information System Management

Real Estate Development business:

1. Land purchase
2. Urban Development Management
3. Project Development
4. Post-sale Management

5. Land sale
6. Client Contracting
7. Supplier Contracting
8. Collection Management
9. Payment Management
10. Taxes and Legal Adviser
11. Personnel recruitment and management
12. Accounting closure
13. Information System Management

Every process has its corresponding development and flow gram containing a description of the activity and control fluxes affecting financial estates materially, as well as controls and risk matrixes resuming the risks identified in the developments of the process and the controls implemented to mitigate them. The matrixes incorporate information about the type of control (manual/automatic, preventive/detective...), attaching a specific mention to fraud risk if necessary.

A process called "accounting closure" has been included for each of the Group's businesses, which includes not only the flow corresponding to the capture, homogenization and presentation of financial information, but also other items such as financing or judgments, valuations and relevant projections that affect the financial information. In addition, the process of "management of information systems", in relation to financial and management information, is incorporated for each business. Its main functions are related to the maintenance, together with external suppliers, of the applications, software, hardware, physical security and logic of the information, and management of access to information systems by the Group's staff.

All the narratives, flowcharts and matrices of risks and controls have been validated with the owners of the processes. The areas and / or departments are, in the different narratives, responsible for compliance with them and to communicate any changes in the processes that may affect their design. The Internal Audit department evaluates the operational effectiveness of controls and procedures.

### **F.3.2 Internal control procedures and policies about information systems (among others, about security of access, change control and their operations, operative continuity and function segregation) to support the pertinent processes of the entity regarding elaboration and publishing of financial information.**

The internal control procedures and policies related to the information systems are defined by the Direction of Corporative Strategy, supported by the Manager of Systems of Information.

Policies and procedures related to information systems are formalized, explained as in the rest of key processes of descriptions, flow grams and risk and control matrixes. The main risks observed by Realia Group, and those which are given a response, affect physical security (security copies, maintenance and access to computers...), logical security (access controls, log in/out procedures, antivirus and malware...), sufficient segregation of

functions, information register and tracking, privacy (LOPD, Organic Law on Data Protection), development and maintenance of systems. Group has a Plan of Business Continuity that contains the current practices, which allow giving a response to an occasional accident affecting the information systems.

**F.3.3 Internal control procedures and policies to monitor the management of subcontracted activities, as well as those aspects of assessment, calculation or valuation ordered to independent experts, which may affect financial estates materially.**

The activity subcontracted with a higher impact on financial estates corresponds to the asset valuation by an independent expert in the field. The procedure in Realia Group for this collects the CNMV recommendations to real estate and valuation regarding with the valuation of real estates. Additionally, this process contains a description, flow gram and risk and control matrixes that have a detailed account of flow activities and controls affecting financial estates materially.

**F.4 Information and communication.**

Describe and explain the main characteristics:

**F.4.1 Specific function to define and keep the accounting policies (area or accounting policies department) updated, as well as to solve doubts or conflicts derived from its interpretation. It must maintain also a fluent communication with the managers of the operations in the organization, and an accounting policy manual updated and communicated to the units the entity works through.**

Within Realia Group, the Financial and Administration Department carries out the functions to define, update accounting policies and answer doubts and queries related to this point. The Company has a Manual of Accounting Policies in which, among others, the criteria followed for the elaboration of the Financial Estates are defined. This Manual is updated regularly, under the control of the Direction of Administration and Finance, in compliance both with the new regulation and/or relevant laws, and the own necessities of Realia Group.

**F.4.2 Mechanisms of capture and preparation of the financial information with homogeneous formats used and applied by all the units of the entity/groups supporting the financial estates and notes, as well as information detailed about the SCIIF.**

For the elaboration of consolidated accounts, Realia Group has several computer systems and ERP's. They capture the information and make it homogeneous in a format, through

SAP BPC package, so the following adjustments and eliminations typical in the consolidation process of the financial estates can be carried out.

Group has implemented several controls to ensure reliability and the correct treatment of the information received from every business unit.

## **F.5 Control of the functioning of the system.**

Describe and explain the main characteristics:

### **F.5.1 SCIIF monitoring activities carried out by the Audit Committee and if the entity has an internal audit function which has a supporting competence to the committee in its task of control of internal control system, including SCIIF. Besides, it is compulsory to inform about the range of the SCIIF evaluation carried out in the exercise and the process by which the manager executing the evaluation communicates the results, if the entity has an action plan detailing possible corrective actions, and if its impact on financial information has been considered.**

According to article 44, point 44, of the Regulation of the Board, the Committee of Audit and Control correspond, among others:

- Monitoring the elaboration process and the financial information integrity regarding the company and the group, checking the compliance of the normative requirements, the suitable delimitation of the consolidation perimeter and the correct appliance of the accounting criteria.
- Regular checking of the internal control systems and risk management for main risks to be identified, managed and known properly.

The Company has a function of Internal Audit that reports the Annual Audit Plan the work carried out and the weaknesses detected in the control. It is reported to the Committee of Audit and Control and the CEO of the Group.

Regarding the range of the SCIIF evaluation throughout 2015, it has been going into detail about the evaluation of the operative efficiency of the controls implemented. This evaluation has been carried out using selective samples and specific analysis, as well as the updating of the different cycles of activities. The previously mentioned updating work has been carried out by part of the different business areas under the control of the Committee of Audit and Control through the function of Internal Audit. On the other hand, part of the function of Internal Audit has done control valuation tasks. The function of Internal Audit has reported the evolution of the work to the Committee of Audit and Control periodically in both cases, as well as the potential corrective actions mitigating the detected weaknesses of control.

**F.5.2 If there is a procedure of discussion by which the accounting auditor (as established in NTA), the function of internal audit and other experts can communicate the significant weaknesses of internal control identified during the process of annual account checking or others ordered to the high direction and the Audit Committee or entities administrators. Besides, explain if there is a plan of action to correct or mitigate those weaknesses.**

The Committee of Audit and Control meets at least once per quarter and every time they consider appropriate (during the year 2016 they have met ten times) to fulfil its main function. Its main function means to support the Board in its monitoring work, by means of a regular checking of the process of elaboration of the economic-financial information, the function of internal audit and the independence of the External Audit. The Committee carries out, among others:

- 1) Discussion with Internal Audit to:
  - Obtain information about the planning, range and conclusion of the work carried out.
  - Obtain information about the estate of the process of improvement of the weaknesses identified and the subsequent plans of action.
  - Obtain an independent point of view on the financial function about specific issues.
  - Obtain the necessary information to check the independence of the Internal Auditor according to the functions of the Committee of Audit and Control.
  
- 2) Discussion with External Auditors (special relevance when they have carried out an action: Audit reports, limited checking, etc.) to:
  - Obtain information about the planning, range and conclusion of the work carried out.
  - Obtain information about weaknesses of internal control detected during the work.
  - Inform the External Auditor about those questions that could affect his work.
  - Discuss with the External Auditor the content expected in his reports.
  - Obtain the necessary information to check the independence of the External Auditor according to the functions of the Committee of Audit and Control.

Additionally, the Committee of Audit and Control can request additional information or the participation of experts to analyze issues regarding the compliance of their functions.

During the exercise of 2015, the Internal Audit of Group has presented the conclusions of its work to the Committee of Audit and Control, as well as a monitoring of the corrective actions suggested periodically.

Finally, the External Auditor has held three meetings with the Committee of Audit and Control in order to present the conclusions of his work.

**F.6 More relevant information.**

-

**F.7 Report of the External auditor.**

Explain:

**F.7.1 If the SCIIF information reported to markets has been checked by the external auditor. If being so, the entity must include the corresponding report as annex. On the contrary, it must report about its reasons.**

Realia Group has not submitted the information about the System of Internal Control of Financial Information to the external auditor because in these moments the operative efficiency of the controls implemented by Group is being evaluated internally, and therefore, of the own System of Internal Control.

**G LEVEL OF COMPLIANCE OF CORPORATE GOVERNANCE REGULATIONS**

Indicate the company's level of compliance with respect to recommendations contained in the unified good governance code.

In the event that any of them have not been complied with, a detailed explanation of its reasons should be included so that shareholders, investors and the market in general, have sufficient information to evaluate the actions of society. General explanations shall not be acceptable.

1. **That bylaws of listed companies do not limit the maximum number of votes that may be issued by the same shareholder, nor contain any other restrictions that hinder the taking of control of the company via the acquisition of shares on the market.**

Comply  Explain

2. **That when the parent company and a subsidiary company are listed, both are precisely defined publicly:**

- a) **The respective areas of business and any business relationships between them, as well as those of the subsidiary listed company with other group companies;**  
b) **The mechanisms provided to resolve any conflicts of interest that may arise.**

Comply  Partially comply  Explain  Not applicable

3. **During the celebration of the Annual General Meeting, in addition to distributing written annual report on corporate governance, the Chairman of the Board verbally report to**

shareholders, in sufficient detail, of the most important aspects of corporate governance of the society and, in particular:

- a) **Of the changes since the previous Annual General Meeting.**
- b) **The specific reasons why the company does not follow some of the recommendations of the Corporate Governance Code and, if any, of the alternative rules that apply in this area.**

Comply  Partially comply  Explain

The extension of the Agenda, the complexity of the matters to be treated, as well as the presentation to the minority shareholders of the new Chairman and the new CEO of the entity, did not consider the inclusion of the topics included in the Recommendation 3.

- 4. **The company should define and promote a policy of communication and contacts with shareholders, institutional investors and proxy advisors to be fully respectful of the rules against market abuse and give similar treatment to shareholders who are in the same position.**

**The company should make public the policy through its website, including information on how it is implemented and identifying the partners or persons responsible for carrying it out:**

Comply  Partially comply  Explain

Indeed, the policy of communication and contact with shareholders, institutional investors and voting advisors is fully respectful of the rules against market abuse and seeks the same treatment for shareholders who are in the same position. However, this policy has not been expressly approved and is not published on the Company's website.

- 5. **The Board of directors does not raise the General Meeting a proposal for delegation of powers to issue shares or convertible securities excluding preferential subscription rights for an amount of more than 20% of the capital at the time of the delegation.**

**And when the Board of directors approve any issuance of shares or convertible securities excluding preferential subscription rights, the company immediately publish on its website reports that exclusion referred to corporate law.**

Comply  Partially comply  Explain

In FY 2016 Annual General Meeting, the authority to increase the share capital in a maximum amount of up to half of the share capital was delegated to the Board, at the date of such authorization, also attributing the power to exclude, in all or in part the preferential subscription rights.

The delegation of the power to exclude such rights comes under that the Board can make an efficient use of the delegation to increase capital, it is important quickness and selection of resources for immediate and temporarily limited availability, may make it necessary, to fulfill the objectives of the operation of capital increase, excluding such preferential subscription rights of the shareholders.

Nevertheless, in the capital increase carried out by the company in the exercise of that delegation by the Board, the right of preferential acquisition was not excluded.

In any case, the delegation agreement provides that if the Board decides to exclude the preferential subscription rights, it will issue, at the time of adopting the relevant agreement, a report detailing the specific reasons of corporate interest justifying such a measure, which will be subject of the corresponding report by an auditor different from the company to which Article 506 of CSL is referred.

These reports would be made available to shareholders and notified to the first General Meeting held after the extension agreement.

**6. Listed companies that produce the reports listed below, either mandatory or voluntary form, publish them on their website in time for the holding of the annual general meeting notice, although its distribution is not mandatory:**

- a) Report on auditor independence.
- b) Reports of the audit and appointments, and remuneration committees' performance.
- c) Report of the audit committee on related party transactions.
- d) Report on the policy of corporate social responsibility.

Comply  Partially comply  Explain

During the year 2016, the company prepared reports referred above in paragraphs a, b and d, although it only publishes on its website the one relating to paragraph d.

**7. That the company broadcast live, via its website, the holding of annual general meetings.**

Comply  Explain

At the time of holding the Annual General Meeting of Shareholders for the FY 2016, the company did not have the technical means to convey its celebration live via the website.

**8. That the audit committee ensure that the board of directors shall present the accounts to the general meeting of shareholders without limitations or qualifications in the audit report and, in exceptional cases where there are exceptions, both the chairman of the audit committee and the auditors should clearly explain to shareholders the content and scope of such limitations or qualifications.**

Comply  Partially comply  Explain

**9. That the company make public on its website permanently, the requirements and procedures it will accept to prove ownership of shares, the right to attend the general meeting of shareholders and exercise or delegation of voting rights. And that such requirements and procedures favor the attendance and exercise of their rights to shareholders and be applied in a non-discriminatory manner.**

Comply  Partially comply  Explain

**10. That That when some legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new proposed resolutions, the company:**



- a) Release such additional points and new agreement proposals immediately.
- b) Publish the model attendance card or application form for voting delegation or distance vote with the changes required to be able to vote the new items on the agenda and the agreed alternative proposals on the same terms as those proposed by the board of directors.
- c) Submit all those points or alternative proposals to the vote and apply them the same voting rules to those made by the board of directors, including, in particular, presumptions or inferences about the meaning of the vote.
- d) Following the general meeting of shareholders, release the breakdown of the vote on such additional points or alternative proposals.

Comply  Partially comply  Explain  Not applicable

11. That in the event that the company plans to pay premiums to attend the general meeting of shareholders, set, previously a general policy on such premiums and that this policy is stable.

Comply  Partially comply  Explain  Not applicable

12. That the board performs its duties with unity of purpose and independent judgment, affording equal treatment to all shareholders who are in the same position and is guided by the corporate interest, understood as the achievement of a profitable and sustainable long term, to promote continuity and maximizing the economic value of the company.  
And in the pursuit of social interest, in addition to compliance with laws and regulations and based on good faith behavior, ethics and respect to the uses and good commonly accepted practices, try to reconcile the social-interest with, as appropriate, the legitimate interests of its employees, its suppliers, its customers and those of other stakeholders that may be affected as well as the impact of company activities in the community as a whole and the environment.

Comply  Partially comply  Explain

13. That the board of directors holds the necessary size for an effective and participatory performance, making it advisable to have between five and fifteen members.

Comply  Explain

14. That the board of directors approves a policy of selection of directors that:
- a) Be specific and verifiable.
  - b) Ensure that proposals for appointment or election are based on a preliminary analysis of the needs of the board.
  - c) Promote the diversity of knowledge, experience and gender.
- That the result of previous analysis of the needs of the board is collected in the report justifying the appointments to be released when convening the general meeting shareholders in which the ratification, appointment or re-election of each director is submitted.  
And that the policy for selecting directors promote the goal that by 2020 female directors representing at least 30% of the total members of the board.

**The appointments committee shall annually verify compliance with the policy of directors' recruitment and be informed thereof in the annual corporate governance report.**

Comply  Partially comply  Explain

The Board is still in the process of drawing up the director selection policy.

- 15. That external proprietary and independent directors constitute a significant majority on the board, and that the number of executive directors is the minimum necessary, taking into account the complexity of the company grouping, and the percentage stage held by executive directors in the company's share capital.**

Comply  Partially comply  Explain

- 16. That the percentage of proprietary directors over total non-executive directors is not greater than the proportion between the capital of the company represented by such directors and the rest of the capital.**

**This criterion may be attenuated:**

- a) In large cap companies where few shareholdings that are legally considered significant.**
- b) In the case of companies with a plurality of shareholders represented on the Board with no links between them.**

Comply  Explain

- 17. That the number of independent directors should represent at least half of all board members. That, however, when society is not large cap or when, still remain so, expect a shareholder or several acting together, that control more than 30% of the share capital, the number of independent directors should represent at least one-third of all board members.**

Comply  Explain

The Board Regulations provides that an adequate number of independent directors will be in the board and the number of external directors should constitute a large majority.

The Board of Realia has within two independent directors but do not get to represent 30% of the capital referenced recommendation. They represented the 28.57%, so it is estimated that, given the current capital structure of the company, there are a sufficient number of independent directors to adequately ensure the protection of the interests of the floating capital.

- 18. That companies publish, on their website, and keep up to date, the following information on their directors:**

- a) Professional profile and biography.**
- b) Other boards of directors they belong to, whether these are listed companies or otherwise, as well as other paid activities they do whatever their nature are.**
- c) An indication of the category of director, the shareholder they represent or have links with.**
- d) The date of their first appointment as company director, as well as subsequent appointments.**
- e) Shares in the company and options to them, held by them.**

Comply  Partially comply  Explain

As of this report date, the directors do not notify to the society about the activities referred to in the last paragraph b above.

19. That the annual corporate governance report, after verification by the Appointments Committee, explains the reasons why proprietary directors have been appointed at the request of shareholders whose stake is less than 3% of the capital; and the reasons why they had not attended, if any, formal requests for presence on the Board from shareholders whose equity stake is equal to or greater than others at whose request a proprietary director was appointed.

Comply  Partially comply  Explain  Not applicable

20. That proprietary directors resign when the shareholder they represent sells its shareholding in full. And that it also does so, to the corresponding number, when said shareholder reduces their shareholding to a level that reduces the number of their proprietary directors.

Comply  Partially comply  Explain  Not applicable

21. That the Board of Directors does not propose the removal of any independent director before the statutory period for which he had been appointed, except where just cause is found by the Board of Directors following the report of the appointments committee.

In particular, it is understood that there is just cause when the director takes over as new positions or contracts new obligations that prevent devote the necessary time to the performance of the duties of the position of director, fails to fulfill the duties inherent to his position or incurred in some circumstances that make it lose his status as an independent, according to applicable legislation.

It may also be proposed removal of independent directors as a result of takeover bids, mergers or other similar corporate transactions that represent a change in the capital structure of the company, when such changes in the structure of the board are favored by the criterion proportionality indicated in recommendation 16.

Comply  Explain

22. That companies establish rules obliging directors to inform and, as applicable, resign, under those circumstances that might damage the credit and reputation of the company and, in particular, oblige them to inform the board of any penalty clauses they are subject to, as well as any subsequent procedural issues.

That if a director is indicted or subject to commencement of proceedings for any of the infringements indicated in the Capital Companies Act, the board shall examine the case as soon as possible and, in the light of the specific circumstances, decide whether it is appropriate or not for the director to remain in their position. All of which the board shall report on, in a reasoned manner, in the annual corporate governance report...

Comply

Partially comply

Explain

23. **That all directors clearly express their opposition when they feel that any proposal submitted to the board might be contrary to the interest of the company. And likewise, extraordinarily, may independents and other directors not affected by any potential conflict of interest in the case of decisions that might act to the detriment of shareholders not represented on the board. And when the Board adopts significant or repeated decisions on matters contained in the board member's letter referred to in the following recommendation. This recommendation also refers to the secretary of the board, despite not being a director.**

Comply  Partially comply  Explain  Not applicable

24. **That when, whether as a result of resignation or other reasons, a director leaves their post before the end of their term of office, they shall explain their reasons in a letter sent to all members of the board. And, that without prejudice to said departure being notified as a significant event, the reason for the departure is stated in the annual corporate governance report.**

Comply  Partially comply  Explain  Not applicable

25. **That the Appointments Committee ensures that non-executive directors have sufficient time available for the proper performance of their duties. And that the Board regulations set the maximum number of boards of companies which may form part of.**

Comply  Partially comply  Explain

Realia's Board Regulations do not limit the number of boards on which their directors may form. This does not imply, however, not be required of such directors' dedication of time and effort necessary to meet the demands of his office and to properly perform their duties.

26. **That the board meets as often as necessary to effectively carry out its duties, and at least eight times per year, following the schedule of dates and matters established at the beginning of the financial year, with each director individually able to propose other matters in the order of business which were initially not provided for.**

Comply  Partially comply  Explain

27. **That the non-attendance of directors is reduced to those occasions when it is strictly necessary, and quantified in the annual corporate governance report. And, if necessary, a representation should be done and this is conferred with instructions.**

Comply  Partially comply  Explain

Indeed, the Director absences are reduced to the bare minimum and quantified in this report (the percentage of attendance), having delegated all of them in other directors in accordance with the rules laid down in Board Regulations. However, it is not usually conferring specific written instructions about the vote.

- 28. That when directors or the secretary come up with concerns about any proposal or, in the case of directors, the performance of the company, and such concerns are not resolved in the board, at the request of those who raised said concerns, this is stated in the minutes.**

Comply  Partially comply  Explain  Not applicable

- 29. That the company establish appropriate channels for directors to get the advice they need to fulfill their duties including, if required by circumstances, external assistance paid for the company.**

Comply  Partially comply  Explain

- 30. That regardless of knowledge that directors are required for the exercise of their functions, societies also offer them programs to update when circumstances so require.**

Comply  Explain  Not applicable

- 31. That the agenda of the sessions clearly indicate those points on which the board shall adopt a decision or agreement for directors to study or seek previously the precise information to be adopted.**

**Where, exceptionally, for urgent reasons, the Chairman wants to submit to the approval of the board decisions or agreements not given in the agenda, it will be required the express prior consent of the majority of the directors present, which will be dully recorded in the minutes.**

Comply  Partially comply  Explain

- 32. That directors be regularly informed of the movements in the shareholding and opinion that significant shareholders, investors and rating agencies have on the company and its group.**

Comply  Partially comply  Explain

Due to the short time since the adoption of the new Code of Good Governance of listed companies, and changes both at shareholder level and governing bodies suffered by the company in the year 2015, this is still in the process of adaptation and compliance with some of the new recommendations.

- 33. That the Chairman, responsible for the effective functioning of the board of directors, in addition to exercising the functions conferred law and the bylaws, prepare and submit to the board a program of dates and issues to be addressed; organize and coordinate the periodic**

evaluation of the board and, where appropriate, the chief executive of the company be responsible for the management board and the effectiveness of its operation; he should ensure that sufficient time is devoted to discussion on strategic issues, and review and agree knowledge updating programs for each director, when circumstances require.

Comply  Partially comply  Explain

34. That when there is a coordinating director, statutes or regulations of the board of directors, in addition to the powers legally entitled, attributed the following: chairing the board in the absence of the Chairman and Vice Chairmen, if any; echoing the concerns of non-executive directors; maintain contacts with investors and shareholders to ascertain their views in order to form an opinion about their concerns, particularly in relation to the corporate governance of society; and coordinate the plan of succession of the Chairman.

Comply  Partially comply  Explain  Not applicable

35. That the secretary of the board of directors watch specially for the actions and decisions of the board have the recommendations on good governance contained in the Code of Good Governance that were applicable to the company.

Comply  Explain

36. That the Board of Directors evaluate, once a year, and adopt, if necessary, an action plan to correct the deficiencies identified about:

- a) The quality and efficiency of the Board of Directors.
- b) The operation and the composition of its committees.
- c) The diversity in the composition and powers of the board.
- d) The performance of the chairman of Board of Directors and the chief executive of the company
- e) The performance and contribution of each director, paying particular attention to those responsible for the various board committees.

To carry out the evaluation of the different committees will be based on the reports they submitted to the Board of Directors, and for the latter, which would raise the appointments committee.

Every three years, the board will help to carry out the evaluation by an external consultant, whose independence will be verified by the appointments committee.

Business relationships that the consultant or any company in its group have with the company or any company of its group should be broken down in the annual corporate governance report.

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

Comply  Partially comply  Explain

Although the company complies with almost all aspects covered by this Recommendation, however, the assessment made of the Board is over all its members in general, and not on each

of them. On the other hand, it has not yet passed the three years since the adoption of this Recommendation that make advisable the assistance of an external consultant.

- 37. That when there is an executive committee, the participation structure of the different categories of directors should be similar to the Board of Directors itself and its secretary is the same.**

Comply  Partially comply  Explain  Not applicable

Both the Secretary and the Secretary of the Board are also members of the Executive Committee. However, the participation structure of the different categories of directors of the last one is not similar to that of the Board, as explained in section C.2.1 of this report.

- 38. That the Board of Directors is always aware of the matters discussed and the decisions taken by the executive committee and all members of the board receive copies of the minutes of the meetings of the executive committee.**

Comply  Partially comply  Explain  Not applicable

- 39. That the members of the Audit Committee, and particularly its Chairman, should be appointed taking into account their knowledge and experience in accounting, auditing and risk management, and that most of these members are independent directors.**

Comply  Partially comply  Explain

The members of the Audit and Control Committee have the knowledge and experience in accounting, auditing and risk management necessary to perform the duties arising from their office. Also, at least one of them has been appointed taking into account their special knowledge and experience in accounting and auditing. Therefore, even though the director appointed for their special expertise and experience in accounting, auditing and risk management is not the Chairman, the Committee meets the qualification requirements set forth in the Board Regulations, considering these adequate and optimal conditions for the effective and diligent performance of their duties.

As for the status of its members, indeed most of them are independent (2 of 3).

- 40. That, under the supervision of the audit committee, it is available a unit that assumes the internal audit function to ensure the proper functioning of information systems and internal control and functionally dependent on the non-executive Chairman or the audit committee.**

Comply  Partially comply  Explain

- 41. That the party responsible for the internal audit presents to the audit committee their annual work schedule, informs it directly of incidents affecting the progress of same, and submits a report on activities at the end of each financial year.**

Comply  Partially comply  Explain  Not applicable

42. That, in addition to those provided for in the law, correspond to the audit committee the following functions:

1º In relation to the internal inspection and information systems:

- a) Supervising the preparation and completeness of financial information on the company and, where appropriate, the group, reviewing compliance with regulatory requirements, the proper delimitation of the consolidation perimeter and the correct application of accounting principles.
- b) Ensuring the independence and effectiveness of the internal audit service; proposing the selection, appointment and removal of the head of the internal audit department; proposing the budget for this service, guidance and approve their work plans, ensuring that their activity is mainly focused on relevant risks of the company, receiving regular information in their activities and checking that upper management takes into account the conclusions and recommendations in its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, where possible and appropriate, anonymously, of any potentially significant abnormal condition, especially financial and accounting conditions that may arise in the Company.

2º In relation to the external auditor:

- a) In case of resignation of the external auditor, examine the circumstances that have motivated it.
- b) Ensure that the remuneration of the external auditor for their work does not compromise quality or independence.
- c) Supervise society disclosed as relevant information to the CNMV the change of auditor and accompanied by a statement of any disagreements with the outgoing auditor and, if they existed, its content.
- d) Ensure that the external auditor annually hold a meeting with the full board of directors to inform the work done and the evolution of accounting and risk situation of the company.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other rules on auditor independence.

Comply  Partially comply  Explain

The Audit and Control Committee has assumed all the functions described in this Recommendation, excluded the one referred in paragraph 2.d.

43. That the audit committee may convene any employee or director of the company, and ask them to attend without the presence of any other director.

Comply  Partially comply  Explain

44. That the audit committee is informed about the operations of structural and corporate changes that the company plans to carry for analysis and previous report to the board on their economic conditions and their accounting impact and, in particular, where appropriate, on the exchange equation proposed.



Comply                      Partially comply                      Explain                      Not applicable

**45. That the risk control and management policy identifies at least:**

- a) The different types of risk, financial and no financial (operative, technological, legal, social, environmental, political, reputational...) faced by the company, including financial or economic, contingent liabilities and other off-balance sheet risks;
- b) The establishment of the level of risk that the company considers acceptable;
- c) The measures envisaged to mitigate the impact of the risks identified if they should occur;
- d) The information and internal inspection systems used to inspect or manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

Comply                       Partially comply                       Explain

**46. That under the direct supervision of the audit committee or, where appropriate, a specialized committee of the board, there is an internal control and risk management function exercised by a unit or internal department of the company that has expressly attributed the following functions:**

- a) Ensure the proper functioning of the control and risk management systems and in particular, identify, manage and adequately quantify all important risks affecting society.
- b) Actively participate in the development of the risk strategy and major decisions about its management.
- c) Ensure that the control systems and risk management adequately mitigate risks within the framework of the policy defined by the board of directors.

Comply                       Partially comply                       Explain

The company complies with this recommendation in all its proposals except as regards the last clause of paragraph b, since decisions on managing the risk strategy applicable, where appropriate, correspond to the Management Committee or the Board itself.

**47. That the members of the appointments and remuneration committee - or appointments committee and remuneration committee, if they were separated - are designated by ensuring that they have the knowledge, skills and appropriate experience to functions that are called upon to perform and most of these members are independent directors.**

Comply                       Partially comply                       Explain

Although members of the Appointments and Remuneration Committee are not mostly independent directors (they are 2 of 5), however all of the independent directors comprising the Board are members of this Committee.

**48. That large cap companies have an appointments committee and a separate remuneration committee.**

Comply                       Explain                       Not applicable

49. That the appointments committee consults the Chairman and CEO of the company, especially in respect of matters relating to executive directors.

And that any Director may request from the appointments committee that they take into consideration, if they deem it appropriate, potential candidates to cover vacant directorships.

Comply  Partially comply  Explain

50. That the remuneration committee exercises its functions independently and, further the functions assigned to it by law, the following functions also apply:

- a) Propose to the board the basic conditions of senior manager's contracts.
- b) Check observance of the payment policy established by the company.
- c) Periodically review the remuneration policy applied to directors and senior executives, including compensation systems, with actions and their implementation, and ensure that their individual remuneration is proportionate to that paid to other directors and senior executives of the company.
- d) Ensure that any conflicts of interest do not impair the independence of external advice to the committee.
- e) Verify information on remuneration of directors and senior management contained in the various corporate documents, including the annual report on remuneration of directors.

Comply  Partially comply  Explain

51. That the appointments committee consults the Chairman and CEO of the company, especially in respect of matters relating to executive directors and upper management.

Comply  Partially comply  Explain

52. That the rules of composition and functioning of committees monitoring and control included in the regulations of the Board and are consistent with those applicable to legally binding commitments under the above recommendations, including:

- a) That they are composed exclusively of non-executive directors with a majority of independent directors.
- b) That their Chairmen are independent directors.
- c) That the board of directors appoints the members of these committees based on the knowledge, skills and experience of the directors and the duties of each committee, discuss their proposals and reports, in the first full Board of Directors subsequent to its meetings, its activity and responds the work done.
- d) That Committees may obtain external advice when necessary for the performance of their duties.
- e) That in their meetings minutes are kept, which will be made available to all Directors.

Comply  Partially comply  Explain  Not applicable

53. That the supervision of compliance with the rules of corporate governance, internal codes of conduct and policy of corporate social responsibility, is attributed to committee or is distributed among several committees of the board, which may be the audit, the appointments, the corporate social responsibility, if available, or a specialized committee that

the board of directors, in exercise of its powers of self-organization, decide to create for that purpose, to which specifically are attributed the following minimum functions:

- a) Monitoring compliance with internal codes of conduct and corporate governance rules of the company.
- b) Monitoring the communication strategy and relations with shareholders and investors, including small and medium shareholders.
- c) The periodic assessment of the adequacy of the corporate governance system of the company, in order to fulfill its mission of promoting social interest and consider, as appropriate, the legitimate interests of other stakeholders.
- d) The review of the corporate responsibility policy of the company, ensuring that is focused on value creation.
- e) Monitoring of strategy and corporate social responsibility practices and evaluation of their compliance.
- f) Monitoring and evaluation processes associated with different stakeholders.
- g) The evaluation of all matters relating to non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational.
- h) Coordinating the process of reporting non-financial and diversity information, in accordance with applicable regulations and international reference standards.

Comply  Partially comply  Explain

The company complies with all the proposals included this recommendation, except with the collection in paragraph f.

54. That the policy of corporate social responsibility includes the principles or commitments which the company voluntarily assume in their relationship with the different stakeholders and identify at least:

- a) The goals of the policy of corporate social responsibility and the development of supporting tools.
- b) Corporate strategy related to sustainability, environment and social issues.
- c) The specific practices on issues related to: shareholders, employees, customers, suppliers, social issues, environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal behavior.
- d) Methods or systems monitoring the results of the implementation of the specific practices identified in the previous paragraph, the associated risks and its management.
- e) Monitoring mechanisms of the non-financial risk, ethics and business conduct.
- f) The communication channels, participation and dialogue with stakeholders.
- g) Responsible communication practices that prevent information manipulation and protect integrity and honor.

Comply  Partially comply  Explain

55. That the company report, in a separate document or in the management report, on matters related to corporate social responsibility, using any of the internationally accepted methodologies.

Comply  Partially comply  Explain

56. That the directors' remuneration be sufficient to attract and retain directors of the desired profile and to reward the dedication, abilities and responsibilities required by their position, but not so high as to compromise the independence of judgment of non-executive directors.

Comply  Explain

57. That variable remuneration and compensation through shares, options or rights to shares or indexed to share value instruments and systems savings in the long term such as pension plans, retirement systems or other systems social security, are limited to executive directors, linked to company performance and individual performance.

It can be contemplated the delivery of shares as remuneration to non-executive directors when conditioned to hold them until they leave the board. This shall not apply to the shares that the director needs to sell, if necessary, to satisfy the costs related with its acquisition.

Comply  Partially comply  Explain

In fiscal year 2016, the remuneration of directors consisted of a fixed amount. There has been no variable remuneration.

58. That in case of variable remuneration, remuneration policies incorporate the limits and technical safeguards to ensure that such payments are related to the professional performance of its beneficiaries and not only from the general evolution of markets or the business sector or other similar circumstances.

And in particular, the variable components of remuneration:

- a) Are linked to performance criteria that are predetermined and measurable and that these criteria consider the risk taken for obtaining a result.
- b) Promote the sustainability of the company and include non-financial criteria that are suitable for creating long-term value, such as compliance with internal rules and procedures of the company and its policies for the control and risk management.
- c) Are set on the basis of a balance between fulfilling short-, medium- and long-term returns for payment in continued performance over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the measuring elements of that performance does not turn solely around specific events, occasional or extraordinary.

Comply  Partially comply  Explain  Not applicable

59. That the payment of a significant portion of the remuneration variable components is deferred for a minimum period of time enough to ensure that the previously established performance conditions have been fulfilled.

Comply  Partially comply  Explain  Not applicable

60. That remuneration linked to company earnings take into account possible exceptions included in the external auditor's report that reduce such earnings.

Comply      Partially comply      Explain      Not applicable

61. That a significant percentage of the variable remuneration of executive directors is linked to the delivery of shares or financial instruments referenced to its value.

Comply  Partially comply  Explain  Not applicable

62. That, once allocated shares, or options, or rights to shares corresponding to the remuneration systems, directors cannot transfer ownership of a number of shares equivalent to twice their annually fixed compensation, and cannot exercise the options or rights until after a period of at least three years since its attribution.

This shall not apply to the shares that the director needs to sell, if necessary, to satisfy the costs related to acquisition.

Comply  Partially comply  Explain  Not applicable

63. That contractual agreements include a clause that allows the company claim reimbursement of variable components of remuneration when payment has not been adjusted to the performance conditions or when they have been paid based on data which subsequently accredited misstated.

Comply  Partially comply  Explain  Not applicable

64. That payments for contract termination do not exceed a fixed amount equivalent to two years of total annual remuneration and are not paid until the company has been able to verify that the director has met the performance criteria previously established.

Comply  Partially comply  Explain  Not applicable

## H OTHER INFORMATION OF INTEREST

1. If there is a relevant aspect of corporate governance in the company or group entities that have not been reported in other sections of this report, but it is necessary to include for more complete and reasoned information on the structure and governance practices in the company or its group, describe briefly.
2. In this section, may also be any other information, clarification or nuance, related paragraphs of the report to the extent that they are relevant and not repetitive.

**Specifically, indicate whether the company is subjected to the different Spanish legislation on corporate governance and, where applicable, include the information that is required to provide that is different from that specified in this report.**

- 3. The company may also indicate whether voluntarily acceded to other ethical principles or good practice codes, international, sector or elsewhere. Where appropriate, the relevant code and the date of accession shall be identified.**

A1 and A.2. Notwithstanding the information contained in paragraphs A.1 and A.2 of this Report, which are those contained in CNMV website, on December 31, 2016, following the capital increase approved by the Board of Directors of the company on October 24, 2016, raised to the public on December 30, 2016 and registered in the Mercantile Register on January 10, 2017, the data of these sections published in CNMV are the following:

Number of voting rights: 644,807,956

Shareholders:

1 °) Inversora Carso, S.A. de C.V. :

- Number of direct voting rights: 218,231,829 (33,844%).
- Number of indirect voting rights: 238,094,138 (36,925%).

2 °) Fomento de Construcciones y Contratas, S.A. :

- Number of direct voting rights: 221,450,368 (34,344%).
- Number of indirect voting rights: 16,643.770 (2.581%).

3) Lansdowne Investment Company LTD and Lansdowne Partners International Limited, each:

- Number of direct voting rights: 0 (0,000%).
- Number of indirect voting rights: 1,811,019 (0,281%).

C.1.8.) There have been no requests from shareholders because there have been none.

C.1.29) The reason that the Chairman, Mr. Juan Rodríguez Torres, did not attend one of the meetings of the Board of Directors was that the same had to deal with matters in which the Director was in a situation of conflict of interest, reason why it abstained to attend to the deliberation and voting of the same.

C.1.37.) In the work carried out by the Audit firm for the Group, the work related to the June Limited Review (report for the first half of 2016) has been incorporated, since they are not considered a legal audit.

D.2) In addition to the operations included in section D.2, During the fiscal year 2016 have been carried out operations of provision and / or reception of services by Realía Business, S.A. with companies of the FCC Group, amounting to 300 thousand euros; with Carso Group companies, amounting to 359 thousand euros; and by Realía Patrimonio, S.L.U. (Realía Group) with companies of the FCC Group, amounting to 1,846 thousand euros.

This annual corporate governance report has been approved by the Board of Directors of the company at its meeting on March 9 2017.

Indicate if there are directors who have voted against, or abstained from, the approval of this report:

Yes

No

IN THIS DOCUMENT, THE INFORMATION PROVIDED IN THE ANNUAL REPORT ON CORPORATE GOVERNANCE REPORT MANAGEMENT INCORPORATED IS COMPLETED AS AN ANNEX. THIS INFORMATION COULD NOT BE INCORPORATED IN THE FORM FOR REASONS OF PROGRAM CONFIGURATION

### **C.2.1) Further information on the Board's committees.**

#### AUDIT AND CONTROL COMMITTEE:

(...)

6. To issue annually, before the account audit report is issued, a report expressing an opinion about if the independence of the account auditors or audit companies is committed. This report must include, in any case, the valuation of the provisions of additional services that the previous subparagraph refers to, individually and collectively, other than those of the legal audit and related to the independence regime or the audit regulation.

7. To inform in advance to the Board of Directors of all matters contemplated in the Law, the Bylaws and the Board Regulations, and especially on:

- a) The financial information that the Company must publish periodically;
- b) The creation or acquisition of stakes in special purpose entities or established in countries or territories considered as tax havens; and
- c) Related party transactions.

8. Any others that may be attributed by these Bylaws or the Board Regulations.

The Secretary, or whoever acts as secretary, will record the minutes of each session, which must be signed by the Chairman, the Secretary and the Under-Secretary, where applicable. The Chairman of the Audit and Control Committee will report to the Board of Directors on the matters discussed and the decisions made in the Committee since the last Board meeting.

The Committee will meet at least once every quarter and, additionally, any time that is called by its Chairman, or at the request of two of its members. Annually, the Committee will prepare an action plan for the year and will present it to the Board of Directors.

All the members of the management team and employees of the REALIA Group must attend the sessions of the Committee and provide assistance and access to whatever information is available to them, when they are requested to do so. It may be the case that the employees may appear before the Committee without the presence of another manager. The Committee will also request the attendance of REALIA's Account Auditors to its sessions.

The Committee will have access to the necessary information and documentation for the performance of its duties.

The members of the Audit and Control Committee may be assisted during its sessions by a maximum of two persons for every member of the Committee acting in an advisory capacity. These advisors will attend the meetings with voice but no vote.

As to its activities during the year, the Committee has held ten (10) meetings during 2016 in January, February (2), April, May, July, September, October (2) and December. In addition, in May, an agreement in writing and without a session was adopted. During its meetings, the Committee has discussed matters related to its areas of competence and, specifically, has carried out the following actions:

1.- Internal Audit. According to the provisions of the Bylaws and the Board Regulations, the Audit and Control Committee supervises the internal audit function of the Group. Accordingly, its competencies include receiving information periodically about its activities and protecting the independence and efficacy of its work, and to check that the senior management takes into account the conclusions and recommendations of its reports.

In accordance with the former obligations, in different sessions of the Audit and Control Committee, the Head of Internal Audit of Realia has submitted and explained one or several reports on different aspects related to the activity of the company or its Group's companies. The members of the Committee have taken note of the incidences or risks detected and, in case, related to those reports, have proposed to the Board of Directors the corresponding corrective measures.

2.- Self-evaluation. During the first session in 2016, the Committee assessed its own performance during 2015, analyzed the different matters discussed, the meetings held and the rest of circumstances related to its activity, in accordance with the provisions of article 44 of the Board Regulations.

3.- External auditor. The Audit and Control Committee, in its session held on 13 April 2016, unanimously agreed to propose to the Board of Directors the appointment of DELOITTE, S.L. for the purpose of conducting the external audit for 2016, as well as the interim six-month review (June 2016). Likewise, at its meeting of May 3, 2016, the Audit and Control Committee also agreed unanimously to propose to the Board of Directors the appointment of Ernst and Young, S.L. to carry out the individual audit of Realia Business, Realia Patrimonio, Hermanos Revilla and As Cancelas, the audit of the consolidated group of



REALIA, the June limited revision of Realia Business and its Consolidated Group, certificates of ratios of syndicated financing of commercial property area, and the certificates of costs of shopping centers, of the exercises of 2017, 2018 and 2019.

On the other hand, the Board of Directors, on the same session held on 3 May 2016, approved the proposal made by the Audit and Control Committee and unanimously agreed to include the re-election of Deloitte, S.L. as account auditors of the Company and its Consolidated Group in the agenda of the General Shareholders' Meeting of 2016 and appoint Ernst and Young, S.L., as account auditors of the Company and its Consolidated Group for 2017, 2018 and 2019.

Deloitte, S.L. was the external auditor of Realia Business, S.A. and the companies in its Group in 2016, in accordance with the provisions of article 44 of the Board Regulations, according to which the Audit and Control Committee will favor the auditor of the Group to assume the responsibility of auditing the companies of the Group.

During the Committee meetings in February and July 2016, the external auditor provided detailed information on the audit work done. On those dates, the Committee, assisted by the auditor, analyzed the audit reports corresponding to the individual financial statements and the consolidated financial statements of 2015, and the interim six-month review of June 2016, respectively. In view of this analysis, it reported to the Board of Directors, according to article 44 of the Board Regulations, on the accuracy and reliability of the financial statements, both individual and consolidated, and the management report, as well as the financial information that is periodically communicated to the markets.

Lastly, in its meeting held in February 2016, the Committee issued a report on the Independence of the external auditor, issued a favorable opinion on it, and expressed its views on the valuation of additional services other than the legal audit, and on the rest of the aspects contemplated in the Board Regulations.

4.- Financial information. The Audit and Control Committee has paid special attention to the review and analysis, before the Board of Directors conducts its own analysis, of the individual and consolidated group financial statements, of the interim quarterly information and the financial information corresponding to the first semester of 2016, before being communicated to the markets. In its sessions held on 3 May and 24 October 2016, the Audit and Control Committee issued a favorable opinion to the Board on the financial information related to the first and third quarters, respectively, to be sent to the markets.

Regarding the Annual Accounts and the Management Report for the year 2015, the Committee, in its meeting held on 26 February 2016, after having analyzed in depth the external auditor's report, which was issued unqualified, reported favorably to the Board on their accuracy and reliability.

Lastly, on 27 June 2016, after the interim review of the external auditor, it reported favorably to the Board on the financial information corresponding to the first semester of 2016.

5.- Internal control and risk management systems. In its session of February 2016, the Audit and Control Committee analyzed the description of the main characteristics of the internal control and risk management systems related to the process of publication of the financial information contained in the Annual Corporate Governance Report for 2015, and issued a favorable opinion to the Board on said information.

The conclusion from this analysis is that the Realia Group has developed a risk management system that takes into account both the technical characteristics of the Group and those of the environments in which it carries out its activities at an economic, geographical and regulatory level. The system is based upon three pillars:

- a) an organizational structure implemented by the Group's Chief Executive Officer, by delegation from the Board of Directors, which clearly specifies the functional roles and duties;
- b) a framework for the identification, quantification and evaluation of the risks that may affect the Group; and
- c) a response to the risks identified, supervised by the Audit and Control Committee.

The Group's risk management system is implemented at a corporate level, and its purpose is to operate in an integral and continuous manner.

On the other hand, in July 2016 the Committee analyzed the external report issued by the auditor on money laundering and terrorism financing prevention, before submitting it to the Board of Directors, to which it proposed the actions that had to be carried out to repair the incidences detected in the report. In December, it proposed to the Board the approval of the changes introduced in the Group's Internal Manual on this matter.

6.- Modification of the Regulations of the Board of Directors. In May 2016 the Committee agreed to propose to the Board of Directors the amendment of its Regulations for the convenience of adapting the regulatory text to the amendments to the Capital Companies Act, introduced by Law 22/2015, of July 20, of the Accounts of 2015, as well as for the amendments to the Bylaws that would be submitted for the approval of the General Shareholders' Meeting to be held on June 21.

7.- Responsible for Internal Audit. In October 2016, the Audit and Control Committee unanimously agreed to propose to the Board the appointment of a new internal audit officer to fill the vacancy following Mr. Bada Gutiérrez's leaving.

8.- Corporate tax policy. In addition, in October 2016, the Audit and Control Committee proposed to the Board the approval of the Corporate Tax Policy.

9.- Related transactions. Lastly, during the 2016 fiscal year, the Audit and Control Committee has analyzed and proposed to the Board of Directors the authorization of several transactions with related parties.

#### APPOINTMENTS AND COMPENSATION COMMITTEE:

(...)

Regarding its activities during the fiscal year 2016, the Committee met on four (4) occasions, in January, February, April, and October. During these meetings, the Committee discussed matters related to its different areas of competence and, specifically, carried out the following actions:

1.- Review of salary costs. In its first meeting of the year, the Appointment and Remuneration Committee analyzes the total amount of salary costs during the previous year and establishes the total amount for the current year.

2.- Remuneration Proposal for the Directors. At the first meeting of the year, the Appointments and Remuneration Committee analyzes the overall remuneration of the Board of Directors and proposes to set an overall amount for the current fiscal year.

3.- Self-evaluation. During the first meeting of 2015, the Committee evaluated its own performance during 2015, analyzed the matters discussed, the meetings held and the rest of circumstances related to its activity, in accordance with the provisions of article 45 of the Board Regulations.

4.- Evaluation of the Chairman of the Board and the Chief Executive Officer of the company. During the first session of the Appointment and Remuneration Committee in 2016, it evaluated the performance of the Chairman of the Board (Mr. Juan Rodríguez Torres) and the Chief Executive Officer (Mr. Gerardo Kuri Kaufmann) of the company, according to the provisions of article 41.6 of the Board Regulations.

5.- Verification of the Annual Corporate Governance Report. In its February 2016 meeting, the Committee issued a favorable report, in as far as it affected matters within its competence, of the Annual Corporate Governance Report of 2015, approved by the Board of Directors in its meeting held on 26 February 2016.

6.- Renewal of the Board of Directors. At its meeting in April 2016, the Commission proposed that the Board submit to the approval of the next General Shareholders' Meeting the ratification and re-election of Mr. Juan Rodríguez Torres as external proprietary director at the proposal of Inversora Carso, S.A. de C.V., and Mr. Carlos Manuel Jarque Uribe as external proprietary director at the proposal of Fomento de Construcciones y Contratas, S.A. These proposals were approved by the Board of Directors at its meeting on May 3 and by the General Shareholders' Meeting on June 21.

7.- Report on the remuneration policy of the Board of Directors. Likewise, in April 2016, the Appointments and Remuneration Committee proposed that the Board submit to the next General Shareholders' Meeting a new Remuneration Policy for Directors. This proposal was approved by the Board of Directors at its meeting on May 3 and by the General Shareholders' Meeting on June 21.

8.- Verification of the nature of the members of the Board of Directors. Lastly, at its meeting in October 2016, the Committee analyzed the nature of each of the Directors, in order to check whether any circumstance had changed their status as executive, proprietary or independent. It was found that this was not the case, so that all members of the Board retained their character.

### **E.3) Indicate the main risks that may influence the achievement of the business goals.**

#### e) Solvency risk. -

As of December 31, 2016, the net financial debt of the REALIA Business, S.A. amounted to 54,258 thousand Euros.

Taking into account the net financial debt attributed to the percentage of the subsidiaries and the GAV of the assets attributed, the company's Loan to Value ratio (LTV) amounts to 46.7 %.

At year-end 2016, the Company maintains a positive working capital of 330,712 thousand Euros, primarily because bilateral loan maturities and intercompany loan with Realia Patrimonio, S.L.U. mature in the long term (both in 2018).

As of December 31, 2016, the net financial indebtedness accounts for 5.2% of its total liabilities and equity.

#### 2. Market risks. -

The residential real estate market deteriorated from 2007 and has continued until the end of 2014, where some demand began to pick up in certain areas and cities. This rebound has been consolidated in 2015 and 2016, and even in some areas of cities such as Madrid or Barcelona, the product supply is very scarce and the start of new developments has been reactivated. Faced with this situation, Realia is analyzing the launch of new developments in these cities and in another that also offers an interesting demand for residential product.

However, in spite of the improvement described in the previous paragraph, it must mean that the product stock is still high in most locations in the different national territories and, therefore, price recovery, compared to before of the beginning of the crisis, is scarce and the access to financing of promoters and buyers is very selective.

Regarding the rental market, where Realia Business, S.A. operates through its subsidiary Realia Patrimonio, S.L.U., there is a moderate recovery in the demand for space, a stabilization of the prices of incomes and a reduction of the incentives to the implantation that were demanded by the clients. On the other hand, the investment activity in the property segment follows a positive and upward trend.

For all these reasons, Realia believes it must focus its efforts on the creation of value in the property management area, in which it holds a privileged position, thanks to its exceptional property portfolio. However, it must not lose sight of the potential value creation expected to arise in the residential property area.

#### 3. Economic risks. -

It is attempted to control these risks through acquisitions, through detailed analyses of the transactions, reviewing and predicting the problems that may arise in the future, and proposing potential solutions. In disinvestments, the main risk is the non-collection of the amounts agreed upon in the contracts, as a consequence of the non-compliance by the buyers. These risks are controlled through the establishment of guarantees of all types that would allow, if necessary, to collect the full price or to recover the property sold.

#### 4. Legal and fiscal risks. -

The activities of the group are subject to legal and fiscal provisions, and urban development requirements. Local, regional, national and European administrations may impose sanctions in case of non-compliance with these rules and requirements.

A change in the legal and fiscal environment may affect the overall planning of the Group's activities. The group monitors, analyzes and, if required, takes the necessary measures, through its corresponding internal departments.

The risks associated to compliance of the specific legislation include the following:

##### a) Judicial and extrajudicial claims. -

Realia's activity might give rise to judicial actions being taken regarding the materials used or the finishing of the properties, even resulting from the actions of third parties contracted by Realia (architects, engineers, constructors and construction subcontractors).

In order to mitigate this risk, the company underwrites construction insurance policies, mandatory for real estate developers, before handing over the houses to their buyers, Furthermore, all work contracts include an agreement for the withholding of 5% on every certification issued by the contractors, to respond to the fulfilment of its obligations and, specifically, of the defects observed at the provisional reception and the cost of repairs resulting from the poor construction or defective acceptance of the works or installations during the warranty period, after the date of provisional acceptance of the works. Furthermore, during the work execution, Realia technicians will monitor the works to ensure that they are taking place according to the plan.

##### b) Realia's liabilities resulting from the actions of its contractors or subcontractors. -

It may be the case that the contractors contracted by Realia do not fulfil their duties, are delayed in their deliveries or go through financial difficulties that prevent them from meeting the deadlines agreed upon in the contracts, so that Realia may have to incur in new expenses to meet its commitments with third parties, in order to reduce this risk, and considering the current economic crisis, work execution contracts have been limited to contractors of known solvency.

#### 5. Risks related to Money Laundering and Terrorism Financing Prevention. -

These risks are controlled through the prevention and control system the Group has implemented, according to the applicable legislation, and supported by the corresponding Manual that describes the internal rules related to this subject, and the Control, Information and Communication Department that keeps relationships both with the employees of the Company and the Prevention Services; and with a Technical Unit for the treatment and analysis of the information, in charge of analyzing and channeling the communications of potentially suspicious operations. The Manual is updated annually in order to adapt its wording to legislative developments, the recommendations proposed by the independent expert or simply to the implementation of the measures included therein.

As every year, in 2016 the company has been subject to annual audit by an independent expert established by law, of which the absence of significant risks for the company is clear on the prevention of money laundering and currency violations.

#### 6. Risks related to Personal Data Protection. -

These risks are controlled through special standard clauses included in the contracts according to the different circumstances that, in complying with the rule regulating this subject, may limit or even extinguish any type of liability of Realia Business S.A. REALIA Group has Data Bases registered in the Data Protection Agency, which incorporate the necessary security measures, and has a Responsible in this matter.

In fiscal year 2015, the company has submitted to the biennial audit by an independent expert that Law establishes.

#### 7. Risks related to Consumer and User Protection. -

The Group meets the demands of the different national and regional regulations regarding consumers and users. In fact, it has specific contract templates for the Autonomous Communities with specific legislation on this matter. Furthermore, the Group has the policy of responding to all possible claims from official consumer bodies, in a spirit of conciliation and reparation.

Additionally, Realia Business S.A. has equipped itself with a number of tools to ensure ethical behavior, the most relevant of which, excluding the money laundering prevention measures described above, are the following:

The Internal Code of Conduct was approved on April 27, 2007 by the Board of Directors of Realia, and it focuses on matters related to the Stock Markets. The Internal Code of Conduct determines the criteria for the behavior and action that must be followed, and the processing, use and dissemination of relevant information, to promote transparency in its activities and the appropriate investor information and protection. The Regulation is applied at least to the Managers and Directors of the REALIA Group, external advisors and the personnel of the Stock Market and Investor Relations Departments.

The Ethical Code was approved in November 2010 by the Board of Directors of the Company. Its main purpose is to establish the criteria for the conduct of the managers and employees of the Realia Group. This Code is mandatory, and establishes the values that must guide the actions in the Group, and expects from its employees honest, righteous and transparent behavior, in line with the principles contained therein.

The PRINEX System is a global business solution that combines the functionalities of universal business management software and the advantages of an ERP tailor made for real estate companies. It ensures ethical conduct by allowing the commercial area to identify clients who have conducted fraudulent transactions in the past, thus avoiding to do business with them.