

ANNEX I - FORM

ANNUAL CORPORATE GOVERNANCE REPORT FOR  
LISTED COMPANIES

PARTICULARS OF THE ISSUER

REPORTING DATE

2018

Tax No. A- 95786562

Company Name: NEINOR HOMES, S.A.

Registered Office: C/ Ercilla 24, Bilbao

**ANNUAL CORPORATE GOVERNANCE REPORT FOR  
LISTED COMPANIES**

**A. OWNERSHIP STRUCTURE**

**A.1 Complete the following table with information about the company's share capital.**

Date of last change	Share capital (€)	Number of shares	Number of voting rights
28/03/2017	790,050,340	79,005,034	79,005,034

Remarks

State whether there are different classes of shares associated with different rights.

Yes  No

Class	Number of shares	Nominal unit price	Number of unit voting rights	Rights and obligations conferred

Remarks

**A.2 Indicate the direct and indirect owners of significant shareholdings at the reporting date, excluding directors.**

Shareholder's name	% voting rights attached to the shares		% voting rights held via financial instruments	% total voting rights
	Direct	Indirect		
ADAR CAPITAL PARTNERS LTD	0	26.018%	2.658%	28.676%
BANK OF MONTREAL	0	5.209%	0	5.209%
INVESCO LIMITED	0	5.015%	0	5.015%
JULIUS BAER GROUP, LTD	0	4.273%	0.734%	5.007%
KSAC EUROPE HOLDINGS, L.P.	0	4.199%	0	4.199%
NORGES BANK	2.670%	0	1.892%	4.562%
PORTSEA ASSET MANAGEMENT LLP	0	0	3.268%	3.268%

Remarks

--

Details of indirect shareholdings:

Indirect shareholder's name	Direct shareholder's name	% of voting rights associated with the shares	% of voting rights held through financial instruments	% of total voting rights

Remarks

State any material changes in the shareholder structure arising during the year.

Shareholder's name	Transaction date	Description of the transaction
ADAR CAPITAL PARTNERS LTD	23/02/2018	5.2% increase in the shareholding to 26.02%
WELLINGTON MANAGEMENT GROUP	06/07/2018	8.54% decrease in the shareholding to 2.74%
FMR LLC	05/03/2018	6.89% decrease in the shareholding to 2.89%
NEINOR HOLDINGS, S.L.	11/01/2018	12.92% decrease in the shareholding to 0.44%

**A.3 Complete the following tables with information about members of the company's board of directors holding voting rights associated with shares in the company.**

Director's name	% of voting rights associated with the shares		% of voting rights held through financial instruments		% of total voting rights	% voting rights transferable via financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
VELAYOS LLUIS, JUAN	0.479	0.312			0.792		
PEPA , JUAN JOSE	0.158				0.158		
BTESH , FRANCIS	0.013				0.013		

% of total voting rights held by the board of directors	0.96%
---	-------

Remarks

Details of indirect shareholdings:

Director's name	Direct shareholder's name	% of voting rights associated with the shares	% of voting rights held through financial instruments	% of total voting rights	% voting rights transferable via financial instruments


Remarks

- A.4 Where appropriate, state any family, business, contractual or corporate relations existing between the owners of significant shareholdings, insofar as they may be known to the company, unless such relations are immaterial or are the result of ordinary business or trading activities, except for the relations reported in section A.6 below.**

The Company has no knowledge of any family, business, contractual or corporate relations between owners of significant shareholdings.

Related party's name	Nature of relationship	Brief description
-	-	-

- A.5 Where appropriate, state any business, contractual or corporate relations existing between the owners of significant shareholdings and the company and/or its group, unless such relations are immaterial or are the result of ordinary business or trading activities.**

There are no family, business, contractual or corporate relations between the owners of significant shareholdings and the Company.

Related party's name	Nature of relationship	Brief description
-	-	-

- A.6 Describe any relations, unless immaterial to both parties, existing between significant shareholders and/or shareholders represented on the board and the directors or their representatives in the case of legal entity directors.**

Where appropriate, explain how significant shareholders are represented. Specifically, identify any directors appointed to represent significant shareholders, any directors appointed at the instigation of a significant shareholder, and any directors related with a significant shareholder and/or group entity, stating the nature of the relationship. In particular, state the existence, identity and office held by any members of the board or representatives of directors of the listed company who are, in turn, members of the boards of directors, or representatives of directors of any companies owning significant shareholdings in the listed company or in any entities belonging to such significant shareholders' business groups.

Related director's or representative's name	Related significant shareholder's name	Name of the significant shareholder's group entity	Description of relationship / office
Francis Btesh	Adar Macro Fund Ltd		
Jorge Pepa	Adar Macro Fund Ltd		

Remarks

**A.7 State whether the company has been notified of any shareholders' agreements affecting it pursuant to Articles 530 and 531 of the Spanish Limited Companies Act. Where appropriate, provide a brief description and list the shareholders bound by the agreement.**

Yes  No

Parties to the shareholders' agreement	% share capital affected	Brief description of the agreement	Termination date of the agreement, if any

Remarks

State whether the company has knowledge of any concerted action between shareholders. Describe, where appropriate.

Yes  No

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Termination date of the concerted action, if any

Remarks

State whether any shareholders' agreements or concerted actions were amended or broken off during the year, expressly indicated the arrangements concerned.

Not applicable

**A.8 State whether there are any natural persons or legal entities who exert, or could exert, control over the company within the meaning of Article 5 of the Spanish Limited Companies Act. Identify any such individuals or entities, where appropriate.**

Yes  No

Name of the individual or entity

Remarks

**A.9 Complete the following tables with information about treasury shares held by the company.**

At the reporting date:

Number of direct shares	Number of indirect shares (*)	% of total share capital
300,201		0.38%

Remarks

(\*) Held via:

Name of the direct owner of the shareholding	Number of direct shares
<b>Total</b>	

Remarks

Explain any significant changes arising during the year.

Explanation of significant changes
<p>The company initiated a treasury stock programme as a result of which it acquired a total of 199,406 treasury shares between 04/05/2017 and 28/09/2017.</p> <p>On 22/09/2017 the Company entered into a cash-pooling agreement, contributing 28,000 treasury shares and €500,000. On 05/10/2017, the company withdrew 27,406 treasury shares from the account associated with the cash-pooling agreement and contributed an additional €675,871.11.</p> <p>The liquidity contract was suspended on 20/12/2018 and a second treasury stock programme was initiated.</p> <p>The company held a total of 300,201 treasury shares at the end of the financial year, of which 260,424 were deposited in a securities account and 39,777 were deposited in the account associated with the liquidity contract.</p>

**A.10 State the terms of the prevailing mandate granted by the General Shareholders Meeting authorizing the board of directorsto issue, buy back or transfer treasury shares.**

The sole shareholder of the company before the stock market listing granted the Board the following mandate on 6 March 2017:

1) To issue bonds or other similar securities, convertible into new shares of the company and/or exchangeable for existing shares of the company, as well as warrants or other similar securities directly or indirectly entitling holders to subscribe new shares or acquire existing shares in the company, subject to the following conditions:

- Securities: Bonds, notes and other fixed interest or similar securities exchangeable for shares of the company or of any other company, whether or not forming part of the group, and/or convertible into shares of the company, promissory notes, preference shares or warrants.
- Term of the mandate: 5 years

- Maximum amount: €500,000,000

2) Derivative acquisition of treasury shares either by the company or by its affiliates for a period of five years up to a maximum 10% of share capital and for a price or value ranging from a minimum equal to par value and a maximum equal to the higher of (i) 105% of the quoted share price of the company in the Spanish Continuous Market at the time of acquisition, or the closing price in the last stock market session held prior to acquisition, and (ii) the value calculated by increasing the maximum quotation for the three months preceding the date of acquisition by 10%. The treasury shares may be acquired either for disposal or redemption, for delivery directly to employees or directors of the company, or as a consequence of the exercise of stock options by their holders.

#### A.11 Estimated free float

	%
Estimated free float	32%

Remarks

**A.12 State whether there are any statutory, legislative or other restrictions on the transferability of securities and/or any restrictions on voting rights. In particular, you should report the existence of any kind of restrictions that could hinder or prevent a takeover of the company by means of the acquisition of shares in the market, as well as any requirements established under applicable industry regulations for prior authorization or notification of the acquisition or transfer of financial instruments issued by the company.**

Yes                       No

Description of restrictions

**A.13 State whether the General Shareholders Meeting has resolved to adopt any anti-takeover measures in accordance with Spanish Law 6/2007.**

Yes                       No

Where appropriate, explain the measures approved and the conditions under which the resulting restrictions would be lifted:

Explain the measures approved and the conditions under which they would be lifted.

**A.14 State whether the company has issued any securities that are not traded on a regulated market in the European Union.**

Yes                       No

Where appropriate, list the different classes of shares and the rights and obligations conferred by each class of share.

List the different classes of shares



## B. GENERAL MEETING

- B.1 State whether there are any differences with the minimum quorum for the General Shareholders Meeting established in the Spanish Limited Companies Act, and explain said differences where appropriate.**

Yes  No

	Different % quorum to that established in Art. 193, Spanish Companies Act (general cases)	Different % quorum to that established in Art. 194, Spanish Companies Act (special cases)
Quorum required on first call		
Quorum required on second call		

Description of differences

- B.2 State whether there are any differences with the system for the adoption of corporate resolutions established under the Spanish Limited Companies Act, and describe said differences where appropriate.**

Yes  No

Describe any differences with the Spanish Limited Companies Act.

	Different qualified majority from Art. 201.2 for the cases mentioned in Art. 194.1 of the Limited Companies Act	Other cases requiring qualified majorities
% established by the entity for the adoption of resolutions		
Description of differences		

- B.3 State the rules applicable to amendment of the company's bylaws. In particular, you should report the majorities required and, where appropriate, the rules established for the protection of shareholders' rights in the event of amendment of the bylaws.**

In accordance with Article 28.1 of the bylaws, a separate vote must be held for the amendment of each article or group of articles of the bylaws, even where such amendments are included in the same point on the agenda for the meeting.

Article 30 of the Regulations for the General Shareholders Meeting requires an absolute majority of the votes cast to amend the Bylaws where the shares present or represented by proxy exceed 50% of total share capital, or two thirds of shares present or represented by proxy when the shareholders present or represented by proxy at second call hold 25% or more of total subscribed capital with voting rights but less than 50%.

- B.4 Provide figures for attendance at the general meetings held during the year referred to in this report and in the prior year.**

Date of general meeting	Attendance figures				Total
	% physical attendance	% attendance by proxy	% remote votes cast		
			Electronic votes	Other	
18/04/2018	0.649%	73.036%	0	0	73.686%

- B.5 State whether there were any motions proposed in the agenda for the general meetings held during the year that were not approved by the shareholders for any reason.**

Yes  No

Motions not approved	% votes against (*)

(\*) Where any motion was not approved for reasons other than a majority of votes against, the explanation should be included in the text field, and the remark "n/a" should be entered in the column headed "% votes against".

- B.6 State whether there are any statutory restrictions establishing a minimum number of shares needed to attend general meetings, or to vote remotely.**

Yes  No

Number of shares needed to attend general meetings	
Number of shares needed for remote voting	

Remarks

- B.7 State whether the bylaws require that decisions regarding the acquisition, disposal or assignment to any other company of core assets, or any other similar corporate transactions, must be submitted for approval by the shareholders at their general meeting, other than in the cases established by Law.**

Yes  No

Decisions that must be submitted for approval by the General Shareholders Meeting, other than as required by Law

- B.8 State the internet address and means of access to the company webpage containing corporate governance and other information concerning general meetings which must be made available to the shareholders online via the corporate website.**

The address where the corporate governance information is posted online is  
<https://www.neinorhomes.com/accionistas-inversores>

## C. CORPORATE MANAGEMENT STRUCTURE

## C.1 Board of directors

## C.1.1 Maximum and minimum number of directors allowed under the bylaws and number of directors established by the General Shareholders Meeting.

Maximum number of directors	15
Minimum number of directors	5
Number of directors established by the general meeting	9

Remarks

## C.1.2 Complete the following table with information about the board members.

Director's name	Representative	Category of director	Office	Date of first appointment	Date of last appointment	Selection procedure	Date of birth
Ricardo Martí Fluxá		Independent	Chairman	08/03/2017		Appointed by sole shareholder	08/09/1950
Anna M. Birulés Bertrán		Independent	Director	08/03/2017		Appointed by sole shareholder	28/06/1954
Alfonso Rodés Vilà		Independent	Director	08/03/2017		Appointed by sole shareholder	09/08/1961
Jorge Pepa		Proprietary	Director	18/04/2018		Appointed by the General Meeting	29/10/1980
Francis Btsh		Proprietary	Director	18/04/2018		Appointed by General Meeting	12/09/1985
Juan José Pepa		Other External	Director	14/05/2015		Appointed by sole shareholder	18/02/1978
Felipe Morenés Botín Sanz-de Sautuola		Other External	Director	14/05/2015		Appointed by sole shareholder	13/02/1986
Juan Velayos Lluís		Executive	Chief Executive	14/05/2015		Appointed by sole shareholder	14/12/1973

Total number of directors	8
---------------------------	---

List any members who may have resigned, been removed from or otherwise left the board of directors during the reporting period.

Director's name	Category of director upon leaving office	Date of last appointment	Leaving date	Membership of any specialist committees	State whether the director served the full term of office
Alberto Prieto Ruiz	Independent	21/02/2018	20/11/2018	Land Investment Committee	Yes

Reasons for leaving the board and remarks
Mr Prieto left office on his own initiative on 20 November of this year, when he resigned because he had taken on new professional responsibilities which meant that he would not be able to dedicate the necessary time to properly discharge his functions.

**C.1.3 Complete the following tables with information about the members of the board and the different categories of director.**

**EXECUTIVE DIRECTORS**

Director's name	Office held in the company's organization chart	Profile
Juan Velayos Lluís	Chief Executive	<p>Juan began his career with the law firm Uría Menéndez, where he was appointed to the position of partner in the M&amp;A, Capital Markets and Real Estate practices at the age of 31. Between June 2007 and the end of 2011, Juan was the Chief Executive of Mixta África, in which position he led the entry of financial partners and Renta Corporación, as well as heading the restructuring process (€800 million in debt) and managing assets worth some €1 billion. At the age of 38 he joined PwC, where he founded the firm's Real Estate practice, advising Spanish and foreign funds in numerous corporate transactions. Juan joined Neinor Homes as Chief Executive in December 2014.</p> <p>Juan holds a Degree in Law awarded by Universidad Abat Oliba in Barcelona and an MBA from IESE Business School.</p>

<b>Total number of executive directors</b>	1
<b>% of total board</b>	12.5%

Remarks

**EXTERNAL PROPRIETARY DIRECTORS**

Director's name	Name of the significant shareholder represented or who proposed the director's appointment	Profile
Jorge Pepa	Adar Macro Fund Ltd.	<p>Jorge is currently a Director of 1810 Capital Investments, S.L., a company engaging in real estate investment. He has over 15 years' experience in investment banking. Until recently he worked as Executive Director of UBS in New York with responsibility for the Latin American private finance division. He had previously been a vice-president of Credit Suisse in New York, where he was responsible for the accounts of Latin American</p>

		clients. Jorge had previously worked in the emerging markets division of Deutsche Bank in New York. Jorge holds a degree in Business Administration awarded by Universidad de San Andrés in Buenos Aires. He is the brother of Juan José Pepa, another of the company's (external) directors.
Francis Btesh	Adar Macro Fund Ltd.	<p>Jorge is currently a Director of 1810 Francis Investments, S.L., a company engaging in real estate investment. He has more than 10 years' experience in investment banking and the real estate sector in Argentina and Spain. Until recently he was employed as Chief Operating Officer of a financial services firm. In this position, he was involved in the incorporation and start-up of a fixed income brokerage business specializing in Latin American markets, where he was in charge of advising on, structuring and executing each transaction.</p> <p>Francis had previously worked as Principal Associate for Columbus Merchant Banking, advising on mergers and acquisitions, capital markets, syndicated debt, restructuring processes and project finance. Francis holds a degree in Business Administration awarded by Universidad de San Andrés in Buenos Aires.</p>

<b>Total number of proprietary directors</b>	2
<b>% of total board</b>	25%

<b>Remarks</b>

**INDEPENDENT EXTERNAL DIRECTORS**

<b>Director's name</b>	<b>Profile</b>
Ricardo Martí Fluxá	<p>Mr Martí Fluxá is Chairman of the Spanish Association of Real Estate Consultants (ACI), and a Director of Liteyca and of Bodesa, S.A.U.</p> <p>He was Secretary of State for Security between 1996 and 2000. As a member of the Spanish Diplomatic Corps, he held various posts abroad, finally becoming Head of Protocol and Activities for His Majesty the King of Spain. In his private sector career, he has held office as Chairman of Industria de Turbo Propulsores, S. A. (ITP) and of Inversiones Marco Polo Investments, director of the Tomás Pascual Group, member of the Advisory Board of the investment bank Arcano Capital, director of Ibersecurities, technology director of IKUSI, and as a member of the Executive Committee and chair of the Remuneration Committee of Caja de Ahorros y Monte de Piedad de Navarra.</p> <p>He is currently the chairman of the Board of Trustees of Museo Nacional Centro de Arte Reina Sofía, secretary of Fundación Pro Real Academia de la Lengua, a member of the board of trustees of Fundación Amigos del Museo del Prado, chairman of the Tomás Pascual Institute for Nutrition and Health, and Chairman of Fundación</p>

	Ankaria.
Anna M. Birulés Bertran	<p>Ms Birulés is an independent director, coordinating director, chair of the Audit and Regulatory Compliance Committee and member of the Executive and Investment Committees of Grupo Pelayo, Mutua de Seguros y Reaseguros a Prima Fija. She is also an independent director, chair of the Audit and Risk Committee and member of the Remuneration and Appointments Committee of Banco Mediolanum, and an independent director of IDOM, Consulting, Engineering, Architecture, S.A.U. She is a member of various advisory boards.</p> <p>She has held office as Spain's Minister of Science and Technology, and as Secretary to the Board of Directors of Banco Sabadell. A PhD in Economics, she began her professional career in the Catalan Regional Department of Industry and Energy, and she was eventually appointed Director General of the Centre for Business Information and Development (CIDEM) and Chair of the Consortium for Catalan Trade Promotion (COPCA). She was Chief Executive of Retevisión (now owned by the Abertis and Vodafone groups), where she directed the expansion of telecommunications operators via their subsidiaries.</p> <p>She is a member of the Círculo de Empresarios and the Barcelona Círculo de Economía. She is closely associated with leading business schools, including IESE, where she is chair of Finaves, the international centre set up to foster seed capital initiatives, and ESADE, where she is a member of the Professional Advisory Board.</p>
Alfonso Rodés Vilà	<p>Mr Rodés is Chairman of Havas Group Media, Chairman of Havas Group Spain and Deputy Chief Executive of Havas, S.A., an advertising multinational with a capitalization of more than €4 billion which forms part of the Vivendi group.</p> <p>Previously, Mr Rodés had held the position of Chief Executive Officer at Media Planning Group, S.A. ("MPG"). MPG, a company controlled by the Rodés family, merged with Havas in 2001. Mr Rodés joined MPG in 1996 as Corporate Development Officer after a spell in private banking. Mr Rodés has been Chief Executive of Havas, S.A. since 19 June 2012.</p> <p>He also sits on the boards of certain investment vehicles controlled by the Rodés family.</p>

<b>Total number of independent directors</b>	3
<b>% of total board</b>	37.5%

Remarks

State whether any director categorized as an independent receives any moneys or benefits from the company or its group in respect of any item other than director's remuneration, or maintains, or in the last year maintained, any business relationship with the company or with any company forming part of its group, either on their own behalf or as a significant shareholder, director or senior executive of an entity maintaining, or which may in the past have maintained, any such relationship.

Where appropriate, include a reasoned statement from the board stating the reasons why it considers that the director concerned can nevertheless discharge his/her functions as an independent director.

Director's name	Description of the relationship	Reasoned statement

#### **OTHER EXTERNAL DIRECTORS**

Identify any other external directors and state the reasons why they should not be considered either proprietary or independent directors, as well as their links with the company, its management or its shareholders.

There were two members of the board of directors categorized as "other external directors" during the year concerned in this report. In the prior year, these directors held office as proprietary directors appointed by the former sole shareholder Neinor Holdings, S.L. (Lone Star). Given the reduction in said shareholder's stake in the company and the resignation of the two directors concerned from their positions in said shareholder, however, the Board of Directors was concerned to ensure the continuity of both as persons of value given the expertise they brought to the company and the fact that they had been involved with it since its inception. In this light, the appointments and Remunerations Committee resolved to keep them in office and reclassified them as other external directors at its meeting of 22 January 2018.

Director's name	Reasons	Company, executive or shareholder with whom the director is related	Profile
Felipe Morenés Botín Sanz-de Sautuola	Proprietary director of the former shareholder		<p>Felipe Morenés Botín-Sanz de Sautuola is a founding partner of Stoneshield Capital. He was previously a Director of Lone Star, where he was involved in the fund's investment operations in Europe. In 2013 he was put in charge of analysis structuring and supervising a number of investments in both debt and equity. Before joining Lone Star, he worked for five years as an Associate Director in UBS Investment Banking and in the UBS Credit Restructuring Desk in London. While working for UBS, he advised on M&amp;A transactions, capital raising and structured finance for banks and hedge funds.</p> <p>Mr Morenés holds a degree in Political Science and Economics from Georgetown University.</p>
Juan José Pepa	Proprietary director of the former shareholder		<p>Juan José Pepa is a founding partner of Stoneshield Capital. Before then, he was Chief Executive and the top manager of Lone Star in Spain and Portugal. Beginning in 2008, he has taken part in investment activities and the management of various Lone Star equity and debt transactions involving commercial real estate assets in Europe worth</p>

			<p>more than €10 billion in total in jurisdictions including Germany, the United Kingdom, the Netherlands, France, Belgium, Switzerland and, recently, in Spain and Portugal, including assets of varying kinds such as offices, retail premises, hotels, clinics, residential properties and logistics facilities.</p> <p>Before joining Lone Star, Mr Pepa was a member of the Citigroup special situations real estate team. He holds a degree in Business Management and an MBA awarded by Babson College.</p>
--	--	--	--

<b>Total other external directors</b>	2
<b>% of total board</b>	25%

<b>Remarks</b>

Indicate any changes arising in the category of each director over the period, where applicable.

Director's name	Date of change	Previous category	Current category
Felipe Morenés Botín Sanz-de Sautuola	22/01/2018	Proprietary	Other external
Juan José Pepa	22/01/2018	Proprietary	Other external

<b>Remarks</b>

**C.1.4 Complete the following table with information about the number of female directors at the close of each of the last four years, and the category of the directors concerned.**

	Number of female directors				% of total directors in each category			
	2018	2017	2016	2015	2018	2017	2016	2015
<b>Executive</b>	0	0	-	-	0%	0%	-	-
<b>Proprietary</b>	0	0	-	-	0%	0%	-	-
<b>Independent</b>	1	1	-	-	33%	25%	-	-
<b>Other external</b>	0	0	-	-	0%	0%	-	-
<b>Total</b>	1	1	-	-	12,5%	14,29%	-	-

<b>Remarks</b>



- C.1.5 State whether the company has diversity policies for the board of directors in relation to issues such as age, gender, disability, and professional qualifications and expertise. In accordance with the definition established in the Spanish Audit Act, small and medium-sized enterprises should report at least on the policy established in relation to gender diversity.**

Yes  No

**If yes, describe the diversity policies, their objectives, the measures implemented and the manner in which they were applied, and the results obtained in the year. You should also indicate the specific measures adopted by the board of directors and the appointments and Remunerations Committee to ensure a balanced and diverse make-up of directors.**

**If the company does not apply a diversity policy, explain the reasons why not.**

Description of measures
<p>The company approved a policy for the selection of directors in 2017 which requires it to foster diversity in terms of gender, experience and expertise among the directors and to ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.</p> <p>In this regard, Neinor Homes' objective is to ensure that female directors make up at least 30% of the total board members by 2020.</p> <p>This policy has been published online at <a href="https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas">https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas</a></p>

- C.1.6 Explain any measures adopted by the appointments committee, where applicable, to ensure that selection procedures are free of any bias which might hinder the selection of female directors, and that the company deliberately seeks and includes women meeting the professional profile sought among potential candidates so as to ensure that it achieves a balanced make-up between women and men.**

Description of measures
<p>The company approved a policy for the selection of directors in 2017 which requires it to foster diversity in terms of gender, experience and expertise among the directors and ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.</p> <p>In this regard, Neinor Homes' objective is to ensure that female directors make up at least 30% of the total board members by 2020.</p> <p>The appointments and remunerations committee will review compliance with this policy each year and will take the necessary measures to ensure effective compliance with the matters addressed in this section and with the rest of the director selection policy.</p> <p>This policy is published online at <a href="https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas">https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas</a></p>

**Where there are few or no female directors despite the measures adopted, where applicable, explain the reasons for this circumstance:**

Explanation

The time horizon of the measures described is 2020.
---

**C.1.7 Explain the appointments committee's findings on its verification of compliance with policy for the selection of directors. In particular, describe how the policy contributes to the goal of achieving a number of female directors representing at least 30% of the total board members by 2020.**

The appointments and Remunerations Committee has not reached any conclusions with regard to compliance with the selection policy, insofar as:

- (i) The two appointments arising in 2018 were made at the proposal of a company's relevant shareholder; and
- (ii) No appointment was made to fill the vacancy left by the resignation of Mr Alberto Prieto.

Following Mr Alberto Prieto's resignation as an independent director, the Appointments and Remunerations Committee has retained the professional services of a specialist executive search firm to assist in the process of finding a replacement. This firm's instructions require that the search profile should fit the director selection policy in all respects.

**C.1.8 Where appropriate, explain the reasons why any proprietary directors were appointed at the proposal of shareholders owning less than 3% of capital.**

Not applicable

Shareholder's name	Reason for appointment

State whether the company has refused any formal requests for seats on the board made by shareholders holding interests in share capital equal to or greater than the holdings of other shareholders at whose request proprietary directors were appointed. Where appropriate, explain the reasons why these requests were turned down.

Yes

No

Shareholder's name	Explanation

**C.1.9 Indicate any powers and authorizations, if any, delegated by the board to directors or any of the board committees.**

Director's name	Brief description

Juan Velayos Lluís	All powers of the board have been delegated to the Chief Executive Officer, except those which may not be delegated in accordance with the law or the bylaws (in particular, authorization to purchase land).
--------------------	---

**C.1.10** Where appropriate, list any board members who also hold office as directors or executive positions in other companies forming part of the listed company's group.

Director's name	Group entity's name	Office	Executive functions?
Juan Velayos Lluís	Neinor Norte, S.L.U. Neinor Península, S.L.U. Neinor Sur, S.A.U.	Sole Director	Yes
Juan Velayos Lluís	Promociones Neinor 1, S.L.U. Promociones Neinor 2, S.L.U. Promociones Neinor 3, S.L.U. Promociones Neinor 4, S.L.U. Promociones Neinor 5, S.L.	Joint director	Yes

Remarks

**C.1.11** Where appropriate, list any directors or representatives of corporate directors of your company, who have notified the same that they hold seats on the boards of any other listed companies unrelated with your group as directors or representatives of corporate directors.

Not applicable

Director's name	Listed company's name	Office

Remarks

**C.1.12** State whether the company has established any rules with regard to the maximum number of company boards on which it Directors may hold seats, and where appropriate explain such rules, indicating where such they are established.

Yes       No

Explanation of rules and identification of the document establishing the same
In accordance with the Board's Regulations, the directors may not hold seats on more than four boards of other listed companies (aside from the company itself).

**C.1.13** State the total amounts paid out in respect of the following directors' remuneration items:

Remuneration accruing to the Board of Directors during the year (thousands of euros)	4,407
Cumulative pension rights accruing to current directors (thousands of euros)	N/A
Cumulative pension rights accruing to former directors (thousands of euros)	N/A
<b>Remarks</b>	

**C.1.14 Identify any senior managers who are not also executive directors, and state the total remuneration earned by the same during year.**

Name of the individual or entity	Position
Jordi Argemí García	Chief Financial Officer
Mikel Etxebarria Dobaran	Chief Corporate Officer
Gabriel Sánchez Cassinello	Chief Business Officer
Mario Lapiedra Vivanco	Chief Real Estate Officer
Julio Egusquiza González-Gil	Chief Services Officer
Juan Gómez Vega	Chief Investor Relations Officer
Borja García-Egotxeaga	Chief Operating Officer
Álvaro Conde Herranz	Internal Audit Manager

<b>Total senior management remuneration (thousands of euros)</b>	1,941
--	-------

<b>Remarks</b>

**C.1.15 State whether there have been any changes in the board's regulation during the year.**

Yes  No

<b>Description of changes</b>

**C.1.16 Explain the procedures in place for the selection, appointment, resell action and removal of directors. Indicate the competent bodies, the procedural steps involved and the criteria applicable to each procedure.**

Selection

The company has approved a Directors Selection Policy, which sets out the selection procedure. In accordance with this policy, the selection process shall be based on a prior analysis of the Company's needs by the Board of Directors assisted by the Appointments and Remunerations Committee. The Appointments and Remunerations Committee shall define the candidates' functions and skills, and shall assess the time and dedication required for each vacancy, so as to ensure that the eventual appointee is able appropriately to discharge his/her responsibilities.

The Company may seek external advice in order to complete its needs analysis and/or its annual assessment of compliance with the selection policy.

With regard to the criteria for the selection or reelection of directors, candidates shall meet the conditions established in point 4.2 of the policy (i.e. they must be reputable persons of acknowledged ability and professional solvency, with the appropriate experience, qualifications, training, availability and commitment to discharge the office concerned, and they must be unaffected by any of the incompatibilities enumerated in this section).

The Company shall foster diversity in terms of gender, experience and expertise among the directors and shall ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.

Appointment and reelection

The directors are appointed by the General Shareholders Meeting or may be co-opted by the Board of Directors, subject to a report from the Appointments and Remunerations Committee, or in the case of independent directors at the proposal of said committee.

The directors shall hold office for a term of three years, at the end of which they may be reselected one or more times for the same maximum term.

Directors co-opted onto the Board shall hold office until the next General Shareholders Meeting held after their appointment, and they shall resign their office in the event that said appointment is not ratified at the General Shareholders Meeting.

Before proposing the reelection of directors to the General Shareholders Meeting, the board shall assess the quality of the work carried out and the dedication to their office shown by the directors proposed during their previous term in office, who shall absent themselves from said assessment.

Assessment

With regard to assessment, Article 18 of the Regulation of the Board of Directors requires the Board annually to assess (i) its functioning and the quality of work; (ii) the discharge by the Chairman and the Chief Executive Officer of their functions as such, based on the report issued by the Appointments and Remunerations Committee; (iii) the diversity of the Board's members and the skills of the directors; and (iv) the functioning of the Board Committees based on the reports issued by the same. For these purposes, the Chairman of the Board of Directors shall organize and coordinate the assessment process with the Chairs of the Board Committees.

Every three years, the Board of Directors shall be assisted in its evaluation by an external consultant, whose independence shall be verified by the Appointments and Remunerations Committee.

Based on the results of the annual assessment, the Board of Directors may propose an action plan to correct any weaknesses observed in relation to the quality and efficiency of the Board's functioning, the functioning and membership of committees, diversity, the work of the Chairman and of the Chief Executive, and the work and contributions made by each director.

Removal

The directors shall cease to hold office when the term for which they were appointed ends, or where so decided by the General Shareholders Meeting.

Directors shall tender their resignation to the Board in the cases mentioned in Article 21.2 of the Board's Regulation (see section C.1.21 below).

The Board of Directors may only propose the removal of an independent director before the end of his/her statutory term of office upon sufficient grounds, established by the Board of Directors subject to a report by the Appointments and Remunerations Committee. The removal of independent directors may also be proposed as a consequence of a public takeover bid or of mergers and other similar corporate operations that would result in changes in the company's capital structure, provided such changes arise in line with corporate good governance recommendations applicable to the Company from time to time.

**C.1.17 Explain the extent to which annual Board assessments have resulted in significant changes in its internal organization and in the procedures applicable to its activity.**

Description of changes
In accordance with Article 529(ix) of the Spanish Limited Companies Act and Recommendation 36 of the Code of Good Governance, as well as CNMV Technical Guideline 3/2017 on Audit Committees, the Company carried out an autonomous internal assessment of the functioning of the Board and its respective Committees in the second quarter of 2018, following best market practice.

The assessment carried out was linked to an action plan establishing improvement measures. This assessment of the Board did not result in any significant changes to its internal organization, insofar as it found the functioning of the Board and of its respective Committees to be highly positive and in line with best corporate governance practice in listed public companies. A summary of key improvement measures contained in the action plan is as follows:

- Periodic presentations to the Board to explain specific CSR measures implemented and the progress of the CSR Master Plan
- Increase in the number of Board meetings
- Intensification of formal classroom training for directors
- Preparation of policies, including a Corporate Governance Policy and a Succession Plan
- Organization of an Investor Day

Describe the assessment process and the areas evaluated by the Board of Directors with the assistance, where applicable, of an external consultant, with respect to the functioning and membership of the board and its committees, and any other area or issue subject to assessment.

The assessment process was carried out internally, allowing:

- **Greater access to confidential internal information**
- **A more in-depth review**, given that the scope of external assessments is limited with respect to Neinor Homes' objectives
- **Flexibility**, allowing adaptation to the directors' schedules

The assessment process was carried out following a three-pronged approach to the work in order to maximize visibility and objectivity. The three avenues of approach were:

1. **Assessment:** Review of documentation and functioning by the internal audit department, as well as measurement of the levels of dedication, commitment, involvement and expertise exhibited by the directors, and analysis of their performance in the discharge of their responsibilities.
2. **Self-assessment:** Self-assessment and review by the directors themselves of their effectiveness in the discharge of their duties and functioning. This process was conducted by means of questionnaires and personal interviews, respecting the anonymity of the responses received. The process ended with a workshop using the data obtained.
3. **Benchmarking:** Comparative analysis of Neinor Homes' Corporate Governance practices with respect to the activity in this area of comparable companies both in and outside the industry in light of applicable domestic / international standards and best practices.

The scope of the review procedures carried out comprised the following:

1. **Membership:** Number of members making up the Board and its Committees. Number of directors by category (executive, proprietary, independent and other external directors). Number of years for which each director has held office.
2. **Diversity:** Number of women holding seats on the Board and on its Committees. Number of foreign members of the Board and its Committees.
3. **Experience and expertise:** Assessment of the directors' experience in the industry according to their CVs. Corporate Governance experience of each director based on membership of other boards aside from Neinor Homes'. Verification of the training received by the Board and its Committees.
4. **Directors' succession:** Verification of the existence of a succession plan for the CEO and other directors.
5. **Functioning:** Examination of the schedule for meetings and of the meetings actually held. Verification of the prior notice given in calls for meetings, and of the agendas for the same. Review of minutes to verify the consideration of mandatory issues (pursuant to the Spanish Limited Companies Act, the Securities Market Act, etc.) at board meetings. Duration of the meetings held by the Board and its Committees.
6. **Quality of information:** Verification of the adequacy and quality of the information supplied to directors for decision-making purposes.
7. **Directors' dedication / involvement:** Number of absences from meetings of the Board and its Committees. Analysis of issues raised by the directors with regard to the information received before meetings. Analysis of issues raised by the directors in the course of meetings based on the information presented. Verification of additional requests made by the directors for occasional working papers / studies to be prepared by

- the Company.
8. Senior management and/or external advisers: Assessment of participation at meetings of the Board and its Committees by senior managers and/or external auditors without the presence of the CEO.
  9. Compliance with best practices: Appraisal of the *tone at the top* in the functioning of the Board and its Committees in matters involving ethics, compliance, transparency, etc. Analysis of the Board's and Committees' awareness of and interest in compliance with the recommendations enshrined in the CNMV Unified Code of Good Governance (CUBG in the Spanish acronym). Review of the level of compliance with and effective implementation of the recommendations of the CUBG.
  10. Directors' remuneration: Verification of the use of comparative market analyses of director remuneration prepared by external experts.

**C.1.18 For those years in which evaluations were assisted by an external consultant, describe the business relations maintained by the consultant or any entity forming part of its group with the company or any group company.**

Not applicable, because the Company carried out its first annual assessment of the Board internally.

**C.1.19 Describe the circumstances in which directors are obliged to resign.**

Directors must tender their resignations to the Board of Directors in the following circumstances:

- when they cease to hold the executive posts associated with their appointment to directorships;
- where they are affected by any case of incompatibility or disbarment established by law or in the bylaws.
- when they are admonished by the Board of Directors for infringing any of the obligations incumbent upon the directors;
- when their continuance as members of the Board could jeopardize or harm the interest, credit or reputation of the Company, or where the reasons for their appointment are removed, including, without limitation, as a result of significant changes in their professional situation or in the conditions under which they were appointed to their directorship;
- when they are prosecuted for any offence or are the subject of disciplinary proceedings instigated by the supervisory authorities in relation to any serious or very serious offence;
- in the case of proprietary directors, (i) when the shareholder represented sells its entire shareholding or materially reduces said the same, or (ii) by the requisite number, when the shareholder represented reduces its shareholding to a level requiring a reduction in the number of proprietary directors;
- when a director is a member of more than four Boards of listed companies (aside from the Company);
- when alleged wrongdoing by a director means that his/her continuance could be seriously detrimental to equity or corporate the reputation in the Board's opinion.

**C.1.20 Are qualified majorities other than those established by law required for any decisions?**

Yes  No

Describe the differences, where applicable.

Description of differences
.

**C.1.21 State whether any specific conditions exist for appointment as chairman the board other than those applicable to directors.**

Yes  No

Description of conditions

**C.1.22 State whether the bylaws or the Board's Regulations establish any age limits for directors.**

- Yes                       No  
 Age limit for chairman  
 Age limit for CEO                       Age limit for directors

Remarks

**C.1.23 State whether the bylaws or the Board's Regulations establish any limits on mandates or other stricter requirements in addition to the conditions established by law or applicable regulations for independent directors.**

- Yes                       No

Additional requirements and/or maximum term of mandates in years	
--	--

**C.1.24 State whether the bylaws or the Board's Regulations establish any specific rules for proxy votes by other directors at board meetings, the procedure for the issue of proxies and, in particular, the maximum number of proxies a director may hold. Likewise, state whether any restrictions exist with regard to the categories of director to whom proxies may be issued above and beyond the restrictions established by law. Where appropriate, provide a brief description of the rules.**

Neither the bylaws nor the Board's Regulations establish any specific rules for proxy votes at Board meetings, and there are no restrictions with regard to the categories of directors to whom proxies may be granted above and beyond the restrictions established by law.

**C.1.25 State the number of meetings held by the board of directors during the year. Where appropriate, indicate the number of board meetings that were not attended by the chairman. In this computation, the chairman should be treated as attending where represented by proxy with specific instructions.**

Number of board meetings	5
Number of board meetings not attended by the chairman	0

Remarks

State the number of meetings held by the coordinating director with the other directors but not attended by the CEO either in person or by proxy.

Not applicable, because the chairman is not the CEO.



Number of meetings	-
--------------------	---

State the number of meetings held by the different board committees during the year.

Number of meetings of the executive or steering committee	- *
Number of meetings of the audit committee	4
Number of meetings of the appointments and Remunerations Committee	6
Number of meetings of the appointments committee	- *
Number of meetings of the remuneration committee	- *
Number of meetings of the Land Investment Committee (LIC)	4

\* Not applicable, because of this committee does not exist.

Remarks

**C.1.26 State the number of meetings held by the board of directors during the year and the attendance data for the board members.**

Number of meetings attended in person by at least 80% of directors	4
% attendance in person / total votes cast during the year	100%
Number of meetings attended by all directors either in person or by proxies issued with specific instructions	4
% of votes cast by directors in person or by proxies issued with specific instructions / total votes cast during the year	-

Remarks
According to section C.1.25, five board meetings were held, but this section provides details of only four. The difference is that the Board voted by letter without a meeting in one case.

**C.1.27 State whether the individual and consolidated annual accounts presented to the board for approval are previously certified.**

Yes                       No

Where appropriate, identify the person(s) who certified the individual and consolidated annual accounts of the company for preparation by the board.

Name	Office

Remarks

**C.1.28 Explain the mechanisms, if any, established by the Board of Directors to ensure that the auditors' reports on the individual and consolidated annual**

**accounts prepared presented to the annual general meeting are unqualified.**

In accordance with Article 39.3 of the Board's Regulations, the Board of Directors shall endeavour to prepare the final annual accounts in such manner as to ensure that there is no need for the auditor to include any emphasis of matter or qualifications in the opinion issued. In the exceptional cases where emphasis of matter paragraphs or qualifications may exist, both the Chair of the Audit and Control Committee and the external auditors shall provide the shareholders with clear explanations as to the contents of the same. Where the Board considers that it must maintain its stance, it shall publicly explain the meaning and extent of the difference of opinion.

Article 9.1(d) of the Audit and Control Committee Regulation expressly requires the Committee to ensure that the Board of Directors is able to present the financial statements to the Annual General Meeting without scope limitations or qualifications and, in the exceptional cases where such may exist, the Chair of the Audit and Control Committee and the external auditors shall clearly explain to the shareholders of the meaning and extent of such scope limitations and qualifications.

In accordance with Article 9.6(e) of the Audit and Control Committee Regulation, the Committee shall meet periodically with the external auditor (once in the planning phase before audit procedures begin and once after the audit in the drafting phase for reports). At least one such meeting each year shall be held without the presence of any members of the Company's management team in order to debate audit tasks and any issues arising from the audit procedures carried out.

**C.1.29 Is the secretary to the board a director?**

Yes  No

Complete the following table if the secretary is not a director.

Secretary's name	Representative
Silvia López Jiménez	

Remarks

**C.1.30 Describe the specific mechanisms established by the company to protect the independence of external auditors, as well as the mechanisms, if any, to protect the independence of financial analysts, investment banks and rating agencies, including a brief explanation of how the pertinent legal provisions were implemented in practice.**

The company has established selection, approval and evaluation procedures for all relevant providers to support and ensure transparency in tender processes.

With regard to the services concerned in this section, the company retains the services of external auditors applying the procedures mentioned in the preceding paragraph on the same basis as for other service providers.

In order to safeguard the independence of the company's external auditors, the Audit and Control Committee has also established the following policies and procedures:

- Employment policy for former auditors
- Policy for the provision of non-audit services by the external auditor
- Annual internal audit report on the independence of the external auditor
- Annual Independence Letter/Report issued by the external auditor

**C.1.31 State whether the company changed its external auditor during the year. If so, identify the incoming and outgoing auditors.**

Yes  No

Outgoing auditor	Incoming auditor

Remarks

State whether there were any disagreements with the outgoing auditor and explain their content.

Yes  No

Explanation of disagreements

**C.1.32 State whether the audit firm carries out any other non-audit work for the company and/or its group, and if so state the fees paid for such work in absolute terms and as a percentage of the total fees billed by the auditor to the company and/or its group.**

Yes  No

	Company	Group companies	Total
Cost of other non-audit work (thousands of euros)	Neinor Homes S.A.		63
Cost of non-audit work / total fees billed by the audit firm (%)			33%

€45M of the fees billed by the auditor for other non-audit work corresponds to verification activities regarding SCIF information, the money laundering prevention audit and the verification report on the sustainability report, and €18 million for tax advisory services provided to the company.

**C.1.33 State whether the auditor's report on the annual accounts for the prior year contained any emphasis of matter paragraphs or qualifications. Where applicable, state the reasons offered by the chairman of the audit committee to the shareholders at the annual general meeting to explain the contents and scope of such emphasis of my paragraphs and/or qualifications.**

Yes  No

Explanation

**C.1.34 State the number of consecutive years for which the current audit firm has examined the individual and/or consolidated annual accounts of the company. Also, state the number of years examined by the current auditor as a percentage of the total number of years in which the annual accounts have been audited.**

	Individual	Consolidated
Number of consecutive years	5	5
Number of years examined by the current audit firm / Number of years in which the company has been audited (%)	100%	100%
<b>Remarks</b>		

**C.1.35 State whether there is any procedure to ensure that the directors are provided sufficiently in advance with the necessary information to prepare meetings of the governing body, and where applicable explain such procedure.**

Yes  No

Description of procedure
<p>In accordance with Article 16 of the Board's Regulations, calls for meetings of the Board of Directors must be issued at least 72 hours prior to the date of the meeting, accompanied by all relevant information duly prepared and summarized. In practice, both calls and the documentation for meetings are sent 6-7 days in advance using a restricted tool to which only the directors have access, in order to guarantee information security.</p> <p>The agenda for board meetings shall indicate clearly the points on which the board of directors is required to adopt a decision or resolution, so that the directors can examine or obtain the necessary information in advance.</p> <p>Moreover, Article 23 of the Regulation permits the directors to request information on any matter falling within the purview of the Board of Directors and to examine the books, ledgers, documents and other documentation.</p> <p>Requests for information must be addressed to the Secretary of the Board of Directors, who will submit them to the Chairman of the Board and to the appropriate interlocutor in the Company.</p> <p>The Secretary shall advise the director concerned of the confidential nature of the information requested and received, and of his/her duty of confidentiality pursuant to the Regulation.</p> <p>The Chairman may refuse to provide the information where he considers (i) that it is not needed for the proper discharge of the functions incumbent upon the director, or (ii) that the cost is not reasonable in view of the importance of the problem and the Company's assets and revenues.</p>

**C.1.36 State whether the company has established any rules obliging directors to report circumstances that could harm the credit and reputation of the company and to resign where appropriate. Explain such rules, if any.**

Yes  No

Explanation of rules
<p>In accordance with Article 21.2(iv) of the Board's Regulations, the directors are required to tender their resignation to the Board of Directors where their continuance could jeopardize the interest, credit or reputation of the Company. The Board shall accept such resignation where deemed appropriate.</p> <p>In such cases, the director concerned shall explain the circumstances in a letter sent to all of the Board members, and his/her removal shall also be duly explained in the Annual Corporate Governance Report.</p>

**C.1.37 State whether any member of the Board of Directors has informed the company of prosecution or the initiation of trial proceedings against him/her on any of the charges mentioned in Article 213 of the Spanish Limited Companies Act.**

Yes  No

Director's name	Criminal charge	Remarks

State whether the Board of Directors has examined the case. If yes, provide a reasoned explanation of the decision adopted as to the continuation or otherwise of the director in office, and explain the actions taken by the Board of Directors to date, if any, and those which it plans to take.

Yes  No

Decision adopted / action taken	Reasoned explanation

**C.1.38 List any agreements entered into by the company, which will come into force, be amended or be terminated in the event of a change in control of the company resulting from a public takeover debate and its effects.**

The majority of the loan agreements made by the company with banks require the lender's prior consent for any change in control of the company.

**C.1.39 Indicate any agreements between the company and its directors, managers and employees, which provide for compensation, guarantees or golden parachutes in the event of resignation or unfair dismissal, or where contractual relations are terminated as a consequence of a public takeover bid or any other type of corporate transaction. These agreements should be identified individually in the case of directors and on aggregate in other cases.**

No agreements between the company and its directors, managers and employees contain guarantee or golden parachute clauses. The severance payable in the event of unfair dismissal is as provided in prevailing legislation.

In those cases where these agreements may need to be reviewed in the future, a procedure not currently envisaged by the company, such review will be carried out by the Appointments and Remunerations Committee and approved by the Board of Directors.

Executive directors are entitled to severance in the event of termination of the employment relationship through no fault of their own. This severance must be expressly included in the contact made between the executive director and the Company. In any event, the Company will endeavour to ensure that the severance agreed for cases of termination does not reward poor results.

The service agreement made by the CEO with the company does not include any clauses providing for severance payments in the event of termination.

Number of beneficiaries	
Type of beneficiary	Description of the agreement

State whether these agreements must be reported to and/or approved by the company's management bodies or by the group in any cases other than those established by applicable law. If so, specify the procedures, the case is concerned and the nature of the management bodies responsible for approval and for reporting.

	Board of directors	General Meeting
Body authorizing clauses	X	

	Y E S	NO
Are these clauses reported to the General Shareholders Meeting?		X

Remarks

## C.2 Board of committees

### C.2.1 List all board committees, their members and the proportion of executive, proprietary, independent and other external holding seats on the same.

There is no Executive or Steering Committee.

#### EXECUTIVE COMMITTEE

Name	Office	Category
-	-	-

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Remarks

Explain any functions delegated or assigned to this committee other than those already mentioned in section C.1.10 ten above, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

--

#### AUDIT COMMITTEE

Name	Office	Category
Anna M. Birulés Bertran	Chairwoman	Independent director
Ricardo Martí Fluxá	Member	Independent director

Alfonso Rodés Vilà	Member	Independent director
Jorge Pepa	Member	Proprietary director
Felipe Morenés Botín Sanz-de Sautuola	Member	Other external director

<b>% executive directors</b>	0%
<b>% proprietary directors</b>	20%
<b>% independent directors</b>	60%
<b>% other external directors</b>	20%

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

Procedures and rules governing organization and functioning

Article 42 of the Company's Bylaws is as follows:

1. The Board of Directors shall create a permanent Audit and Control Committee as an internal informational and consultative body without executive duties, but vested with reporting, advisory and proposal-making powers within its remit, as established in subsection 5 of this Article. The Audit and Control Committee shall have a minimum of three and a maximum of five members, being non-executive directors appointed by the Board. The majority of the Audit and Control Committee's members shall be independent directors, and one of them shall be appointed taking into account his/her knowledge and expertise in accounting and/or audit matters.
2. The Board of Directors shall appoint the Committee's Chair from among the independent directors holding seats on the same. The Board of Directors shall likewise appoint a Deputy Chair where considered appropriate. The Deputy Chair shall be appointed under the same conditions as the Chair.
3. The office of Secretary to the Audit and Control Committee will be held by the person appointed by the Board of Directors. The secretary need not be a full member of the Audit and Control Committee, in which case it will not be necessary for the Secretary to be a member of the Board of Directors. The Secretary to the Audit and Control Committee need not be the same person as the Secretary to the Board of Directors.
4. The directors holding seats on the Audit and Control Committee shall discharge their functions while they continue in office as directors of the Company, unless otherwise agreed by the Board of Directors. The renewal, reelection and removal of the directors holding seats on the Committee shall be governed by the pertinent resolutions of the Board of Directors.

The office of Chair shall be held for a maximum term of four years, after which period the outgoing Chairman shall not be reselected until at least one year has passed since his/her termination, notwithstanding his/her continuation or reelection as a member of the Committee.

5. Notwithstanding any other tasks that may be assigned to it by the Board of Directors from time to time, the Audit and Control Committee shall have the following basic functions:
  - (i) To report to the General Shareholders Meeting on any questions raised by the shareholders within the remit of the Committee and, in particular, to report on the results of the audit, explaining how it contributed to the integrity of the financial information and the role played by the Audit and Control Committee in the audit process.
  - (ii) To supervise the effectiveness of the Company's and the group's internal controls, internal audit function and risk management systems (including the management of tax risks), and to discuss any significant weaknesses in the internal control system detected in the course of audit procedures with the auditor

- without thereby compromising its independence. For these purposes, the Committee may present its recommendations and proposals to the management body, establishing the pertinent monitoring periods.
- (iii) To supervise the process by which regulated financial information is prepared and presented, and to make recommendations and proposals to the Board of Directors to safeguard the integrity of such information.
  - (iv) To make proposals to the Board of Directors, for eventual approval by the General Shareholders Meeting, with regard to the selection, appointment, reelection or replacement of the auditors, in accordance with prevailing legislation, as well as proposals relating to the terms of engagements; to seek and obtain regular information from the auditors with regard to their audit plan and the progress thereof; and to safeguard the independence of the auditors in the discharge of their functions.
  - (v) To supervise internal audits in the Company.
  - (vi) To establish appropriate relations with the auditors in order to obtain information regarding any matters which might compromise their independence for examination by the Audit and Control Committee, as well as information concerning the audit procedures carried out and, where applicable, as required for the authorization of other non-audit services permitted under prevailing legislation, and to receive all other communications required under legislation governing the audit of financial statements and by prevailing audit standards. In any event, the Audit and Control Committee shall obtain the external auditors' annual letter of representations establishing their independence from the company and other companies directly or directly related with the same, as well as detailed, itemized information on any additional non-audit services of any kind and the fees received in respect of thereof by the external auditor or by any persons or entities related with the same, in accordance with prevailing audit legislation.
  - (vii) To issue an annual report expressing an opinion on the independence or otherwise of auditors and audit firms. Said report shall be issued before the audit opinion is received. The Audit and Control Committee's report shall in any case address the provision of the additional non-audit services referred to in the preceding paragraph, considered both individually and as a whole, and it shall likewise address the system in place to assure the independence of the auditor in accordance with prevailing audit regulations;
  - (viii) To report to the Board of Directors in advance on all relevant matters where so required by Law, the Bylaws or the Board's Regulations, in particular with regard to: (i) the financial information published periodically by the Company; (ii) the creation, or acquisition of equity investments in, special purpose vehicles or entities registered in countries or territories listed as tax havens; and (iii) related-party transactions.
  - (ix) In relation to the external auditor: (i) to ensure that fees do not compromise audit quality or the auditor's independence; (ii) to supervise the issue of a relevant event notice to the CNMV in the event of any change of auditor, and to accompany such notice with a declaration regarding the possible existence and contents of any disagreements with the outgoing auditor, where applicable; and (iii) to ensure that the Company and the external auditor respect and abide by prevailing rules governing the provision of non-audit services, limits on the concentration of the auditor's business and, in general, any other rules governing auditor independence.
  - (x) To summon any employee or executive of the company, and where appropriate to require their attendance without the presence of any other director or executive.
  - (xi) Any other functions assigned by the Board of Directors in its Regulation.
6. The Audit and Control Committee shall meet quarterly on an ordinary basis to review the periodic financial information to be reported to stock market supervisors, as well as any information requiring the approval of the Board of Directors for inclusion in the annual reports published. The Committee shall also meet at the request of any of its members and wherever convened by its Chair, who shall convene a meeting whenever the Board of Directors or the Chairman of the Board requires a report or the adoption of proposals, and in any event whenever appropriate for the proper discharge of its functions. Committee meetings shall be deemed quorate whenever attended, either in person or by proxy, by half plus one of its members. Resolutions shall be adopted by majority vote. The Chair shall not have a casting vote in the event of tie.
7. The Board of Directors may draw up and approve a Regulation implementing the foregoing.

Also, Article 14 of the Board's Regulations provides as follows:



- (i) To report on transactions which imply, or could imply, any conflict of interest.
- (ii) To report on transactions involving structural or corporate changes which the company plans to carry out, the financial terms and accounting impact of such transactions, and the exchange ratio proposed, if any.
- (iii) To oversee a whistle-blowing mechanism allowing employees confidentially to report any irregularities, especially of a financial or accounting nature, which they may observe in the company, as well as any matters that could give rise to any criminal liability on the part of the Company.

The Audit and Control Committee shall prepare an annual report on its activities, explaining the main matters arising, if any in relation to the Committee's functions. Where the Audit and Control Committee may deem it appropriate, it may include proposals to improve the Company's governance rules in said report.

The Audit and Control Committee may summon any member of the companies management team or staff to appear before it, even without the presence of any other manager. Persons so summoned shall be required to attend the meetings of the Audit and Control Committee and to offer their full cooperation and access to any information they may hold. That committee may likewise require the auditors to attend its meetings.

With a view to achieving the best possible outcomes, the Audit and Control Committee may seek the advice of external experts where deemed necessary to ensure the adequate discharge of its functions.

The Company shall establish an Internal Audit Department to supervise the proper functioning of information systems and internal controls under the oversight of the Committee. The Internal Audit Department shall report functionally to the non-executive Chairman of the Board of Directors or to the Chair of the Audit and Control Committee. The head of the Internal Audit Department shall present the department's annual working plan to the Audit and Control Committee. The Department head shall likewise report any incidents arising in the course of internal audit activities and shall submit a report to the Committee at the end of each financial year.

Relevant actions of the Committee during the year

- (i) Reelection of Deloitte as the company's external auditor
- (ii) Direct approval or submission to the Board of the following policies and procedures:
  - a. CSR policy
  - b. Procedure for bond issues
  - c. Asset valuation procedure
  - d. Risk management and internal control structure
  - e. Annual work plan for the Audit and Control Committee
  - f. Compliance Unit Regulation
  - g. Schedule of compliance unit activities

Identify the directors appointed to seats on the audit committee in view of their knowledge and expertise in accounting and audit matters, and state the date of the Committee Chair's appointment to office.

<b>Name of directors with relevant expertise</b>	Anna M. Birulés Bertran
<b>Date of appointment as Committee Chair</b>	08/03/2017

**APPOINTMENTS AND REMUNERATIONS COMMITTEE**

<b>Name</b>	<b>Office</b>	<b>Category</b>
Ricardo Martí Fluxá	Chairman	Independent director

Juan José Pepa	Member	Other external director
Alfonso Rodés Vilà	Member	Independent director
Anna M. Birulés Bertran	Member	Independent director
Francis Btsh	Member	Proprietary director

<b>% executive directors</b>	0%
<b>% proprietary directors</b>	20%
<b>% independent directors</b>	60%
<b>% other external directors</b>	20%

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

*Procedures and rules governing organization and functioning*

Article 43 of the Company's Bylaws provides as follows:

1. The Board of Directors shall create a permanent Appointments and Remunerations Committee as an internal informational and consultative body without executive duties, but vested with reporting, advisory and proposal-making powers in its area of activity, as described in sub-section 5 of this Article. The Appointments and Remunerations Committee shall have a minimum of three and a maximum of five members, being non-executive directors appointed by the Board of Directors at the proposal of its Chairman. The majority of the members of the Appointments and Remunerations Committee shall be independent directors.
2. The Board of Directors shall appoint the Committee's Chair from among the independent directors holding seats on the same. The Board of Directors shall likewise appoint a Deputy Chair where considered appropriate. The Deputy Chair shall be appointed under the same conditions as the Chair.
3. The office of Secretary to the Appointments and Remunerations Committee will be held by the person appointed by the Board of Directors. The secretary need not be a full member of the Appointments and Remunerations Committee, in which case it will not be necessary for the Secretary to be a member of the Board of Directors. The Secretary to the Appointments and Remunerations Committee need not be the same person as the Secretary to the Board of Directors.
4. The directors holding seats on the Appointments and Remunerations Committee shall discharge their functions while they continue in office as directors of the Company, unless otherwise agreed by the Board of Directors. The renewal, reelection and removal of the directors holding seats on the Committee shall be governed by the pertinent resolutions of the Board of Directors.
5. Notwithstanding any other tasks that may be assigned to it by the Board of Directors from time to time, the Appointments and Remunerations Committee shall have the following basic functions:
  - (i) To evaluate the competences, expertise and experience required by the Board of Directors; For these purposes, the Appointments and Remunerations Committee shall define the necessary skills and abilities of the candidates to cover any vacancy and shall evaluate the time and dedication required to discharge the related duties effectively.
  - (ii) To establish a target for representation by the minority gender in the Board of Directors, and to prepare guidelines for the attainment of that target.
  - (iii) To make proposals to the Board of Directors for the appointment of independent directors by co-option or for presentation and approval at the General Shareholders Meeting, as well as proposals for the reelection or removal of such directors by the General Shareholders Meeting.

- (iv) To make proposals for the appointment of other directors by co-option or for presentation and approval at the General Shareholders Meeting, as well as proposals for the reelection or removal of such directors by the General Shareholders Meeting.
  - (v) To make informed proposals for the appointment or removal of management personnel, and on the basic terms and conditions of their contracts.
  - (vi) To examine and organize the succession of the Chairman of the Board and of the Chief Executive Officer of the Company and, where applicable, to make proposals to the Board of Directors to ensure an orderly and well-planned succession.
  - (vii) To report to the Board of Directors on policy regarding the remuneration of directors and senior managers or other persons holding management posts and reporting directly to the Board of Directors, executive committees or executive directors, as well as the individual remuneration and other contractual terms applicable to the executive directors, and to verify compliance with the policy established.
6. The functioning of the Appointments and Remunerations Committee shall be governed by such rules as may be determined by the Board of Directors in the pertinent Regulation.

Also, Article 15 of the Board's Regulations provides as follows:

The Appointments and Remunerations Committee shall meet quarterly on an ordinary basis, and at least four times each year. The Committee shall also meet at the request of any of its members and wherever convened by its Chair, who shall convene a meeting whenever the Board of Directors or the Chairman of the Board requires a report or the adoption of proposals, and in any event whenever appropriate for the proper discharge of its functions.

Meetings of the Appointments and Remunerations Committee shall be deemed quorate whenever attended, either in person or by proxy, by half plus one of its members. Resolutions shall be adopted by majority vote.

The Committee shall record its deliberations in the minutes, copies of which shall be forwarded to all members of the Board of Directors.

The Committee shall consult with the Chairman of the Board and the Company's Chief Executive, in particular on matters relating to executive directors and senior management personnel.

With a view to achieving the best possible outcomes, the Appointments and Remunerations Committee may seek the advice of external experts where deemed necessary to ensure the adequate discharge of its functions, taking the necessary steps to ensure that any possible conflicts of interests do not compromise the independence of the external advice received by the Committee.

Relevant actions of the Committee during the year

- (i) Proposal to the Board in relation to reclassification and appointment of candidates as "other external" directors.
- (ii) Approval of changes to the membership of the Audit and Control, Appointments and remunerations, and Land Investment Committees, increasing the number of seats on each committee by 2, 2 and 1 member, respectively.
- (iii) Presentation and approval of the new Chief Operating Officer.
- (iv) Approval of an increase in the number of meetings to be held by the Committee 6.
- (v) Direct approval or submission to the Board of the following policies and procedures:
  - a. Senior management remuneration policy
  - b. Employee remuneration policy
  - c. Employee retention plan
  - d. Equality policy
  - e. Succession Plan
  - f. Corporate Governance Policy

**APPOINTMENTS COMMITTEE**

The Company does not have an Appointments Committee, the functions and duties of which are assigned to the Appointments and Remunerations Committee.

Name	Office	Category

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

--

#### REMUNERATIONS COMMITTEE

The Company does not have a Remuneration Committee, the functions and duties of which are assigned to the Appointments and Remunerations Committee.

Name	Office	Category

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

--

#### LAND INVESTMENT COMMITTEE

Name	Office	Category
Juan José Pepa	Chairman	Other external director
Juan Velayos Lluís	Member	Executive director
Ricardo Martí Fluxá	Member	Independent director

Felipe Morenés Botín Sanz-de Sautuola	Member	Other external director
Jorge Pepa	Member	Proprietary director

<b>% executive directors</b>	20%
<b>% proprietary directors</b>	20%
<b>% independent directors</b>	20%
<b>% other external directors</b>	40%

Explain the functions assigned to this committee, describe the procedures and rules governing its organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

*Procedures and rules governing organization and functioning*

The internal Regulation of the Land Investment Committee establishes, inter alia, the following:

1. The Committee shall be formed by a minimum of three and a maximum of seven members. The Committee members shall be appointed by the Company's Board of Directors at the proposal of the Appointments and Remunerations Committee, subject to consultation with the Chair of the Land Investment Committee.
2. The majority of the Committee members shall be non-executive directors. All members of the Committee shall have broad, recent and appropriate professional, technical and financial experience in the real estate sector and in financial investment, whether securities investment or investment in real estate assets.
3. Only the Committee members shall be entitled to attend its meetings. However, other directors and employees, and other natural persons and external advisers may be invited to attend the Committee's meetings on a regular basis, and other persons who are not members of the Committee may also be invited to attend all or part of a meeting wherever deemed necessary or appropriate. Only the Committee members shall have the right to vote on its resolutions, and any other persons attending shall be permitted only to speak.
4. The committee members shall be appointed for a maximum term of three years, which may be extended by a further two 3-year terms, provided search Committee members continue to be members of the Board of Directors.
5. The Committee's Chair shall be appointed by the Board of Directors. In the absence of the Committee's Chair and his/her appointed stand-in, the other members of the Committee attending shall select one of their number to chair the meeting.
6. The office of Secretary to the Land Investment Committee shall be held by such persons as may be appointed by the Board of Directors. The Secretary to the Land Investment Committee need not be a full member of the same, in which case (i) he/she shall not have the right to vote, and (ii) he/she shall not be a member of the Board of Directors. The Secretary to the Land Investment Committee need not be the same person as the Secretary to the Board of Directors.
7. The Committee's resolutions shall be adopted by majority vote. All members of the Committee attending its meetings shall vote on all items on the agenda except where any conflict of interest may exist, in which case the Committee member affected shall leave the meeting and shall not take part in deliberations or vote on any matters where he/she may have a conflict of interests.
8. All reports prepared by the Committee and submitted to the Board of Directors for its consideration before the approval of any Board resolution shall expressly mention that all proposals made by the Committee are in compliance with prevailing legislation.
9. The Committee shall meet at least four times each year, and whenever necessary.

Notwithstanding, the Committee shall meet wherever so requested by any of its members or wherever it is validly convened by the Chair.

10. The Committee Chair shall convene a meeting wherever the Board of Directors or the Chairman of the Board may request that a report be prepared or a proposal approved, and in any event wherever deemed expedient for the due discharge of its functions.
11. Committee meetings shall be convened by the Secretary to the Committee at the request of any of its members, or at the request of the Chairman of the Board.
12. Unless otherwise established, the call for each meeting shall state the venue, the date and the time of the same, and the agenda setting out the business of the meeting, and it shall be sent to each of the Committee members and any other persons required to attend, as well as non-executive directors, at least three (3) business days in advance of the date of the meeting. Any background documentation shall be delivered to the Committee members and any other parties invited to attend, where applicable, together with the call for the meeting.
13. Notwithstanding the above, Committee meetings shall be understood to be validly convened without the need for any prior call if all of its members are present, either in person or by proxy, and unanimously agree to hold a meeting and the agenda for the same. Likewise, the members of the Committee may vote by letter without holding a meeting, provided none of the directors opposes this procedure.
14. The Committee members may also meet simultaneously at more than one venue connected by any system allowing recognition and identification of participants, uninterrupted communication between the same wherever they may be and participation in voting, all in real time. Subject to the foregoing, the Committee may hold its meetings by conference call or video conference, and by other similar methods of communication.

Wherever the participants in a Committee meeting may find themselves, it shall be understood that all of them attend the same meeting. Any such meetings shall be understood to be held at the venue where the majority of the Committee members are met, or in the event of a tie, at the venue where the Committee Chairman or his stand-in as chair of the meeting may be located.

15. The Committee shall discharge the following functions for the company and its principal affiliates:
  - (i) To define general investment policies and strategies, investment objectives, the rules for and limitations applicable to the purchase and disposal of real estate assets, and all other investment policies followed by the Company, and where applicable to present all of the foregoing to the Board for its approval.
  - (ii) To review all of the aforementioned strategies and objectives at least annually, and to adopt and approve any changes.
  - (iii) To evaluate and adopt a final decision either in favour of or against the possible acquisition of real estate assets, possible real estate developments and the financing of real estate purchases and/or developments undertaken by the Company, whether directly or via any group entity, and to evaluate and adopt a final decision with regard to the financial viability of such investments, their fit with the Company's investment policies and compliance with applicable laws.
  - (iv) To prepare the pertinent reports on all matters examined by the Committee and to present the same to the Board, especially in cases where a resolution of the Board is required in accordance with prevailing legislation.
  - (v) To analyse and track the Company's investment results and performance in relation to the investment strategies, objectives, policies, rules and limits approved by the Committee, including without limitation, examination of the procedures applied by the Company to establish that investments are made in accordance with the aforementioned investment strategies, objectives, policies, rules and limits.
  - (vi) To approve the evaluation methods utilized by the Company in relation to the purchase or disposal of real estate portfolios and assets.
  - (vii) To address any other issues or tasks that may fall within the Committee's remit.
16. The Chairman of the Committee shall report formally to the Board on the Committee's actions with regard to all issues falling within its remit after each meeting. The Chairman shall likewise report formally to the Board with regard to the discharge of the Committee's responsibilities, including analysis of compliance with legal, regulatory and internal requirements applicable to the evaluation and execution of investments and, in general, the outcomes of all actions concerned in the tasks assigned to the Committee.

17. The Committee shall report to the Board on all purchases, investments and disposals of land for real estate development prior to approval by the Board, wherever the amount of the transaction concerned exceeds €10 million.
18. In general, the Committee shall report to the Board on all and any other matters where the same may request the Committee's opinion, and on any issues which the Committee understands it should remit to the Board for its consideration.
19. The Committee shall make all such proposals to the Board as it may consider necessary with regard to matters falling within its remit and requiring action or the implementation of improvement measures.
20. The Committee shall prepare an activity report for inclusion in the Company's annual report. This report shall provide details of all investments and disinvestments made by the Company, as well as a brief summary of each and every one of the transactions carried out and the conclusions of the Committee reports in relation to each of the same.

Relevant actions of the Committee during the year

- (i) Approval of all land purchases carried out by the Company.
- (ii) Approval of the launch of all developments undertaken by the Company and of the associated capex.

There is currently a vacancy on the Committee following the resignation of Mr Alberto Prieto, as explained in section C.1.2 above. It is expected that this vacancy will be filled in the first quarter of 2019.

**C.2.2 Complete the following table with information about the number of female directors holding seats on board committees at the reporting date for the last four years.**

	Number of female directors			
	Year t	Year t-1	Year t-2	Year t-3
	Number %	Number %	Number %	Number %
Executive committee	-	-	-	-
Audit committee	1	1	-	-
Appointments and Remunerations Committee	1	0	-	-
Appointments committee	-	-	-	-
Remuneration committee	-	-	-	-
Land investment committee	0	0	-	-

**C.2.3 Where applicable, state whether there are any regulations for the board committees, where they are kept available for consultation, and whether they have been amended during the year. Also, state whether any annual reports on the activities of each commission have been voluntarily prepared.**

Each of the three Board Committees has its own Regulations. All of these regulations are available on the Company's website ([www.neinorhomes.com](http://www.neinorhomes.com)) in the Shareholders and Investors section,

subsection Corporate Governance and Sustainability.

The current Regulations were approved on 8 March 2017 before the Company was listed on the Stock Exchange. There have been no amendments since.



## D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

### D.1 Where applicable, explain the procedure for approval of related-party and intragroup transactions.

<b>Procedure for proposals to approve related-party transactions</b>
<p>The procedure followed by the Company to inform the approval of related-party transactions is set out in the Conflicts of Interest &amp; Related Parties policy approved by the Board of Directors and published on the corporate website.</p> <p>This policy establishes the following:</p> <ol style="list-style-type: none"> <li>1) Where any Company Parties learn of a possible Related-Party Transaction, they shall inform the Secretary to the Board of Directors and the Chief Compliance Officer as soon as they become aware of the same.</li> </ol> <p>If it is found upon examination that a transaction is a Related-Party Transaction, the Company Party shall prepare a written report addressed to the Secretary to the Board of Directors and the Chief Compliance Officer showing that the transaction would be carried out under market conditions and would respect the principle of equality between shareholders.</p> <ol style="list-style-type: none"> <li>2) Any transactions that could give rise to a conflict of interests in the opinion of the Legal Department and the Compliance Department shall be reported to the Chair of the Audit Committee (the "Committee") for analysis at the next meeting of the Committee. This report shall be included among the documents presented to the Committee for debate. Any transactions without an attached report shall be submitted to the Committee only under exceptional circumstances, and the reasons for presenting the transaction shall be presented to the Secretary to the Board of Directors, who shall pass the matter on to the Committee for evaluation.</li> <li>3) The Committee shall evaluate the transaction, for which purpose it may request reports from independent experts where appropriate. When a transaction could affect equal treatment of the shareholders, reference shall be made to paragraph 4.1.4 of the policy.</li> <li>4) When the Committee's approval is obtained, the transaction shall be submitted to the Board of Directors for review and approval. If a director has any conflict of interests related with a transaction, he/she shall withdraw from the decision-making process.</li> </ol> <p>Approval of transactions may be delegated to an Executive Committee in urgent cases and subsequently ratified by the Board of Directors.</p> <p>The company's compliance department shall at least quarterly carry out (i) a review of compliance with the conditions established herein, and (ii) confirm that transactions were actually carried out under the approved terms. A report on this review shall be submitted to the Chair of the Audit and Control Committee.</p> <p>That Audit and Control Committee may seek clarification with regard to any given transaction and/or request additional documentation to assess whether the transaction was carried out under the approved terms.</p>

### D.2 List significant transactions entered into between the company or its group companies and significant shareholders of the company in terms of the amounts involved or the nature of the transaction.

Significant shareholder's name	Company or group company involved	Nature of the relationship	Transaction type	Amount (thousands of euros)

Remarks

**D.3 List significant transactions entered into between the company or its group companies and directors or senior managers of the company in terms of the amounts involved or the nature of the transaction.**

Director's or senior manager's name	Related party's name	Relationship	Nature of the transaction	Amount (thousands of euros)
Jorge Pepa Francis Btsh	1810 Capital Investments, S.L.	Director / Representative	Asset purchase	4,635
Jorge Pepa Francis Btsh	Global Hespérides, S.L.	Joint and severally administrator	Asset purchase	2,405

Remarks

**D.4 Report any significant transactions carried out by the Company with other group entities, wherever such transactions are not eliminated in the consolidation of the financial statements and do not form part of the company's ordinary business given their nature and terms.**

You should in any event mention any intergroup transactions carried out with entities registered in countries or territories listed as tax havens.

Group entity's name	Brief description of the transaction	Amount (thousands of euros)

Remarks

**D.5 List any significant transactions carried out by the company or any of its group entities with any other related parties, where such transactions are not reported above.**

**Related entity's name: Banco Santander**

Amount (thousands of euros): 101

Brief description of the transaction: Financial intermediation services.

Amount (thousands of euros): 953

Brief description of the transaction: Finance costs.

Amount (thousands of euros): 34,510

Brief description of the transaction: Balance payable / Liabilities. Financial debt on the financing of development activities at 31.12.2018.

Amount (thousands of euros): 41,337

Brief description of the transaction: Balance Receivable / Assets. Net cash held at the bank by the company.

**Related entity's name: Banco Popular (Santander Group)**

Amount (thousands of euros): 219

Brief description of the transaction: Finance costs

Amount (thousands of euros): 11,250

Brief description of the transaction: Balance payable / Liabilities. Financial debt on the financing of development activities at 31.12.2018

Amount (thousands of euros): 45

Brief description of the transaction: Balance Receivable / Assets. Net cash held at the bank by the company

**Related entity's name: BDO Auditores, S.L.P.**

Amount (thousands of euros): 13

Brief description of the transaction: Cost of professional data protection services provided

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

The mechanisms established to detect, determine and resolve possible conflicts of interests are set out in the Conflicts of Interest and Related Parties policy approved by the Board and published on the Company's website.

In addition to this policy and the provisions established therein, the company has implemented an internal controls structure in this regard, which is based on the following elements providing reasonable assurance for the companies control bodies:

- Reporting channel for related-party transactions and other operations likely to generate conflicts of interest
- Recording and analysis of transactions
- Compliance, acceptance and notification letter in relation to any transactions or conflicts of interest involving directors, senior managers and other executives in view of their functions and duties
- Periodic reviews and analysis of related-party transactions by the Internal Audit Department
- Report on related-party transactions and conflicts of interest brought to the attention of and examined by Internal Audit. This report is prepared for submission to the Audit and Control Committee

**D.7 Is more than one group company listed on the stock exchange in Spain?**

Yes

No

Identify any affiliates listed in Spain and state their relationship with the company.

<b>Identification of and relationship with other listed group companies</b>

State whether the respective areas of business and possible relations between group companies are publicly defined in detail, and indicate the nature of the listed affiliate's business and relations with other group companies.

Yes

No

<b>Define the business relationship between the parent company and its listed affiliate, and between the latter and other group companies</b>

State the mechanisms established to resolve potential conflicts of interests between the listed affiliate and other group companies.

<b>Mechanisms to resolve potential conflicts of interests</b>



## E. RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Explain the scope of the company's Risk Management System, including tax risks.

Neinor Homes has defined an integrated control system (ICS), implemented throughout the organization, which associates risks with strategic objectives, processes and control activities and identifies the officers responsible for carrying out and supervising controls, as well as the evidence supporting the system.

Continuous monitoring of this system ensures attention to day-to-day operations and contingencies, facilitating the management of all areas of risk that could affect the successful attainment of the Company's objectives (e.g. business, financial, tax and regulatory risks). In short, the Neinor Homes model seamlessly integrates all regulatory compliance environments with the entire business risk control structure to provide an all-round view that fosters synergies and eliminates duplication.

The main ICS inputs are as follows:

- Compliance risks controls: Internal control of financial information, money-laundering, data protection, prevention of criminal liability, conflict of interest, fraud and corruption, etc.
- Corporate risks and controls: External factors, competitive environment, cyber security, persons, etc.
- Business risks and controls (value chain): Land purchases, product, contracting, and commercial and sales management among other matters

Neinor Homes uses an *Enterprise Risk Management* methodology (also known as COSO II), which adds value by ensuring the identification, management and monitoring of business risks.

In the area of tax risk, Neinor Homes has adopted the necessary control mechanisms to ensure compliance with tax legislation in the context of effective business management. The company dedicates appropriate, sufficiently qualified human and material resources for these purposes.

### E.2 Identify the corporate bodies responsible for the preparation and implementation of the risk control and management system, including control and management of tax risks.

In accordance with Article 5.6 of the Board's Regulations, approval of the risk control and management policy falls within the Board's remit, including the management of tax risks and periodic monitoring of internal information and control systems.

The Board delegates these functions to the Audit and Control Committee (ACC), and in accordance with Article 9.7 of the Audit and Control Committee Regulation, therefore, the ACC has the following risk management functions:

- To identify and assess the different types of risk (operational, technological, financial, legal, corporate, environmental, political, tax and reputational risk, among others) to which the Company is exposed, including contingent liabilities and other off-balance sheet risks among financial and business risks.
- To establish the levels of risk considered acceptable by the Company.
- To identify the measures in place to mitigate the impact of the risks identified in the event of materialization.
- To identify the information and internal control systems used to control and manage risks, including contingent liabilities and off-balance sheet risks.

Initial responsibility for the supervision of the Integrated Risk Control and Management System in Neinor Homes lies with each business area involved, and the periodic reviews conducted by the Compliance Department and the Internal Audit Department constitute additional second and third lines of defence, while ultimate validation of the system is the responsibility of the Audit and Control Committee and the Board of Directors.

In the tax area, in particular, the Company's tax officer reports annually to the Board of Directors, either directly or via the audit committee, on the tax policies applied.

### E.3 State the principal risks, including tax risks and corruption risks (within the meaning of Spanish Royal Decree Law 18/2017), where material, which could affect the successful attainment of business objectives.

Neinor Homes classifies the various risks to which it is exposed in 9 general categories:

- Macroeconomic developments: Risks related with the real estate sector and the business cycle. There is a close correlation between our industry and the economic cycle. Business/financial structure misaligned with changes in the cycle / diversification of activities between Servicing /

Ownership / Leasing.

- Competitive environment: Risks associated with the competitiveness of different players in the real estate industry. Intensification of competition. Uneven competition.
- Government impact on the sector. New tax and regulatory policies in the sector, land policy, procedures and processing times for the grant of new licences.
- Operational model: Risks affecting the functioning of internal and external processes, and the business structure. Misalignment with the industrial model. Failure to keep up with the transformation and digitization of the industry.
- Commitments with third parties: Risks associated with the management of capital markets and meeting the expectations of customers and/or shareholders, and risks related with third parties (suppliers, construction firms and marketing firms).
- Excessive links to the financial sector.
- Asset values.
- Governance and compliance: Risks related with alignment with applicable laws and regulations, ethical practices and conduct, etc.
- People: Risks associated principally with training and talent retention / attraction mechanisms.

The Integrated Control System (ICS) implemented is a dynamic tool, and as such it is intended to provide up-to-date, continuous information on the possible risks to which the Company may be exposed. Neinor Homes periodically compiles data on development / events that could potentially pose a risk from the various risk detections sources defined in order to facilitate analysis and continuous monitoring, to take any remedial measures required, and, where appropriate, to include any appropriate control / mitigation measures, and to analyse the effectiveness and value of the measures already in place in the ICS.

#### **E.4 State whether the entity applies risk tolerance levels, including in relation to tax risks.**

Risk tolerance levels are defined in the risk assessment scale utilized by Neinor Homes to evaluate the potential risks to which it is exposed. This scale includes a classification of the risks which the company is willing to assume or prefers to decline, situating the same on a Risk Map.

These assessment scales consider both the financial and reputational impacts which the materialization of the risks evaluated could entail.

In addition, the final risk evaluation made applying the assessment scales addresses the likelihood of materialization in view of both historic data and future estimates.

Risks are evaluated both at the inherent level and at the residual level, i.e. after the application of the control measures established in each case. This procedure ensures effective prioritization of all risk events.

The final risk classification includes both qualitative elements and elements that could affect the attainment of the company's strategic goals or interfere with its mission, vision and values.

The analyses made are contrasted with the opinions of third parties interested in the company and against internal sources.

In the tax area, Neinor Homes ensures strict compliance with tax legislation in the different territories where the group operates, settling the taxes due in accordance with the law based on a reasonable interpretation of prevailing rules, notwithstanding the possibility of legitimate disputes arising with the tax authorities in relation to the interpretation of the applicable tax legislation, despite the application of a best tax practice policy.

The Audit and Control Committee is responsible for reviewing these variables each year in order to update and approve the appropriate tax practices.

#### **E.5 State any risks, including tax risks, which have materialized during the year.**

Certain risks inherent in Neinor Homes' real estate business materialized in 2018, although they had no material impact on the operations and functioning of the company.

Specifically, the current situation of political uncertainty in Catalonia continued to affect the pace of sales in this part of Spain, although the impact did not significantly affect the overall performance of Neinor Homes because of the large number of pre-sales made in the region and the company's territorial diversification.

Certain incidents involving financial claims made by suppliers / construction firms were also observed, which arose as a result of rising production costs, as well as other incidents occurring in the property development business in relation to the management of customer expectations, resulting in occasional product-related

complaints about the materials used and finishes, and complaints about delivery deadlines.

The company manages these incidents reasonably based on the contracts signed with interested parties, continuous monitoring of in-house and outsourced construction and other work, contingency planning and responses, aftersales protocols and procedures, requests for guarantees and the application of withholdings.

In this regard, delays in the waiting times involved basically in the administrative processes and procedures undertaken to obtain the approval of new works licenses, construction licenses and habitation licenses have in some cases impacted relations with suppliers and customers due to the knock-on effects on production deadlines and the delivery of finished homes.

Meanwhile, tax inspections were opened in 2017 (1 June 2017) against the group companies NEINOR SUR (Value Added Tax, 2014-2016; Corporate Income Tax, 2012-2015) and NEINOR PENÍNSULA (Value Added Tax, 2015-2016; Corporate Income Tax, 2015).

The Spanish tax authorities recently (8 January 2019) completed their inspection and investigation procedures with respect to the aforementioned companies and taxes, issuing the following final additional tax assessments:

- No contingent tax liabilities were detected in NEINOR SUR which might represent a risk for the company
- NEINOR PENÍNSULA:
  - Formerly contingent Corporate Income Tax liabilities (Year ended 30 June 2015) materialized as a consequence of timing differences, and fines were imposed. In the opinion of the company and its tax advisers, however, the liabilities of these sanctions exceeded only a remote associated risk for the company inspected, given the nature of the discrepancy, and it is therefore unlikely that they will be confirmed by the courts.
  - Also, certain formally contingent Value Added Tax liabilities (2015) were detected and it is considered probable that the resulting tax liabilities will finally be confirmed by the courts, in view of which the company has proceeded to make provision for the whole of this risk.

For further information, see section 20.2 of the Consolidated Annual Accounts Notes.

#### **E.6 Explain the response and oversight plans for the entity's principal risks, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to any new challenges arising.**

When it updated the Corporate Risk Map, the company defined not only the risks and risk events affecting its business objectives and regulatory compliance by Neinor Homes, but also the necessary control measures to mitigate such risk events.

The officers responsible for execution and supervision were identified for each of the controls established, and the supporting evidence required to show due implementation was defined.

In this regard, the functions envisaged in the Annual Activity Plans of both the Compliance Department and the Internal Audit Department include periodic reviews of control activities to ensure their effectiveness and, where any control weaknesses may be observed, to make recommendations and propose relevant action plans.

Such periodic reviews of control activities are a fundamental part of the companies entire control structure, which integrates the different compliance systems implemented since the company was founded in May 2015, such as the FIICS and the criminal liability prevention, money laundering and terrorism finance prevention, data protection, related-party transactions and conflicts of interest, and fraud and corruption prevention systems, etc.

In order to effectively and efficiently integrate all of the compliance systems, the same uniform, standard implementation process was applied in every case, the key steps of which comprised analysis of external and internal expectations and risk appetite, analysis of domestic and international best practice policies and regulations, risk analyses, drafting of policies, analysis of the existing internal control structure, implementation and, where appropriate, design of additional controls / improvement measures, identification of the governance system (implementation / supervision / reporting), training and communication to the organization.

In addition, the Audit and Control Committee is provided with periodic reports for supervisory purposes on risk management developments in the company, the status of critical risks, monitoring and the progress of the response plans agreed.

With regard to tax risks, Neinor Homes has implemented control mechanisms to ensure due compliance with tax legislation and a continued commitment to the application of best text practices, including in particular:

- Approval of tax criteria in line with the companies tax policy and its commitment to the application of best tax practices. These criteria are reviewed and validated each year by the officer responsible for tax matters.
- Ongoing supervision and control of effective implementation of the criteria established. This supervision is carried out both internally by the department responsible for tax matters and externally by an independent tax expert.
- The officer responsible for tax matters periodically reports to the Board of Directors on the results obtained from the application of tax risk control mechanisms.



## F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE PREPARATION AND ISSUE OF FINANCIAL INFORMATION (FIICS)

Describe the mechanisms making out the risk control and management systems relating to the preparation and issue of financial information by the company (FIICS).

### F.1 Entity's control environment

Explain at least the following, describing key characteristics:

#### F.1.1. What bodies and/or departments are responsible for (i) the existence and application of an adequate and effective FIICS, (ii) implementation, and (iii) supervision.

Article 5.4 of the Board's Regulations establishes the powers of the Board of Directors in this area, and subparagraph xxi specifically mentions its "ultimate responsibility for the existence and application of an adequate and effective Financial information internal control system (FIICS)".

Implementation of the FIICS is a matter for all of the business areas defined in Neinor Homes, insofar as they are responsible for the application in practice of control mechanisms and measures to ensure the reliability of the company's financial information.

In its work of supervising the appropriate implementation and application of the system, the Board receives the support of the Audit and Control Committee (ACC), which is assigned the following tasks in accordance with Article 9.3 of the Audit and Control Committee Regulation:

- To assess the suitability and effectiveness of internal financial controls and internal risk control and management systems, including oversight of the Financial information internal control systems (FIICS) to ensure that the main risks are duly identified, managed, assessed and reported.
- To provide assurance that these systems appropriately mitigate risks in the context of the policy established by the Board of Directors, where appropriate.

#### F.1.2 Whether the following exist, especially in relation to the preparation of financial information:

- **Departments and or mechanisms for (i) the design and review of the organizational structure, (ii) the definition of lines of responsibility and authority, including appropriate distribution of tasks and duties, and (iii) the existence of sufficient procedures and awareness of the same throughout the company.**

Neinor Homes' Board of Directors competences include defining the structure of the company, and it therefore has maximum responsibility for assigning duties related with the preparation and supervision of financial information and ensuring that each of the departments involved is duly apprised of its functions.

The General Finance Department (GFD) has primary responsibility for preparing the financial information, although all departments of the company are required to foster transparency and ensure the accuracy of the information they handle and supply to the market.

- **Code of conduct, approval body, diffusion and training, principles and values included (stating any specific mentions of transaction recognition and the preparation of financial information), and body responsible for analysing non-compliance and proposing corrective actions and sanctions.**

Neinor Homes Code of Ethics was approved by the Board of Directors on 14 May 2015, and it has since been updated on several occasions, the last time on 10 March 2017. The company's Ethics Code is the main pillar of its culture, and it provides the main guide for the activity of Neinor Homes, establishing a catalogue of ethical principles, values and rules of conduct that should effectively direct the activity of all group companies and of the

people forming part of the company. This document is distributed to all employees on a periodic basis and upon the induction of new employees into the company for their information. Employees are required to return a signed copy signalling their acceptance.

In addition, the company arranges training in ethics and compliance matters for all employees.

Specifically, annex 4 of the Ethics Code explains that “persons responsible for entering data in the different physical and digital ledgers utilized by the company in the process of preparing its financial information must assure the reliability, integrity, accuracy and currency of such data” in order to ensure that the financial information reported reflects a true and fair image of the company’s equity, financial position and results of operations.

Both the Ethics Code and the Code of Conduct for third parties, and many of the company’s Compliance Policies, Manuals and best practices, compliance with which is mandatory for all employees, are published on the company’s website (Shareholders and Investors / Corporate Governance and Sustainability / Codes and Policies). The company’s principles and values are set out in its Ethics Code and in the published document titled “Mission, Vision and Values”.

Meanwhile, “the overall effectiveness of the FIICS is subject to annual assessment by the Internal Audit Department”.

One of the principles governing Neinor Homes’ operations according to the Ethics Code is transparency, and the company therefore establishes that “it will supply the authorities, its shareholders, the markets in which it operates and its customers with accurate, transparent information on financial and accounting matters prepared in accordance with prevailing legislation”.

The body responsible for examining cases of non-compliance with the ethics code and proposing corrective action and sanctions is the company’s Monitoring and Control Committee, which is formed by the heads of the Legal, Human Resources, Compliance and Internal Audit departments.

- **Whistleblowers channel to allow reporting of financial and accounting irregularities to the audit committee, as well as possible cases of non-compliance with the code of conduct and irregular activities within the organization, stating, where applicable, whether this channel is confidential.**

Neinor Homes has established an Ethics Channel to facilitate reporting (either by post or by email) of irregular or inappropriate conduct related with the accounts, control, risks and financial information, as well as other matters considered relevant in relation to the integrity, conduct and transparency of transactions arising in the course of the company’s internal and external functioning.

Neinor Homes has published its Whistleblower Management Procedure, which regulates the functioning of the Ethics Channel, on its website.

Only reports identifying the whistleblower are formally accepted, although total confidentiality and anonymity of the person providing the information is guaranteed, and the system also permits reports to be filed without identifying the whistleblower. Whistleblowers’ reports are received by the Compliance Department and the Internal Audit Department, and their analysis is a priority for the company. Where appropriate, the matters concerned may be submitted to the Monitoring and Control Department for a decision. Neinor Homes handled 20 complaints formally treated as whistleblower matters by the Compliance Department in 2018. All of these matters were resolved within an average period of 5 business days, in compliance with the deadline established in the Neinor Homes Complaints Management Procedure.

In addition to the external and internal Ethics Channel, the company has implemented a confidential internal channel for the communication of inefficiencies, non-compliance with procedures, malpractice and inappropriate conduct on the part of employees. Access to this channel is restricted to the Head of Internal Audit and to the Quality officer.

- **Periodic training and refresher programmes for employees involved in the preparation and review of financial information, and in FIICS assessments. These courses, or at least accounting rules, auditing, internal control and risk management.**

When the Internal Audit Department was set up it organized an FIICS training course covering matters concerned in the preparation and review of financial information.

Meanwhile, the Internal Audit Department and the external Auditor gave a course to the accounts department when the company was listed on the stock exchange last year, dealing with the obligations of listed companies in relation to the financial information reported to the market and corporate good governance.

In addition, the staff involved in preparing and reviewing the financial information receive periodic training and refresher courses on accounting rules, internal control, risk management and regulatory compliance.

The subjects dealt with in these training courses in 2018 were as follows:

- Updates and changes in International Financial Reporting Standards (IFRS)
- Corporate Governance
- New Audit Report
- Business Risk Management components and principles, COSO 2017
- Key issues related with CNMV Technical Guideline 3/2017 on Audit Committees in public companies
- Innovations in the new data protection regulations

The employees receiving this training belonged to be accounting (consolidation and servicing), management control and legal departments.

In addition, the entire staff of the company received training in cybersecurity, information security control, ethics, money laundering prevention and data protection in 2018.

Finally, refresher courses in accounting matters have been scheduled together with courses in financial analysis and the financial statements for all members of the accounts department in the first quarter of 2019.

## F.2 Assessment of financial reporting risks

Report at least the following:

### F.2.1. Principal features of the risk identification process, including error and fraud, with regard to:

- **Existence and Documentation of the process.**

Neinor Homes has a procedure in place to established the scope of the processes to be included in the FIICS and to identify the relevant business cycles.

The company has also defined a matrix of controls associated with potential risks and accounting or administrative processes in each procedure included in the FIICS. This matrix is reviewed annually. The officers responsible for execution and supervision, associated policies / procedures in place and the audit evidence required have been established for each control.

The company has established a risk management methodology, which is applied in the process of design and implementation of all internal control and regulatory compliance structures. In this regard, we may highlight the following:

- Consideration of internal and external information for the identification of risks
- Consideration of assessment scales for the evaluation of risks
- Risk prioritization interviews and workshops
- Consideration of financial and reputational impacts in relation to the classification of risks
- Consideration of past, present and future probabilities in the analysis of risk materialization

All of the company's compliance environments, including the FIICS, form part of an integrated internal control and ongoing risk management system. The principal characteristics of this system are as follows:

- Identification of the corporate / strategic risk, strategic objectives, procedures, controls and evidence associated with each risk event, which are included in a controlled schedule to avoid duplication between the controls and risks defined for each regulatory compliance and operational environment.
- Implementation of processes and procedures allowing ongoing identification of the risks materializing and their consideration in the redesign and improvements of the internal control system, as well as the pertinent corrective actions.

- Monitoring and ongoing reporting to the company's Audit and Control Committee on the system's functioning and the risks materializing.

Section E above explains the company's Risk Control and Management Systems in more detail.

- **Whether the process covers all financial reporting objectives (existence and occurrence, integrity, measurement, presentation, details and comparability, and claims and obligations), and the frequency with which procedures are updated.**

The process defined and Neinor Homes covers all financial reporting objectives:

- Existence and occurrence: The transactions, events and other matters reflected in the information actually exist and are recognized at the appropriate time.
- Integrity: The information reflects all transactions, events and other matters to which the entity is party or which affect the same.
- Measurement: Transactions, events and other matters are recognized and measured in accordance with applicable accounting rules.
- Details, presentations and disclosure: Transactions, events and other matters are classified, presented and disclosed in the information in accordance with applicable rules.
- Claims and obligations: The information reflects claims and obligations through the appropriate asset and liability captions in accordance with applicable accounting rules.

These objectives are reviewed and updated when significant changes arise in the company's operations resulting in impacts on the financial information reported.

- **Existence of a process to establish the scope of consolidation, taking into consideration, inter alia, the possible existence of complex corporate structures, instrumental entities and special purpose vehicles.**

Determination of the scope of consolidation and details of corporate shareholdings, as well as corporate transactions affecting share capital or reserves are reported by the Legal Department to the General Finance Department (GFD) as soon as they take place, and all deeds and other documentation supporting such transactions are provided.

In this way, the company ensures that its equity situation is kept up to date, and the GFD proceeds to consolidate the new companies in the financial statements and to recognize the transactions concerned on an appropriate basis.

The structure of Neinor Homes' consolidated group does not include any complex corporate structures that could give rise to any interpretations or value judgments such as might affect comprehension of the financial statements. All corporate transactions and operations which could result in changes to the scope of consolidation were discussed with our external auditors to ensure appropriate recognition in the Annual Accounts.

- **Whether the process takes into consideration the effects of other types of risks (operational, technological, financial, legal, tax, reputational and environmental risks, etc.) insofar as they might affect the financial statements.**

The FIICS is one of the components of Neinor Homes integrated control system (ICS). As mentioned in section E.1 above, the system also takes into account the principal risks associated with regulatory compliance, such as the risk of fraud and corruption, money-laundering, data protection, etc., as well as corporate risks and those proper to the operations and business of the company (e.g. acquisitions of land, products, sales and purchases).

For a detail of the risks identified at the corporate level, see section E.3.

- **Which of the entity's governance bodies supervises the process?**

As mentioned in section F.1.1, the Board of Directors is the ability responsible for supervising the FIICS via the Audit and Control Committee (ACC) in order to ensure that the principal risks are adequately identified, managed, measured and reported. In order to perform this function, ACC relies on the support of the company's Internal Audit Department.

### F.3 Control activities

Explain at least the following, describing key characteristics:

#### **F.3.1. Procedures involved in the review and authorization of the financial information to be published in the stock market and description of the FIICS, indicating the officers responsible, and of the documentation describing workflows and controls (including controls relating to the risk of fraud) involved in the different types of transactions which could materially affect the financial statements, including the procedures applied in the accounting close and in specific reviews of the use of relevant judgements, estimates, valuations and projections.**

In accordance with Article 14.5.iii of the Board's Regulations, responsibility for supervising the preparation and presentation of regulated financial information is delegated to the ACC in order to safeguard its integrity. The Committee relies on the support of the General Finance Department and the Internal Audit Department to discharge this function.

The review and authorization procedure for financial information consists initially of double verification by the Accounts Unit and Accounts Department, followed by a review carried out by the company's Management Control Unit and final verification by the Finance Department.

Financial results are reported to the Audit and Control Committee each month.

Before the approval of quarterly financial information by the Board of Directors and its subsequent publication, the Audit and Control Committee meets each quarter to review and authorize said financial information. This information is provided sufficiently in advance to allow a reasonable margin for analysis.

The Internal Audit Department reviews the efficiency and effectiveness of the FIICS on an annual basis, reporting its findings to the Audit and Control Committee.

At the close of the year, the company had 254 procedures / policies and manuals, non-compliance with which could have a direct or indirect impact on the financial statements. The General Finance Department is responsible for 29 such procedures, covering the Department's principal functions such as accounting, the financial information control system, guarantees, financial debt, payments and collections, receipt of invoices, dividends, bank reconciliations and cash flow, among others.

In the area of closing procedures, Neinor Homes has established a schedule sitting out key milestones and dates to be met in each monthly accounting close. In this regard, the Accounts Department closes out accounting periods sequentially by working group in line with the schedule dates in order to avoid errors in the accounting information. Meanwhile, the management system used does not allow the members of the working groups to make accounting entries where they were themselves responsible for closing the accounting period concerned. Each person responsible for making accounting entries verifies that the closing checklist has been properly followed.

Also, specific individual control measures exist to ensure supervision of the calculations made in relation to estimates and provisions (e.g. provisions for bonuses and accrued salaries payable, for legal contingencies and for tax contingencies). The financial information collected independently by the different departments and units involved is then subjected to an overall review, in which it is validated by the Management Control Department before being passed onto the Accounts Department. An analytic review is also carried out by the Strategic Financial Planning Department and by the Internal Audit Department.

#### **F.3.2. Internal control policies and procedures relating to the information systems supporting relevant corporate processes involved in the preparation and publication of financial information (e.g. access security, change tracking, system operation, operational continuity and segregation of functions).**

Most of Neinor Homes' business activities are supported by information systems, which provide

the basic support for its internal operations, services management and marketing operations. The information handled by the different systems and applications, as well as the communications infrastructure, represent the principal asset used in the normal conduct of business operations, together with the company's people.

In this connection, the company has prepared a Security Policy, which covers the organizational structure, human and technical resources, processes, plans, procedures and protocols related with prevention and response measures to combat relevant physical, logical, compliance and good governance risks.

Security requirements and objectives are determined by the Information Security Committee based on the criteria established in Neinor Homes' policies and the needs detected by the officers responsible for information assets and for business processes. Their scope takes in all activities related with physical and information security, focusing especially on logical security. These requirements and objectives are applicable not only to the Organization's own Security activities and services directly, but also to third-party providers, who follow the guidelines and instructions provided from the standpoint of an advanced, all-round and integrated approach.

The purpose of this policy is to ensure adequate protection of Neinor Homes' information assets within the scope defined by the Information Security Management System, applying the following security principles:

- Confidentiality: ensure that information can be accessed only by authorized persons. The procedures established relate to:
  - o Physical and logical access controls
  - o Information marking
  - o Supports management and Destruction
- Integrity: assure the accuracy and completeness of information and processing methods.
  - o Management of ERP patches and vulnerabilities
  - o Change management procedures (new developments, mobility applications, etc.)
  - o Security of development and support processes
- Availability: ensure that authorized users can access systems when they require information and associated assets. The scope of procedures yes associated with the availability guarantee comprises:
  - o Backup Plan
  - o Contingency Plan
  - o Business Continuity Plan
  - o Sundry Detection, Evaluation and Response procedures relating to disruptive incidents
- Privacy: ensure appropriate treatment of personal data

These basic principles must be protected and assured whatever the format of the information, whether electronic, printed, visual or verbal, regardless whether processing is carried on at Neinor Homes' facilities or elsewhere.

The company has established high levels of security for access, continuous training in cybersecurity, reviews of information sent, protocols for the use of mobile devices, daily security copies of servers, restriction of access to external devices, etc.

Neinor Homes has established authorization processes for the approval of the invoices and payments, which are parameterized in the IT tool utilized, allowing identification of the persons involved in each Department and determination of the segregation of functions.

Neinor Homes held ISO 27001 Information Security certification in 2018. This certification was recently renewed until 2021 in the month of December 2018.

### **F.3.3. Internal control policies and procedures relating to supervision of the management of activities subcontracted to third parties, as well as assessments, calculations and evaluations entrusted to independent experts, where the same could materially affect the financial statements.**

Neinor Homes has established a procedure for the selection, approval and assessment of providers / third parties (e.g. architects, construction firms, marketing firms, advisors and so on). This procedure allows an objective appraisal of external firms for the purposes of selection and contracting of those considered most suitable for the provision of services in accordance with the law and the company's own internal procedures (which include appropriate processing of financial information and the prohibition of disclosure without authorization, among other matters).



Neinor Homes understands that the scope of the internal control procedures applicable to third parties should include material providers, strategic providers having a potentially significant impact on financial information or at the reputational level, providers using confidential information or providing relevant professional services, as well as external auditors, independent asset appraisers and so forth, all of whom must be required to show their experience, independence and reputation in the market.

The reports issued by independent experts are reviewed by company personnel with relevant experience and technical expertise relating to the matters concerned.

The company has a Code of Conduct for third parties, which establishes the ethical standards that significant business partners are required to maintain when they provide services of any kind to Neinor Homes. These principles include compliance with legal and tax obligations, and the avoidance of any criminal offences, fraud or corruption. This Code is accepted and signed by all strategic parties with whom the company works.

#### F.4 Information and communication

Explain whether the entity has at least the following, describing key characteristics:

**F.4.1. A specific department responsible for defining accounting policies and keeping them up to date (accounting policy unit or department), and for the resolution of concerns or conflicts arising in relation to their interpretation, maintaining fluid communication with the organization's operational managers, as well as a current manual of accounting policies duly issued to all of the entity's business units.**

The General Finance Department (GFD) of Neinor Homes establishes the applicable accounting processes, policies and rules, and it is responsible for coordinating with the various departments involved in the preparation of financial information. Meanwhile, the GFD's Administration and Accounting Unit is responsible for defining accounting policies and resolving any concerns arising with respect to their interpretation.

In this regard, Neinor Homes has an Accounting Policy Manual prepared internally but checked by independent accounting experts. This Manual is periodically reviewed and defines the classification and measurement criteria applicable in the preparation of the financial statements.

The staff involved in the preparation and review of the financial information are kept constantly abreast of changes in accounting and tax rules by means of ongoing communication with the company's tax advisers, its external auditor and via the alerts and notifications received from leading audit firms and professional services providers.

The Audit and Control Committee is charged with supervising and reviewing the annual accounts in conformity with prevailing legislation and with generally accepted accounting principles.

Where the application sheet of regulations involves interpretation of a certain complexity, the company seeks the advice of its external auditor and other advisers, or of the regulatory authority.

**F.4.2. Mechanisms for the collection and preparation of applicable standard format financial information for use by all of the company's departments and by the group to support the financial statements and the explanatory notes thereto, as well as the FIICS information.**

The process concerned in the preparation of financial information is duly defined in Neinor Homes, including a description of all standardized activities involved in the accounting close and in the preparation of the financial statements, as well as the officers assigned to the preparation and review of the same.

A common IT tool (ERP) this is used to process the financial information reported by all of the group companies, which facilitates subsequent consolidation.

Furthermore, a single Chart of Accounts is used, which has been implemented for the preparation and management of accounting functions in all of the group companies.

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

Explain at least the following, describing key characteristics:

**F.5.1. Supervisory activities undertaken in relation to the FIICS by the audit committee, and whether the entity has internal audit unit whose competences include supporting said committee in its supervision of the internal control system including the FIICS. Also, explain the scope of the FIICS evaluation carried out in the year and the procedure by which the party responsible for such evaluation reports its findings, whether the entity has an action plan establishing eventual corrective measures, and the consideration given to the possible impact on the financial information.**

As explained in section F.1.1 above, the Board of Directors of Neinor Homes oversees the implementation and the application of the FIICS with the support of the Audit and Control Committee (ACC), which in turn delegates monitoring tasks to the Internal Audit Department.

The Internal Audit Department is thus an objective unit which is independent of all other departments, inasmuch as it reports directly to the Audit and Control Committee and indirectly but functionally to the Board of Directors.

The functions assigned to the Internal Audit Department include supervision of the functioning of the FIICS in order to assess the effectiveness of the internal control system and obtain reasonable assurance of the efficiency with which resources are used, the reliability of the financial information and compliance with applicable laws and regulations, and internal policies and procedures.

The internal audit department has carried out an evaluation of FIICS compliance as it does every year.

Each year the FIICS review addresses the design and efficacy of controls and the integrity of the evidence supporting said controls.

The following matters were verified in 2018:

- The integrity and accuracy of the information reported in section F of the ACGR
- Compliance in relation to the execution of certain controls for a sample of periods and group companies
- Alignment between the design of the controls included in the matrix and the risks which they are intended to mitigate or remove, in order to obtain reasonable assurance of the fulfilment of design purposes
- Integrity of the evidence supporting the controls

Based on the review procedures carried out in 2018, the company has made certain improvements to the FIICS in line with the recommendations expressed by the Internal Audit Department.

**F.5.2. Whether the entity has a discussion procedure allowing the auditor (in accordance with technical audit standards or NTA in the Spanish acronym), the internal audit department and other experts to communicate with senior management, the audit committee and the directors to report any significant internal control weaknesses observed in the course of their review procedures carried out in relation to the annual accounts and any other matters required of them. Also, report whether there is any action plan in place to correct or mitigate the weaknesses observed.**

Neinor Homes prepares a quarterly report for Senior Management and the Audit and Control Committee, in which the Internal Audit Department presents its analysis and follow-up on the internal control and risk management system implemented, as well as the key issues identified and the action plans drawn up.

This report also includes the findings from other mandatory regulatory compliance audits carried out in partnership with the Compliance Department (e.g. data protection, money laundering, etc.).

The external auditors also report their findings on the interim and annual financial statements, as well as any weaknesses observed during the audit.

The Internal Audit Department, the Compliance Department and the external auditor also hold



regular meetings with the ACC without the presence of senior management to discuss the functioning of control systems.

In addition to their presence at the committee meetings held in 2018, the external auditors also held two meetings with the ACC without the presence of senior management, and the internal audit department maintained an ongoing flow of communication with the audit committee, reporting on various issues such as demands received from supervisory bodies, the risks identified and the audit carried out, as well as analyses of new legislation and training imported.

Various protocols and policies are in place to deal with weaknesses and incidents of non-compliance related with ethical issues and fraud.

Finally, compliance is analysed and supervised in relation to conflicts of interest and related parties, as well as compliance with the Internal Code of Conduct established by the entity as a public company. These matters are periodically reported to the Audit and Control Committee for its information and approval, when applicable.

## **F.6 Other relevant information**

Not applicable

## **F.7 External auditor's report**

Report of Deloitte, S.L., see annex I.

### **F.7.1. Whether the FIICS information published in the markets was subjected to a review by the external auditor, in which case the entity should include the pertinent report in an annex. Otherwise, explain the reasons.**

With a view to assuring the greatest possible transparency in relation to the preparation of the financial statements presented to all stakeholders, Group Management has opted to subject the FIICS information contained in section F of the Annual Corporate Governance Report for 2018 to review by the external auditor. The auditor's Report on the information relating to the financial information internal control system (FIICS) of Neinor Homes, S.A. for the year ended 31 December 2018 is attached to this Annual Corporate Governance Report in an annex.

The external auditor's strategy since 2016 to focus the audit is based on reliance on controls, and information is therefore collected to establish how the entity addresses the risk of errors in relation to each of the significant business cycles (e.g. procurements, sales, stocks, etc.).

**G. IMPLEMENTATION OF CORPORATE GOVERNANCE RECOMMENDATIONS**

State the degree of implementation by the company with respect to the recommendations contained in the Code of Good Governance for listed companies.

Provide a detailed explanation of the reasons if any recommendation is not followed, or is only partially followed, so that the shareholders, investors and markets in general are provided with sufficient information to evaluate and assess the company's actions. General explanations will not be considered acceptable.

1. **The bylaws of listed companies should not limit the maximum number of votes which may be cast by a single shareholder, or contain any other restrictions which might hinder a takeover of the company by means of the acquisition of shares in the market.**

In compliance       Explain

2. **When the parent company and an affiliate are listed, both should publicly define the following with precision:**

a) **The respective areas of business and possible business relations between group companies, and the nature of the listed affiliate's business with other group companies.**

b) **The mechanisms you established to resolve any potential conflicts of interest that could arise.**

In compliance     Partially in compliance     Explain       Not applicable

3. **During the annual general meeting, the chairman of the Board of Directors should supplement the published annual corporate governance report with a sufficiently detailed verbal report to the shareholders on key corporate governance issues in the company, including in particular the following:**

a) **Changes occurring since the last annual general meeting.**

b) **The specific reasons why the company does not follow any of the Corporate Good Governance recommendations, and whether any alternative rules are applied to the matters in question.**

In compliance       Partially in compliance       Explain

4. **The company should define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors which fully respects insider trading rules and accords equal treatment to all shareholders who are in the same position.**

**The company should publish this policy on its website, including information regarding the ways in which it is put into practice and identifying interlocutors and the officers responsible for implementation.**

In compliance       Partially in compliance       Explain

5. **The Board of Directors should not seek the delegation from annual general meetings**

of powers to issue shares or convertible bonds where such issues exclude preferential subscription rights and exceed 20% of share capital at the time of delegation.

Where the board of directors approves any issue of shares or convertible securities involving the exclusion of preferential subscription rights, the company should immediately publish the reports on such exclusion required in accordance with prevailing companies legislation on its website.

In compliance       Partially in compliance       Explain

6. Listed companies preparing the reports mentioned below, whether on a mandatory or voluntary basis, should publish the same on their corporate website sufficiently in advance of the date of the annual general meeting, even where publication is not mandatory:
- a) Report on auditor independence
  - b) Reports on the functioning of the audit and appointments and Remunerations Committees
  - c) Audit committee report on related-party transactions
  - d) Report on the corporate social responsibility policy.

In compliance       Partially in compliance       Explain

7. The company should broadcast shareholders' general meetings live on its website.

In compliance       Explain

8. The audit committee should ensure as far as possible that the auditor's report on the financial statements presented by the board of directors for approval by the shareholders at their annual general meeting is free of scope limitations or qualifications, and that in exceptional cases where the auditor's report is qualified to ensure that both the chairman of the audit committee and the auditors themselves clearly explain to the shareholders the content and scope of any such scope limitations or qualifications;

In compliance       Partially in compliance       Explain

9. The company should publish the requirements and procedures required to establish ownership of shares, the right of attendance at shareholders' general meetings and arrange proxy votes on its website on a permanent basis.

Such requirements and procedures should be designed to foster attendance and the exercise of voting rights by shareholders, and they should be applied on a non-discriminatory basis.

In compliance       Partially in compliance       Explain

10. Where any shareholder may legitimately have exercised the right to make any addition to the agenda or to present new proposals for resolutions before the date of the annual general meeting, the company should:
- a) Immediately publish such additional agenda items and new proposals for resolutions.

- b) Publish the form of the attendance card, proxy voting form or remote voting form containing the necessary changes to allow voting on the new points on the agenda and alternative proposals, in accordance with the terms proposed by the board of directors.
- c) Submit all such agenda items or alternative proposals to a vote applying the same voting rules as in the case of proposals made by the board of directors, including in particular any assumptions or deductions with regard to the nature of votes.
- d) After the General Shareholders Meeting, the company should provide a breakdown of votes cast on any such additional agenda items or alternative proposals.

In compliance    Partially in compliance    Explain    Not applicable

11. If the company intends to pay any premiums for attendance at the annual general meeting, it should establish a general policy regarding such premiums in advance and apply said policy on a stable basis.

In compliance    Partially in compliance    Explain    Not applicable

12. The board of directors should perform its duties with unity of purpose and independence, according all shareholders the same treatment. It shall be guided at all times by the company's best interest, to be understood as establishing a profitable business that is sustainable in the long run, promoting business continuity and maximizing the company's value.

In pursuit of the corporate interest, the company should not only abide by applicable laws and regulations and act in good faith, ethically and with due respect for custom and generally accepted best practice, but also seek to reconcile said corporate interest with the legitimate interests of its employees, suppliers, customers and other stakeholders potentially affected by the conduct of affairs, and with the impact of the company's activities on the community as a whole and on the environment.

In compliance    Partially in compliance    Explain

13. The Board of Directors should be of an appropriate size to ensure effective functioning and participation, and in this light it is advisable that it should have between five and fifteen members.

In compliance    Explain

14. The board of directors should approve a policy for the selection of directors which:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or reelection of members are based on a prior analysis of the board's needs.
- c) Favours diversity of expertise, experience and gender.

The result of the prior analysis of the board's needs should be set out in a report of the appointments committee, which should be published on the occasion of the call to the general meeting at which the ratification, appointment or reelection of each board member is to be proposed to the shareholders.

The policy for the selection of board members should contribute to the objective of ensuring that at least 30% of the total directors are female by 2020.

The appointments committee should verify compliance with the policy for the selection of board members on an annual basis and should explain its findings in the annual corporate governance report.

In compliance       Partially in compliance       Explain

15. Proprietary and independent directors should represent an ample majority on the board of directors, and the number of executive directors should be the lowest possible taking into consideration the complexity of the corporate group and the percentage of shares in the company held by the executive directors.

In compliance       Partially in compliance       Explain

16. The percentage of proprietary directors out of the total non-executive directors should not be greater than the proportion between the shares in the company represented by said proprietary directors and the rest of the share capital.

This criterion may be relaxed in the following circumstances:

- a) In companies with significant capitalization in which there are very shareholdings that would legally be defined as significant.
- b) In the case of companies where numerous unrelated shareholders are represented on the board of directors.

In compliance       Explain

17. Independent directors should make up at least half of the total number of directors.

Nevertheless, where a company is not a large capitalization concern, or if it is, where a single shareholder or several acting in concert control more than 30% of share capital, the number of independent board members should represent at least one third of the total board members.

In compliance       Explain

18. Companies should publish the following information about directors on their corporate websites, keeping said information up to date at all times:

- a) Professional and biographical profile.
- b) Other boards of which directors are members, whether or not in listed companies and any other remunerated activities undertaken, whatever their nature.
- c) Indication of the category of director to which each board member belongs, stating the shareholder represented or with whom a director has links in the case of proprietary directors.
- d) Date of first appointment as a director of the company, and dates of any subsequent reappointments.
- e) Shares and stock options held in the company.

In compliance       Partially in compliance       Explain

19. Subject to verification by the appointments committee, the annual corporate

governance report should explain the reasons for the appointment of proprietary board members at the request of shareholders holding equity interests of less than 3% of share capital. Likewise, the reasons for the refusal, where applicable, of any formal requests for seats on the board made by shareholders holding interests of equal size or greater than the interests owned by other shareholders at whose request proprietary board members were appointed.

In compliance     Partially in compliance     Explain     Not applicable

20. Proprietary directors should tender their resignation whenever the shareholder represented transfers its interest in share capital. An appropriate number of proprietary directors should also do so where the shareholder represented lowers its shareholding to a level requiring a reduction in the number of proprietary directors.

In compliance     Partially in compliance     Explain     Not applicable

There were two members of the board of directors classed as “other external directors” during the year concerned in this report. In the prior year, these directors held office as proprietary directors appointed by the former sole shareholder Neinor Holdings, S.L. (Lone Star). However, the shareholder left the company and these two directors resigned from their positions in said shareholder. In these circumstances, the Board of Directors was concerned to ensure the continuity of both as persons of value given the expertise they brought to the company and the fact that they had been involved with it since its inception. In this light, the appointments and Remunerations Committee resolved to keep them in office and reclassified them as other external directors at its meeting of 22 January 2018. It was because of this that these directors did not tender their resignations.

21. The Board of Directors should not propose the removal of any independent director before the end of the statutory term of office for which the same was appointed, except with good cause established by the board subject to a report of the appointments committee. In particular, good cause shall be deemed to exist where the director takes up any new office or contracts new obligations which would prevent him/her from dedicating the time necessary to discharge the functions proper to the office of director, or fails to discharge the duties inherent in his/her office, or is affected by any circumstances in view of which he/she might lose the condition of independence within the meaning of applicable legislation.

The removal of independent directors may also be proposed as a consequence of any public takeover bid, merger or similar corporate transactions which would entail a change in the company’s capital structure, where such changes in the make-up of the board of directors are obey the principle of proportionality mentioned in recommendation 16.

In compliance     Explain

22. Companies should establish rules obliging directors to report and, where applicable, to resign in any circumstances that could detrimentally affect the credit and reputation of the company, and requiring them to notify the board of directors of any criminal charges that may be brought against them and explain the progress of trial proceedings.

Where a director may be prosecuted, or where he/she may be brought to trial for any of the offences mentioned in corporate legislation, the Board of Directors should examine the case as soon as may be and should decide whether or not the director, in view of the specific circumstances. The board of directors should provide reasoned explanations of any such case in the annual corporate governance report.

In compliance     Partially in compliance     Explain

23. All directors should clearly express their objections when they consider that any

proposal submitted to the board for a decision is contrary to the corporate interest. In particular, the independent and other directors who are not affected by a potential conflict of interests should likewise object wherever they consider that any decisions might be detrimental to the interests of other shareholders not represented on the board of directors.

Where the board of directors adopts any significant decision in relation to which a director may have expressed serious reservations, or where it may repeat any such decision, the director concerned should consider their position and, if they opt to resign, they should explain their reasons in the letter mentioned in the next recommendation.

This recommendation also applies to the secretary to the board of directors, even where the same is not a director.

In compliance     Partially in compliance     Explain     Not applicable

24. Where a director resign from office or leave before the end of their mandate for any other reason, they should explain the reasons in a letter addressed to all members of the board of directors. Notwithstanding reporting of such resignation as a relevant event, the reasons for the director's resignation should be included in the annual corporate governance report.

In compliance     Partially in compliance     Explain     Not applicable

25. The appointments committee should ensure that non-executive directors have sufficient time available for the appropriate discharge of their duties.

The Board's Regulations should establish a maximum number of other companies' boards on which the directors may hold seats.

In compliance     Partially in compliance     Explain

26. The board of directors should meet as often as necessary to perform its functions effectively and at least eight times per year, following a schedule of dates and issues established at the start of the year. However, each director may also individually propose other initially unscheduled items for inclusion in the agenda.

In compliance     Partially in compliance     Explain

The Company's Board met five times in 2018, four times physically and once voting by letter, and it has proposed to increase its membership by an additional one or two directors next year to debate strategic issues and risks. The company considers that the number of meetings held was appropriate given its activity during the year.

27. Failure on the part of board members to attend meetings should be confined to unavoidable cases and non-attendance should be quantified in the annual corporate governance report. Proxies should be arranged with instructions in the event of inability to attend.

In compliance     Partially in compliance     Explain

28. Where the directors or the secretary express any concerns over a proposal, or in the case of directors, over the conduct of the company's affairs, and such concerns are not resolved at a meeting of the board of directors, the concerns raised shall be recorded in the minutes at the request of the party expressing the same.

In compliance     Partially in compliance     Explain     Not applicable

29. The company should establish appropriate channels to allow the directors to obtain the necessary advice to discharge their duties, including external advisory services

payable by the company where circumstances so require.

In compliance                       Partially in compliance                       Explain

30. Irrespective of the expertise required of directors for the discharge of their duties, companies should offer the directors training programmes to refresh their knowledge and skills, where circumstances so require.

In compliance                       Partially in compliance                       Explain

31. The agenda for board meetings should indicate clearly the points on which the board of directors is required to adopt a decision or resolution, so that the directors can examine or obtain the necessary information in advance.

Where the chairman may wish in exceptional circumstances and for reasons of urgency to propose decisions or resolutions which are not included in the agenda for approval by the board of directors, the express prior consent of the majority of the board members present shall be required and shall be recorded in the minutes.

In compliance                       Partially in compliance                       Explain

32. Board members should be periodically informed of changes in the shareholder structure and of the opinions of the company held by significant shareholders, investors and credit rating agencies.

In compliance                       Partially in compliance                       Explain

33. As the officer responsible for the effective functioning of the board of directors, the chairman shall exercise the functions attributed by law and the bylaws, and should prepare and submit to the board of directors a schedule of dates and an agenda, organize and coordinate periodic assessments of the board, and where appropriate, of the company's chief executive officer. The chairman should likewise direct the work and effective functioning of the board, ensuring that sufficient time is given over to the discussion of strategic issues, and agreeing and reviewing the programmes established to refresh the knowledge of each director where circumstances so require.

In compliance                       Partially in compliance                       Explain

34. Where there is a coordinating director, the bylaws or Board's Regulations should attribute the following functions to said officer in addition to the powers legally assigned to the same: to chair the board of directors in the absence of the chairman and deputy chairs, where applicable; to take note of the concerns voiced by non-executive directors; to maintain contacts with investors and shareholders in order to learn their points of view and form an opinion of their concerns, in particular with regard to corporate governance of the company; and to coordinate the plan for succession of the chairman.

In compliance                       Partially in compliance                       Explain                       Not applicable

35. The secretary to the board of directors should oversee the board's actions and decisions, ensuring that they are based on the good governance recommendations applicable to the company as set forth in the Code of Good Governance.

In compliance                       Explain

36. The board of directors shall meet once per year in full session to evaluate and, where appropriate, adopt an action plan to correct any weaknesses identified with respect to:



- a) The quality and effectiveness of the board's functioning.
- b) The functioning and membership of its committees.
- c) The diversity of the board's membership and competences.
- d) The performance of the chairman of the board of directors and of the company's chief executive.
- e) The performance and contribution of each director, focusing in particular upon the directors responsible for each of the Board committees.

Assessments of the different committees should be based upon the reports submitted by the same to the board of directors, while the evaluation of the board itself shall be based on the report submitted by the appointments committee.

Every three years, the board of directors should be assisted in its evaluation by an external consultant, whose independence should be verified by the appointments committee.

Business relations maintained by the company or any group company with the consultant or any company forming part of the consultant's group shall be duly disclosed in the annual corporate governance report.

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

In compliance                       Partially in compliance                       Explain

37. Where an executive committee exists, the membership structure of the different categories of director shall be similar to that of the board of directors, and its secretary shall be the secretary to the board.

In compliance                       Partially in compliance                       Explain                       Not applicable

38. The board of directors should at all times be apprised of the matters debated and decisions taken by the executive committee, and all directors should receive copies of the minutes to meetings of the executive committee.

In compliance                       Partially in compliance                       Explain                       Not applicable

39. The members of the audit committee, and in particular its chairman, should be appointed in view of their knowledge and expertise in accounting, audit and risk management matters, and the majority of the committee members should be independent directors.

In compliance                       Partially in compliance                       Explain

40. A unit should be set up under the supervision of the audit committee to perform the internal audit function and oversee the proper functioning of information and internal control systems. The internal audit unit should report functionally to the non-executive chairman of the board or to the audit committee.

In compliance                       Partially in compliance                       Explain

41. The head of the internal audit unit should submit an annual work plan to the audit committee and should report directly on any matters arising in the course of the procedures carried out, as well as presenting an annual report on activities at the end of each financial year.

In compliance     Partially in compliance     Explain     Not applicable

42. In addition to those established by law, the audit committee should perform the following functions:

1. In relation to information systems and internal control:

- a) To supervise the preparation and integrity of the company's, and where applicable the group's, financial information, reviewing compliance with regulatory requirements and ensuring the adequacy of the scope of consolidation defined and appropriate application of accounting criteria.
- b) To oversee the independence of the internal audit unit; propose the selection, appointment, reelection and removal of the head of the internal audit department; propose the unit's budget; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on activities; and ensure that senior management takes the findings and recommendations of internal audit reports into consideration.
- c) To establish and oversee a whistle-blowing mechanism allowing employees confidentially and, if possible and where deemed appropriate, anonymously to report any potentially material irregularities, especially of a financial or accounting nature, which they may observe in the company.

2. In relation to the external auditor:

- a) To examine the circumstances and reasons in the event the external auditor should resign.
- b) To ensure that the external auditor's fees for its work do not compromise quality or its independence.
- c) To oversee reporting by the company of any change of auditor to the CNMV, and to ensure that it is accompanied by a statement with regard to the possible existence of disagreements with the outgoing auditor, if any, and the contents thereof.
- d) To ensure that the external auditor holds an annual meeting with the whole of the board of directors to report on the audit work carried out and on the evolution of accounting matters and the risks to which the company is exposed.
- e) To ensure that the company and the external auditor respect prevailing regulations governing the provision of non-audit services, the limits on the concentration of the auditor's business and the terms of other regulations governing auditor independence in general.

In compliance     Partially in compliance     Explain

43. The audit committee should be able to call any employee or executive of the company, and even to require attendance without the presence of any other executive.

In compliance     Partially in compliance     Explain

44. The audit committee should be informed of all transactions involving structural or

corporate changes which the company plans to carry out. The committee shall examine such information and report in advance to the board of directors on the financial terms and accounting impact of such transactions, and in particular on the exchange ratio proposed, if any.

In compliance     Partially in compliance     Explain     Not applicable

45. The risk control and management policy should define at least:

- a) The different types of financial and non-financial risks to which the Company is exposed (e.g. operational, technological, legal, corporate, environmental, political and reputational risk), including contingent liabilities and other off-balance sheet risks among its financial and business exposures.
- b) The level of risk which the company considers acceptable.
- c) The measures established to mitigate the impact of the risks identified, in the event any should materialize.
- d) The information and internal control systems used to control and manage risks, including contingent liabilities and off-balance sheet risks.

In compliance     Partially in compliance     Explain

46. An internal control and risk management function headed up by an internal unit or department of the company should be set up under the direct supervision of the audit committee or, where appropriate, of a specialized board committee to take charge of the following functions:

- a) To ensure the proper functioning of risk control and management systems and, in particular, to ensure that the same adequately identify, manage and quantify all significant risks to which the company may be exposed.
- b) To participate actively in the preparation of the risk strategy and significant decisions with regard to risk management.
- c) To ensure that risk control and management systems adequately mitigate risks within the framework of the policy defined by the board of directors.

In compliance     Partially in compliance     Explain

47. The members of the appointments and Remunerations Committee (or of the appointments committee and remuneration committee where separate) should be appointed in view of their expertise, skills and experience with regard to the functions they are required to discharge, and the majority should be independent board members.

In compliance     Partially in compliance     Explain

48. Large capitalization companies should establish a separate appointments committee and remuneration committee.

In compliance     Explain     Not applicable

49. The appointments committee should consult with the chairman of the board and the company's chief executive officer, in particular on matters relating to executive board members.

Any director should be able to request that the appointments committee take potential candidates to cover vacancies in the board into consideration, where they understand the same to be suitable.

In compliance       Partially in compliance       Explain

**50. The remuneration committee should exercise its functions independently. In addition to those attributed by law, said functions shall comprise the following:**

- a) To propose the basic terms of senior management contracts to the board of directors.
- b) To verify compliance with the remuneration policy established by the company.
- c) Periodically to review the remuneration policy applied to directors and senior executives, including share-based remuneration systems and their application, if any, and to provide assurance that individual remuneration is proportionate and in line with the compensation paid to other directors and senior executives of the company.
- d) To ensure that potential conflicts of interest do not adversely affect the independence of external advice provided to the committee.
- e) To verify information on the remuneration of directors and senior executives contained in corporate documents, including the annual report on directors' remuneration.

In compliance       Partially in compliance       Explain

**51. The remuneration committee should consult with the chairman of the board and the company's chief executive, in particular on matters relating to executive directors and senior management personnel.**

In compliance       Partially in compliance       Explain

**52. The rules governing the membership and functioning of supervisory and control committees should be set out in the Board's Regulations and should be consistent with those applicable by law to mandatory committees in accordance with the foregoing recommendations, including:**

- a) Membership should comprise exclusively non-executive directors and a majority should be independent board members.
- b) Committee chairpersons should be independent directors.
- c) The board of directors should appoint the members of committees in view of the expertise, skills and experience of directors and the duties entrusted to each committee and should debate their proposals and reports. Each committee should likewise be held to account for its activity and work at the first full meeting of the board held after each of committee meeting.
- d) Committees should seek external advice where considered necessary for the due discharge of their functions.
- e) Minutes should be kept of each meeting and should be provided to all of the directors.

In compliance       Partially in compliance       Explain       Not applicable

**53. Compliance with the rules of corporate governance, internal codes of conduct and corporate social responsibility policy should be supervised by one or more board committees, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if any, or a specialized ad hoc committee set up by the board of directors in the exercise of its powers of self-organization and**

vested with at least the following minimum competences:

- a) To supervise compliance with internal codes of conduct and with the company's corporate governance rules.
- b) To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically to assess the adequacy of the company's corporate governance system to ensure that it fulfils its mission of furthering the corporate interest and takes the legitimate interests of all stakeholder groups into account as appropriate.
- d) To review the Company's corporate responsibility policy, ensuring that it is oriented to the creation of value;
- e) To monitor corporate social responsibility strategy and practices, and to assess the level of compliance.
- f) To supervise and evaluate processes relating to different stakeholder groups.
- g) To assess all matters connected with the non-financial risks to which the company is exposed, including operational, technological, legal, corporate, environmental, political and reputational risks.
- h) To coordinate procedures for reporting non-financial information and on matters of diversity in accordance with applicable legislation and the relevant international standards.

In compliance

Partially in compliance

Explain

54. The corporate social responsibility policy should include the principles and undertakings voluntarily assumed by the company in its relations with stakeholders and should determine at least:

- a) The objectives of the corporate social responsibility policy and the instruments developed to support the same.
- b) Corporate strategy in relation to sustainability, the environment and social issues.
- c) Specific practices in matters relating to: shareholders, employees, customers, suppliers, corporate issues, the environment, diversity, fiscal responsibility, human rights and the prevention of wrongdoing.
- d) The methods and monitoring systems applicable to the specific practices referred to in point c) above, the associated risks and their management.
- e) Supervisory mechanisms for non-financial risks, ethics and business conduct.
- f) Channels established for communication, participation and dialogue with stakeholders.
- g) Responsible communication practices to prevent the manipulation of information and safeguard personal integrity and character.

In compliance

Partially in compliance

Explain

55. The company should report on matters relating to corporate social responsibility in a separate document or in the management report, applying internationally accepted methodologies for this purpose.

In compliance

Partially in compliance

Explain

**56. Directors' remuneration should be set at the necessary levels to attract and retain directors with the desired profile, and to reward the dedication, qualifications and responsibility required by their office, but it should not be set so high as to compromise the independence of non-executive directors.**

In compliance       Explain

**57. Variable remuneration linked to the company's results and personal performance should be confined to the executive directors, as should remuneration systems based on the allocation of shares, options or rights over shares or other instruments linked to the share price, and long-term savings systems such as pension plans or retirement and other prudential schemes.**

Share-based remuneration may be considered for non-executive directors subject to the condition that any securities delivered by held until the director concerned leaves office. This condition shall not apply to any securities which the board member concerned may need to dispose of, where applicable, to settle acquisition costs.

In compliance       Partially in compliance       Explain

**58. In the case of variable pay, remuneration policies should establish the necessary limits and technical precautions to ensure that such rewards relate to the professional performance of beneficiaries and do not accrue merely as a result of the general evolution of the markets, the industry in which the company operates or other similar circumstances.**

**In particular, variable pay components should:**

- a) Be linked to predetermined, measurable performance criteria, and such criteria should take into account the risks assumed to obtain results.
- b) Promote the sustainability of the company and include non-financial criteria related to long-run value creation, as well as compliance with the company's internal rules and procedures, and with its risk control and management policies.
- c) Be structured on the basis of balance between the attainment of objectives in the short, medium and long term, so as to remunerate ongoing success and performance over a sufficient period of time to appreciate the contribution made to the sustainable creation of value and ensure that the performance variables measured do not refer only to one-off, occasional or extraordinary events.

In compliance    Partially in compliance    Explain    Not applicable

59. Payment of a relevant part of variable remuneration components should be deferred over a minimum timespan to allow verification that the performance conditions established have actually been fulfilled.

In compliance    Partially in compliance    Explain    Not applicable

60. Compensation that is tied to the company's earnings should take into account the qualifications, if any, contained in the external auditor's report where the same reduce earnings.

In compliance    Partially in compliance    Explain    Not applicable

61. A relevant percentage of the variable remuneration paid to executive directors should be linked to the delivery of shares or financial instruments indexed to the share price.

In compliance    Partially in compliance    Explain    Not applicable

62. Once shares, options or rights over shares have been assigned in remuneration systems, the board members shall not transfer ownership of a number shares equal to twice the amount of their fixed annual remuneration, nor shall they exercise any options or rights, until a period of at least three years has elapsed since the allocation was made.

**This condition shall not apply to any shares which the director concerned may need to dispose of, where applicable, to settle acquisition costs.**

In compliance    Partially in compliance    Explain    Not applicable

The Regulation governing the Long-Term Incentive Plan for 2017-2021 obliges the Executive Directors of the Company to hold the shares received (net of personal income tax paid on account) for a period of one year following delivery.

63. Contractual agreements with directors should include a clause allowing the company to claim reimbursement of variable remuneration items where payment was not in line with the performance conditions established, or where payment was made in view of data later found to be inaccurate.

In compliance    Partially in compliance    Explain    Not applicable

64. Severance payments made on the termination of contracts should not exceed two years' total annual remuneration, and they should not be made until the company has been able to verify that the director concerned fulfils the performance criteria established.

**In compliance**     Partially in compliance     **Explain**     Not applicable



**H. OTHER MATTERS OF INTEREST**

- 1. Briefly describe any other relevant corporate governance matters in the company or its group entities that are not considered in the preceding sections of this report and require inclusion to complete the reasoned information offered on the governance structure and practices of the entity and its group.**
- 2. You may also include in this section any other information, clarification or qualification related with the preceding sections of this report, to the extent that such explanations are not repetitious.**

Specifically, state whether the company is subject to any corporate governance legislation other than Spanish law and, where applicable, include any information that you are under the obligation to provide other than that required in this report.

- 3. The company may also state whether it has voluntarily adhered to any other international, industry or other ethical or best practice codes. Indicate the code in question and the date of adhesion, where applicable. In particular, you should mention whether the company has adhered to the Code of Best Tax Practice of 20 July 2010.**

## H.1

Neinor Homes is fully aware of its significance as a business, institutional and social reality and as a benchmark company in the area of residential development in Spain, and in this light it cannot ignore the importance of conducting its entire business with the maximum diligence in terms of Good Governance, ethics and transparency.

We consider it necessary to provide the following information to ensure a proper understanding of the company from a Good Governance standpoint, and of the efforts it has made to progress in this area.

Neinor Homes relies principally on its own proprietary Code of Conduct, which sets out the main mandatory guidelines and criteria governing the conduct of all Neinor Homes employees. This code is communicated to and acknowledged by all employees on an annual basis.

According to the previous paragraph, then, Neinor Homes' Corporate Governance rules are established in its Corporate Bylaws, in the Regulations of the Board of Directors and the General Shareholders Meeting, in the Regulations of all of the Board Committees, in the Internal Regulations Governing Conduct in the Securities Markets, all of which have been duly approved by the Board of Directors and have applied since the first day's trading of the company's shares on the Spanish Stock Exchanges.

In this connection, Neinor Homes has prepared a series of mandatory policies and regulations monitored by the integrated control system and designed to underpin and provide support in matters of Good Governance for the regulations of its Governing Bodies, some of which are published online in the corporate website:

- Code of Conduct for Third Parties
- Procedure for conflicts of interest and related-party transactions
- Code of Best Practice for Real Estate Intermediation
- Criminal corporate liability prevention system
- Director selection policy
- Tax Policy and Text Best Practices
- Compliance Unit Regulation
- Internal Audit Manual
- Policy for the provision of non-audit services by the external auditor
- Employment policy for former auditors
- Rules of functioning for the Shareholders' Digital Forum

We would also stress that the company's Board of Directors has given much thought since the day of its incorporation to its relations with all stakeholder groups in its role as a leader in the transformation that we are determined to effect in the real estate sector, eschewing a narrow focus on the shareholders and the financial community. We have implemented numerous initiatives and measures which we wish to see reflected in our way of doing business, and which we trust will benefit our human team, our suppliers, our customers, the environment, the regulatory authorities, the media and society in general, including:

1. **Continuous Internal Control and Risk Management System.** See section F
2. **Continuous Corporate Governance Advancement System,** resting basically on the following to pillars:
  - The company has created a continuous tracking and monitoring system to assess progress with its goal of continuous improvement in non-financial projects in the areas of environment, innovation, etc.
  - The company has implemented a Continuous Good Governance Management System to monitor good governance activities over the course of the year. For this purpose it has made an in-depth analysis of both Spanish and international regulations, establishing the obligatory activities that must be included in the agenda of the Board and of each Committee, and it prepares annual diagnoses of compliance with the recommendations of the CUBG, LSC, new Spanish Audit Act, and best international practices (King IV, Federal Sentencing Guidelines, etc.).
3. **White Book.** Neinor Homes has created the first residential sector White Book, consisting of a design and construction manual that seeks to standardize the quality, sustainability and design parameters defining all real estate developments. The White Book systematizes and details all of the processes required throughout the lifecycle of Neinor Homes' products so that both architects and builders are able to apply the relevant parameters to the high standards defined by the company.
4. **Certification BREEAM.** Certification procedures are in place at the majority of Neinor Homes' developments. BREEAM fosters sustainable construction offering economic, environmental and social benefits for all concerned over the life of a building (tenants, users, developers, owners, managers, etc.) and at the same time it clearly and straightforwardly displays the company's Corporate Social Responsibility commitment both to society in general and to the market.
5. **Certification of Neinor Homes' integrated management system.** The company holds the following certificates: Quality Management (ISO 9001), Environmental Management (ISO 14001), R&D Management (UNE 166002) and Information Security Management (ISO 27001). All of these certificates were obtained in prior years and have been renewed in 2018. Neinor Homes is the first new cycle real estate developer to obtain these four certificates.
6. **Preparation of the Corporate Social Responsibility report based on GRI standards,** publicly reflecting the resources applied and efforts made by the company in the field of corporate responsibility. The report includes a materiality analysis, which is highly valuable from a strategic standpoint because it focuses on those corporate, environmental and economic issues that are most relevant to the company's business and that most influence stakeholder value creation.

It also reveals the enormous opportunity offered by the transformation and consolidation of the real estate sector in terms of the generation of sustainable value for all interested parties. Our principal objective is to generate margins and returns in line with the development and risks assumed, building homes for people, establishing stable relations with our suppliers and increasing value for our employees.

7. **EFQM 300+ European Seal of Excellence.** Neinor Homes was awarded the EFQM 300+ European Seal of Excellence by the Management Excellence Club in December 2017. As a result, Neinor Homes became the first company in the industry in Spain to sign up to this business management and assessment system, a benchmark throughout Europe, strengthening its role as a driver of change in the real estate sector.

The EFQM System provides an integrated tool for objective, structural analysis of the company's operations in relation to the goal of excellence in all management processes involved in the business, and for the prioritization of initiatives. The system criteria are based on the results achieved in relation to customers, people, the company and the business.

The EFQM certificate forms part of Neinor Homes' ambition to become an excellent company in terms of business management. The changes we are driving in real estate development in Spain require maximum levels of excellence in quality processes and practices. We believe that submitting organizations to this kind of examination can only help improve results and foster sustainable growth. It is our hope that our adhesion to that EFQM system will prove an inspiration for other firms in the industry so that we can together make the final push to enter a new era of residential development.

During the Management Excellence Club certification process, Neinor Homes scored highest in the areas of alliance and resource management, for its commitment to industrialization and for its integrated compliance and risk management system.

That EFQM system is based on its Excellence Values, comprising eight essential steps to achieving sustained excellence over time:

1. Add value for customers by understanding and anticipating needs and opportunities
2. Create a sustainable future by improving economic, social and environmental conditions in the company's world
3. Develop the organization's capacity to become more effective
4. Leverage creativity and innovation

5. Lead with vision, inspiration and integrity
6. Address opportunities and threats swiftly
7. Seek success via the talent of people
8. Maintain outstanding results over time

Neinor Homes will submit our implementation of the EFQM an excellence system to external evaluation every two years, and we therefore already working to achieve continuous improvements in order to raise our levels of excellence.

We also wish to make clear that Neinor Homes is fully committed to sustainability and its impact on our society, and although it is not directly subject to the Law on non-financial and diversity reporting approved on 13 December 2018, the company fully complies with its provisions and publishes a sustainability report in line with old disclosure requirements contained in the new legislation. The integrity and accuracy of this report is further verified in a review carried out by an independent third party.

By way of an additional example of our commitment over and above the information provided in the sustainability report, we may mention that Neinor Homes arranged a 'green loan' with Bankia in December 2018 to finance the Amara Homes development in Las Rozas (Madrid), which has been awarded a BREEAM sustainability certificate resulting in an agreement for rebates in the price of the loans granted to home buyers.

Hence, the development loan arranged will be subrogated in the form of cheaper retail mortgages for customers purchasing the homes that will be built in this suburb of Madrid, who will receive a rebate of up to 20 basis points on the interest rate.

This agreement is a further reflection of Neinor Homes' commitment to sustainability and of our certainty that the future of housing development is bound up with this principle.

H.2

Neinor Homes adheres to the Code of Best Tax Practice promoted by the Spanish Large Companies Forum and Tax Service, which was first approved by the Board on 26 July 2017, and it is careful to comply with its provisions.

This annual corporate governance report was approved by the company's board of directors at its meeting held on 27 February 2019.

State whether any directors voted against the approval of this Report or abstained.

Yes

No

Names of directors who did not vote in favour of approving this report	Type of vote (against, abstention, absence)	Explain the reasons

**ANNEX I: AUDITOR'S REPORT ON "INFORMATION RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NEINOR HOMES S.A., FOR THE YEAR ENDED 31 DECEMBER 2018.**

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITOR'S REPORT ON "INFORMATION RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NEINOR HOMES, S.A., FOR THE YEAR ENDED 31 DECEMBER 2018

To the Directors of Neinor Homes, S.A.:

At the request of the Board of Neinor Homes, S.A. (hereinafter the Company), and in accordance with our proposal dated January 14, 2019, we applied certain procedures to the accompanying "ICFR related information" included in section F) of the Annual Corporate Governance Report for Neinor Homes, S.A., for the year ended 31 December 2018, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR related information included in section F) of the Annual Corporate Governance Report.

It is worth noting that apart from the quality of design and operability of the Company's internal control system as far as annual financial reporting is concerned, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Company's internal control system was to establish the scope, nature, and timing of the audit procedures performed on its financial statements. Therefore, our internal control assessment performed for the audit of the aforementioned financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the *Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies*, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit carried out in accordance with generally accepted accounting principles, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's financial data for the year ended 31 December 2018 described in the accompanying ICFR information included in section F) of the Annual Corporate Governance Report. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with the Spanish Audit Law, we do not express an audit opinion in the terms provided for therein.

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

The following procedures were applied:

1. Reading and understanding the information prepared by the Company in relation to the ICFR –as disclosed in the Directors' Report- and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICFR, in the model of Annual Corporate Governance Report, as established in Circular nº 5/2013 of the National Securities Market Commission dated June 12, 2013, which has been modified by Circular 7/2015 of the National Securities Market Commission dated 22 Decembes 2015 and the Circular 2/2018 of the National Securities Market Comission dated 12 June 2018 ("the Circulars of the NSMC").
2. Making enquiries of personnel in charge of preparing the information described in point 1 above in order to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions (iii) gather information regarding whether the described control procedures are implemented and functioning within the Company.
3. Review the explanatory documentation supporting the information described in section 1 above, which should basically include everything directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the Audit Committee.
4. Comparison of the information contained in section 1 above with the Company's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Reading the minutes of the Board Meetings, Audit Committee, and other committees of the Company, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICFR and the information described in section 1 above.
6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in section 1 above.

As a result of the procedures applied on the ICFR related information, no inconsistencies or incidents have come to our attention which might affect it.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and "the Circulars of the NMSC", for the purposes of describing the ICFR in Annual Corporate Governance Reports.

DELOITTE, S.L.



Alicia Izaga Goicoechea  
February 27, 2019