



## 2016 ANNUAL CORPORATE GOVERNANCE REPORT

*“Translation of original document issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails”*

## A OWNERSHIP STRUCTURE

### A.1 COMPLETE THE FOLLOWING TABLE ON THE COMPANY'S SHARE CAPITAL:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
06/08/2015	157,332,297.00	314,664,594	314,664,594

Indicate whether there are different classes of shares carrying different rights:

Yes	No
	X

### A.2 LIST THE DIRECT AND INDIRECT HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS IN THE COMPANY AT YEAR-END, EXCLUDING BOARD MEMBERS:

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. ALBERTO CORTINA ALCOCER	5,262	8,104,180	2.58%
MR. ALBERTO ALCOCER TORRA	0	8,048,929	2.56%
CORPORACIÓN FINANCIERA ALBA, S.A.	22,780,111	0	7.24%
IBEROSTAR HOTELES Y APARTAMENTOS, S.L.	17,643,657	10,000	5.61%
BLACKROCK	0	9,462,444	3.01%

Name or company name of the indirect shareholder	Held through: Name or company name of the direct shareholder	Number of voting rights
MR. ALBERTO CORTINA ALCOCER	PERCACER, S.L.	4,370,712
MR. ALBERTO CORTINA ALCOCER	CORPORACIÓN FINANCIERA ALCOR, S.L.	466,440
MR. ALBERTO CORTINA ALCOCER	IMVERNELIN PATRIMONIO, S.L.	3,267,028
MR. ALBERTO ALCOCER TORRA	COMERCIO Y FINANZAS, S.L.	4,315,461
MR. ALBERTO ALCOCER TORRA	CORPORACIÓN FINANCIERA ALCOR, S.L.	466,440
MR. ALBERTO ALCOCER TORRA	IMVERNELIN PATRIMONIO, S.L.	3,267,028
IBEROSTAR HOTELES Y APARTAMENTOS, S.L.	GLOYSA TRUST, B.V.	10,000
BLACKROCK	BLACKROCK, INC	9,462,444

Indicate the most significant changes in the shareholding structure occurring during the year:

Name or company name of the shareholder	Date of Transaction	Description of Transaction
ALBA PARTICIPACIONES, S.A.	16/11/2016	Shareholding has dropped below 10% of Capital
BLACKROCK	23/11/2016	Shareholding has exceeded 3% of Capital

**A.3 COMPLETE THE FOLLOWING TABLES ON THE MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS WHO HOLD VOTING RIGHTS THROUGH COMPANY SHARES:**

Name or company name of the Board Member	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	5,643	0	0.00%
EMILIO GARCÍA GALLEGO	10	0	0.00%
JOSÉ LUIS DEL VALLE PÉREZ	278,902	0	0.09%
CATALINA MIÑARRO BRUGAROLAS	0	0	0.00%
JOSÉ MARÍA LOIZAGA VIGURI	136,776	0	0.04%
PEDRO JOSÉ LÓPEZ JIMÉNEZ	0	524,145	0.17%
JAVIER ECHENIQUE LANDIRIBAR	32,278	0	0.01%
ANTONIO GARCÍA FERRER	100,572	0	0.03%
AGUSTÍN BATUECAS TORREGO	1,034,000	769,000	0.57%
FLORENTINO PÉREZ RODRÍGUEZ	0	39,397,625	12.52%
MIGUEL ROCA JUNYENT	41	0	0.00%
MANUEL DELGADO SOLÍS	0	0	0.00%
ANTONIO BOTELLA GARCÍA	0	0	0.00%
MARÍANO HERNÁNDEZ HERREROS	0	0	0.00%
JOSÉ ELADIO SECO DOMINGUEZ	0	0	0.00%
JOAN DAVID GRIMA TERRE	0	0	0.00%

Name or company name of the indirect shareholder	Held through: Name or company name of the direct shareholder	Number of voting rights
PEDRO JOSÉ LÓPEZ JIMÉNEZ	FAPIN MOBI, S.L.	524,145
AGUSTÍN BATUECAS TORREGO	CARCALO, S.L.	669,000
AGUSTÍN BATUECAS TORREGO	EL CAMPOSTUERO, S.L.	100,000
FLORENTINO PÉREZ RODRÍGUEZ	INVERSIONES VESAN, S.A.	39,397,625
<b>% of total voting rights held by the Board of Directors</b>		<b>13.37%</b>

Complete the following table on the members of the company's Board of Directors who hold rights over shares in the company:

Name or company name of the Board Member	Number of direct voting rights	Number of indirect voting rights	Equivalent number of shares	% of total voting rights
JOSÉ LUIS DEL VALLE PÉREZ	418,266	0	418,266	0.13%
FLORENTINO PÉREZ RODRÍGUEZ	540,950	0	540,950	0.17%

**A.4 INDICATE, AS APPLICABLE, ANY RELATIONSHIPS OF A FAMILY, COMMERCIAL, CONTRACTUAL OR CORPORATE NATURE EXISTING BETWEEN THE HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS, INsofar AS THEY ARE KNOWN TO THE COMPANY, UNLESS THEY HAVE SCANT RELEVANCE OR ARISE FROM THE ORDINARY COURSE OF BUSINESS:**

**A.5 INDICATE, AS APPLICABLE, ANY RELATIONSHIPS OF A COMMERCIAL, CONTRACTUAL OR CORPORATE NATURE EXISTING BETWEEN THE HOLDERS OF SIGNIFICANT OWNERSHIP INTERESTS AND THE COMPANY AND/OR THE GROUP, UNLESS THEY HAVE SCANT RELEVANCE OR ARISE FROM THE ORDINARY COURSE OF BUSINESS:**

**A.6 INDICATE WHETHER ANY SHAREHOLDERS' SIDE AGREEMENTS AFFECTING THE COMPANY HAVE BEEN EXECUTED BETWEEN SHAREHOLDERS PURSUANT TO ARTICLES 530 AND 531 OF THE SPANISH COMPANIES LAW. IF SO, PROVIDE A BRIEF DESCRIPTION AND LIST THE SHAREHOLDERS THAT ARE PARTY TO THE AGREEMENT:**

Yes	No
	X

**Indicate whether the company is aware of any concerted actions between its shareholders. If so, provide a brief description:**

Yes	No
	X

**Expressly indicate any amendment to or termination of such agreements or concerted actions during the year:**

**A.7 INDICATE IF THERE IS ANY INDIVIDUAL OR LEGAL ENTITY THAT EXERCISES OR COULD EXERCISE CONTROL OVER THE COMPANY UNDER ARTICLE 4 OF THE SECURITIES MARKET LAW. IF SO, IDENTIFY THEM:**

Yes	No
	X

**A.8 COMPLETE THE FOLLOWING TABLES ON THE COMPANY'S TREASURY SHARES:**

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
4,677,422	0	1.49%

**(\*) Through:**

In accordance with the provisions set forth in Royal Decree 1362/2007, detail any significant changes during the financial year:

Notification of acquisitions:

Notification date	Total direct shares acquired	Percentage of total share capital
21/01/2016	3,274,456	1.04 %

Notification of redemptions:

Notification date	Total direct shares redeemed	Percentage of total share capital
04/02/2016	2,585,941	0.82 %
15/07/2016	4,246,382	1.34 %

## **A.9 GIVE DETAILS OF THE CONDITIONS AND TIME PERIODS GOVERNING ANY RESOLUTIONS OF THE GENERAL SHAREHOLDERS' MEETING AUTHORISING THE BOARD OF DIRECTORS TO ISSUE, ACQUIRE OR TRANSFER TREASURY SHARES.**

The following resolution was adopted at the Ordinary General Shareholders' Meeting held on 5 May 2016:

In rendering the authorisation granted through the resolutions of the Company's General Shareholders' Meeting held on 28 April 2015 null and void and in accordance with the provisions of Articles 146 and related articles and 509 of the Consolidated Text of the Spanish Companies Law, the Board of Directors of the Company and those of its subsidiaries are authorised, during a period of one year from the date of this meeting, which shall be automatically extended for periods of equal duration up to a maximum of five years, unless stipulated otherwise by the shareholders at the General Meeting, and in accordance with the conditions and requirements envisaged in the legal provisions in force at the time, to acquire, at any given time and as many times as deemed advisable and through any of the means admitted by law, with a charge to profit for the year and/or unrestricted reserves, shares of the Company, the nominal value of which when added to those already owned by the Company or by its subsidiaries does not exceed 10% of the share capital issued or, where applicable, the maximum amount authorised by the legislation applicable at any given time. The minimum price and the maximum price, respectively, will be the nominal value and the weighted average price relating to the last trading day prior to the transactions increased by 20%.

The Board of Directors of the Company and those of its subsidiaries are also authorised, within the period and in accordance with the conditions established above to the extent that it is possible, to acquire shares of the Company through loans, for a consideration or otherwise, on an arm's-length basis, taking into account market conditions and the characteristics of the transaction.

Express authorisation is given for the treasury shares acquired by the Company or its subsidiaries to be earmarked, in full or in part: (i) for sale or retirement, (ii) for delivery to workers, employees or Board Members of the Company or its Group, when there is a right recognised either directly through or as a result of exercising the options they hold, for the purposes envisaged in the last paragraph of Article 146.1.a) of the Consolidated Text of the Spanish Companies Law, and (iii) for reinvestment plans for dividends or similar instruments.

In order to retire treasury shares and granting the execution of this task to the Board of Directors in accordance with that indicated below, the Board resolved to reduce share capital, with a charge to profit or unrestricted reserves, for an amount equal to the total nominal value of the treasury shares which the Company directly or indirectly holds at the date of adoption of this resolution by the Board of Directors.

In accordance with Article 7 of the Company By-laws, the Board of Directors is empowered (with express powers of substitution) to execute this resolution to reduce share capital, which may be carried out once or several times within the maximum period of five years from the date of this resolution, performing such formalities, taking such steps and providing such authorisations as might be necessary or required by the Spanish Companies Law and other applicable provisions. In particular, the Board of Directors is authorised to, by the deadline and with the aforementioned limits, (i) set the date or dates for the specific share capital reduction or reductions, taking into account market conditions, the share price, the Company's economic-financial position, its cash, reserves, business performance and any other matter that is reasonable to consider; (ii) specify the amount of each share capital reduction; (iii) use of the amount of the reduction, either to restricted reserves or to unrestricted reserves, providing such guarantees as might be required and complying with the related legal requirements; (iv) amend Article 6 of the Company By-laws to the new share capital figure; (v) apply for the delisting of the retired shares; and, in general, adopt any resolutions as might be necessary to ensure the full effectiveness of the retirement of these shares and the concomitant capital reduction, designating the persons empowered to implement these resolutions.

The execution of this share capital reduction shall be subordinate to the execution of the capital reduction through the retirement of treasury shares proposed to the shareholders at the Ordinary General Shareholders' Meeting under item 9 on the Agenda, such that under no circumstances may the execution of this resolution be prevented in accordance therewith.

### **A.9.II ESTIMATED PERCENTAGE FREE FLOAT**

**A.10 INDICATE, AS APPLICABLE, ANY RESTRICTIONS ON THE TRANSFER OF SECURITIES AND/OR ANY RESTRICTIONS ON VOTING RIGHTS. IN PARTICULAR, INDICATE THE EXISTENCE OF ANY TYPE OF RESTRICTIONS WHICH MAY MAKE IT DIFFICULT TO TAKE OVER THE COMPANY VIA THE MARKET ACQUISITION OF ITS SHARES.**

Yes	No
	X

**A.11 INDICATE WHETHER THE SHAREHOLDERS AT THE GENERAL MEETING HAVE RESOLVED TO TAKE MEASURES TO NEUTRALISE A TAKEOVER BID PURSUANT TO LAW 6/2007.**

Yes	No
	X

**If so, explain the measures adopted and the situations in which the restrictions would be inoperative:**

**A.12 INDICATE WHETHER THE COMPANY HAS ISSUED SHARES THAT ARE NOT TRADED IN A REGULATED MARKET IN THE EUROPEAN COMMUNITY.**

Yes	No
	X

**Where appropriate, indicate the different classes of shares and, for each class of shares, the rights and obligations they confer.**

## **B GENERAL SHAREHOLDERS' MEETING**

**B.1 INDICATE AND, IF APPLICABLE, DESCRIBE THE DIFFERENCES BETWEEN THE MINIMUM REQUIRED UNDER THE SPANISH COMPANIES LAW (*LEY DE SOCIEDADES DE CAPITAL –LSC*) AND THE QUORUM REQUIRED FOR HOLDING THE GENERAL SHAREHOLDERS' MEETING.**

Yes	No
	X

**B.2 INDICATE AND, IF APPLICABLE, DESCRIBE ANY DIFFERENCES BETWEEN THE RULES ESTABLISHED IN THE SPANISH COMPANIES LAW (LSC) FOR ADOPTING RESOLUTIONS AND THE COMPANY'S RULES.**

Yes	No
	X

**Describe the differences with respect to the rules established in the LSC.**

**B.3 INDICATE THE RULES APPLYING TO AMENDING THE COMPANY'S BY-LAWS. IN PARTICULAR, INDICATE THE MAJORITIES ANTICIPATED FOR MODIFYING THE BY-LAWS, AS WELL AS, WHERE APPROPRIATE, THE RULES ANTICIPATED FOR PROTECTING PARTNERS' RIGHTS ON MODIFYING THE BY-LAWS.**

### **General shareholders' meeting rules**

Article 24. Separate votes

Separate votes shall be taken at the General Meeting on all matters which are substantially independent. In any event, separate votes shall be taken on the following matters, even if they are included in the same item on the agenda:

- Appointment, ratification, reselection or dismissal of each Director
- Amendment of the by-laws for each substantially independent article or group of articles

**B.4 INDICATE THE DATA ON ATTENDANCE AT THE GENERAL MEETINGS HELD IN THE YEAR TO WHICH THIS REPORT REFERS AND IN THE PREVIOUS YEAR:**

**Attendance information**

Date of the General Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic voting	Other	
28/04/2015	7.52%	65.71%	0.00%	0.00%	73.23%
05/05/2016	6.85%	63.15%	0.00%	0.00%	70.00%

**B.5 INDICATE WHETHER THE BY-LAWS CONTAIN ANY RESTRICTIONS WITH RESPECT TO A MINIMUM NUMBER OF SHARES REQUIRED TO ATTEND GENERAL MEETINGS.**

	Yes	No
	X	

Number of shares required to attend the General Meeting 100

**B.6 BY-LAW ARTICLE REPEALED**

**B.7 INDICATE THE ADDRESS AND MODE OF ACCESS TO THE COMPANY'S WEBSITE TO INFORMATION ON CORPORATE GOVERNANCE AND OTHER INFORMATION ON THE GENERAL MEETINGS THAT NEED TO BE MADE AVAILABLE TO THE SHAREHOLDERS THROUGH THE COMPANY'S WEBSITE.**

The address is <http://www.grupoacs.com/gobierno-corporativo/>

Once in the ACS Group's website, several appear at the top, one of which is "CORPORATE GOVERNANCE"; if you click on this link, the following appear: Company By-laws, Rules of the General Meeting, Code of Conduct, Regulation of Proceedings for the Code of Conduct Monitoring Committee and Rules of Conduct for Securities Markets. Each sub-section contains pertinent information.

The drop-down menu within CORPORATE GOVERNANCE shows two sections:

- Board of Directors. If you click on this link you will find the Board of Director Regulations and the Composition of the Board of Directors with information on each Board Member.
- Annual Corporate Governance Report. If you click on this link, following a brief introduction there is a specific instruction to click on it and download the annual reports since 2006 in PDF format.

## C STRUCTURE OF THE COMPANY ADMINISTRATION

### C.1 BOARD OF DIRECTORS

#### C.1.1 Maximum and minimum number of Board Members provided for in the Company By-laws:

<b>Maximum number of Board Members</b>	21
<b>Minimum number of Board Members</b>	11

#### C.1.2 Complete the following table with the Board Members:

Name or company name of the Board Member	Representative	Class of Board Member	Position on the Board	Date of first appointment	Date of last appointment	Appointment procedure
MARÍA SOLEDAD PÉREZ RODRÍGUEZ		Proprietary	BOARD MEMBER	13/11/2014	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
EMILIO GARCÍA GALLEGO		Independent	BOARD MEMBER	13/11/2014	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JOSÉ LUIS DEL VALLE PÉREZ		Executive	BOARD MEMBER - SECRETARY	28/06/1989	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
CATALINA MIÑARRO BRUGAROLAS		Independent	BOARD MEMBER	28/04/2015	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JOSÉ MARÍA LOIZAGA VIGURI		Other External	BOARD MEMBER	28/06/1989	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
PEDRO JOSÉ LÓPEZ JIMÉNEZ		Other External	BOARD MEMBER	28/06/1989	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JAVIER ECHENIQUE LANDIRIBAR		Proprietary	BOARD MEMBER	20/05/2004	25/05/2009	GENERAL SHAREHOLDERS' MEETING RESOLUTION
ANTONIO GARCÍA FERRER		Executive	EXECUTIVE DEPUTY CHAIRMAN	14/10/2003	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
AGUSTÍN BATUECAS TORREGO		Executive	BOARD MEMBER	29/06/1999	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
FLORENTINO PÉREZ RODRÍGUEZ		Executive	CHAIRMAN AND CEO	28/06/1989	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MIGUEL ROCA JUNYENT		Other External	BOARD MEMBER	14/10/2003	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MANUEL DELGADO SOLÍS		Proprietary	BOARD MEMBER	20/05/2004	25/05/2009	GENERAL SHAREHOLDERS' MEETING RESOLUTION
ANTONIO BOTELLA GARCÍA		Independent	BOARD MEMBER	28/04/2015	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MARÍANO HERNÁNDEZ HERREROS		Proprietary	BOARD MEMBER	05/05/2016	05/05/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
JOSÉ ELADIO SECO DOMÍNGUEZ		Independent	BOARD MEMBER	22/12/2016	22/12/2016	BOARD OF DIRECTORS' RESOLUTION
JOAN DAVID GRIMA TERRE		Other external	BOARD MEMBER	14/10/2003	28/04/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
<b>Total number of Board Members</b>						16



Indicate removals from the Board of Directors which occurred during the reporting period:

Name or company name of the Board Member	Class of board member at the time of removal	Removal Date
SANTOS MARTÍNEZ-CONDE GUTIERREZ-BARQUIN	Proprietary	31/03/2016
PABLO VALLBONA VADELL	Proprietary	29/06/2016
IBEROSTAR HOTELES Y APARTAMENTOS, S.L.	Proprietary	22/12/2016
JAVIER MONZÓN DE CÁCERES	Proprietary	05/05/2016
JAVIER FERNÁNDEZ ALONSO	Proprietary	29/06/2016

C.1.3 Complete the following tables on the Board Members and their positions:

#### Executive directors

Name or company name of the	Position per company organisation chart
JOSÉ LUIS DEL VALLE PÉREZ	SECRETARY-BOARD MEMBER
ANTONIO GARCÍA FERRER	EXECUTIVE DEPUTY CHAIRMAN
AGUSTÍN BATUECAS TORREGO	BOARD MEMBER
FLORENTINO PÉREZ RODRÍGUEZ	CHAIRMAN AND CEO
<b>Total number of Executive Board Members</b>	<b>4</b>
<b>% over total Board</b>	<b>25,00%</b>

#### External proprietary board members

Name or company name of the Board Member	Name or company name of significant shareholder represented or proposing appointment
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	INVERSIONES VESAN, S.A.
JAVIER ECHENIQUE LANDIRIBAR	CORPORACIÓN FINANCIERA ALCOR, S.L.
MANUEL DELGADO SOLÍS	CORPORACIÓN FINANCIERA ALCOR, S.L.
MARÍANO HERNÁNDEZ HERREROS	INVERSIONES VESAN, S.A.
<b>Total number of Proprietary Board Members</b>	<b>4</b>
<b>% over total Board</b>	<b>25.00%</b>

## External independent board members

Name or company name of the Board Member:	Profile
EMILIO GARCÍA GALLEGO	<p>Born in Cabreiroá (Orense) in 1947.</p> <p>Qualified as a civil engineer (Madrid 1971), he holds a Law Degree (Barcelona 1982) and doctorate studies at the Universidad Politécnica de Catalunya. He has also attended the following official courses: Groundwater Hydrology at the Barcelona School of Industrial Engineering; Executive Development (1984-1985) at the Catalonia School of Public Administration; Coastal Engineering at the Catalonia School of Civil Engineering (ETSICCP) and Port and Oceanographic Engineering at the Catalonia ETSICCP.</p> <p>His teaching activity has included the position of professor in charge of the “Soil Mechanics and Special Foundations” course at the Barcelona School of Architecture (1974-1982) and professor in charge of the doctorate course entitled “Consolidation of soft and weak ground” at the Barcelona School of Architecture (1979-1980)</p> <p><b>Professional experience:</b> He has been an engineer for the River Policing Authority of the eastern Pyrenees, engineer for Fomento de Obras y Construcciones, representative for the Catalonia area of the company “Grandes Redes Eléctricas, S.A.”, Head of the Ports Service of the Regional Government of Catalonia and co-director of the Plan de Puertos de Catalunya, general manager for Infrastructure and Transportation of the Regional Government of Galicia, general manager for Transportation of the Regional Government of Catalonia, deputy manager of the Sanitation Council and deputy manager of the Water Board of the Regional Government, general manager of Public Works of the Regional Government of Galicia and chairman of the Water Board of Galicia, chairman of the Entity Managing Railway Infrastructures, adhered to the Ministry of Development and responsible for executing the entire High Speed railway infrastructure, President of Puertos de Galicia. Actualmente.</p> <p>Currently: Free practise of civil engineering.</p>
CATALINA MIÑARRO BRUGAROLAS	<p>Born in Spain in 1963. She holds a degree in Law awarded in 1986 by the Complutense University of Madrid, and she passed the examination to become a State Counsel in 1989.</p> <p><b>Professional career:</b> Currently on extended leave of absence, she served as State Counsel at the National High Court and at the Court of Auditors, in the Directorate General of the Treasury and Finance Policy, as Secretary to the Madrid Regional Financial and Administrative Tribunal, as State Counsel in the Ministry of Health and Consumer Affairs, and as State Counsel at the Madrid High Court of Justice.</p> <p>She has also served as Technical General Secretary to the Office of the President of the Autonomous Community of Madrid, Chief Legal Officer of the State holding company Sociedad Estatal de Participaciones Estatales, Secretary to the Board of Sociedad Estatal de Transición al Euro, and a Director of Autoestradas de Galicia, S.A.</p> <p>She is currently an independent Director of MAPFRE, S.A.</p>

## External independent board members

Name or company name of the Board Member:	Profile
ANTONIO BOTELLA GARCÍA	<p>Born in Orihuela in 1947. He holds a degree in Law awarded from the University of Murcia, and he passed the examination to become a State Counsel in 1974.</p> <p><b>Professional career:</b> He served as State Counsel at the Supreme Court, in the Revenue Service Delegation and at the Courts of Oviedo, in the Revenue Service Delegation and at the Courts of Albacete, in the Office of the President of the National Government attached to the Department of Parliamentary Relations, in the Legal Office of the Ministry of Transport, Tourism and Communications, and at the National High Court. He has also served as Technical General Secretary to the Ministry of Transport, Tourism and Communications, and to the Ministry of Agriculture, Fisheries and Food, and he was Junior Secretary of the Ministry of Agriculture and Conservation.</p> <p>He has taught Law at the Instituto de Empresa, at the University of Oviedo and at the Universidad a Distancia in Albacete.</p> <p>He has held office as a Director in Caja Postal de Ahorros (subsequently Argentaria before integration in BBVA), AVIACO (subsequently merged with IBERIA LAE) and ALDESASA, and he has discharged the office of Secretary to the Board in numerous companies. He is a practicing Solicitor.</p>
JOSÉ ELADIO SECO DOMÍNGUEZ	<p>Born in Vequellina de Órbigo (León) in 1947. He holds a degree in Civil Engineering from the ICCP in Madrid, having majored in Transportation, Ports and Urban Development.</p> <p><b>Professional career:</b> He began his professional career in 1972 in state engineering company INECO, where he held several positions until being appointed International Director. In 1988 he joined RENFE where he held various posts until in 2000 when he was appointed CEO of INECO. In 2002 he was appointed Chairman and CEO of AENA, a post he held until 2004 when he was appointed Advisor to the Office of the Presidency of RENFE. He has also acted as an advisor to ADIF, Obras, Caminos y Asfaltos, POINTEC, INCOSA and MENZIES AVIATION, and has been Chairman of the Spanish consortium for the concession and operation of the high-speed Río de Janeiro-Sao Paulo-Campinas (Brazil) railroad.</p> <p>He currently advises companies NATIONAL EXPRESS-ALSA, INDRA and AT KEARNEY</p>
<b>Total number of Independent Board Members</b>	4
<b>Total % of the Board</b>	25.00%

Indicate whether any Board Member qualifying as independent receives any sum or benefit, other than remuneration as a Board Member, from the company or its group, or maintains or maintained, during the last financial year, a business relationship with the company or any company in its group, whether in his or her own name or as a significant shareholder, Board Member or senior executive of an organisation which maintains or maintained such a relationship.

Where appropriate, include a justified statement of the Board of Directors on the reasons why it is considered that this Board Member can perform his or her functions as an Independent Board Member.

## Other external board members

Identify the other external board members and indicate the reasons why they cannot be considered proprietary or independent and their relations, either to the company, its management or its shareholders:

Name or company name of the Board Member	Company, executive or shareholder with whom there is a relation:	Reasons
PEDRO JOSÉ LÓPEZ JIMÉNEZ	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	Despite the fact that the five-year period since Pedro López Jimenez were an Executive Board Member has concluded, which took place on 4 March 2004 when he ceased to be the Chairman of the then Unión Fenosa, S.A., as he has been a Board Member for over twelve years he has not been considered <i>stricto sensu</i> as an independent Board Member
JOSÉ MARÍA LOIZAGA VIGURI	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	José María Loizaga Viguri was appointed to an external directorship (other) upon completing the maximum term of office allowed as an independent director.
JOAN DAVID GRIMA TERRE	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A	Joan David Grima Terre went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.
MIGUEL ROCA JUNYENT	ACS, ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	Miguel Roca Junyent went from being an independent board member to an external board member upon completion of the maximum term of office of 12 years.
<b>Total number of external Board Members</b>		<b>4</b>
<b>% of total Board</b>		<b>25.00%</b>

Indicate any changes in the class of each Board Member during the period:

C.1.4 Complete the following table with information relating to the number of women Board Members during the last 4 financial years, as well as the nature of those Board Members:

	Number of women Board Members				% of total Board Members of each type			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	1	2	2	1	6.25%	28.57%	25.00%	12.50%
<b>Independent</b>	1	1	0	0	6.25%	20.00%	0.00%	0.00%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	2	3	2	1	12.50%	16.67%	11.76%	5.88%

C.1.5 Explain the measures taken, where appropriate, to attempt to include on the Board of Directors a number of women to enable a balanced presence of women and men to be achieved.

### Explanation of the measures

The ACS Group promotes all those policies necessary to ensure equality of opportunities and to avoid implicit biases and any discrimination in selection processes not just of members of the Board of Directors, but rather any job post

and to guarantee that the candidates meet the requirements in terms of competence, knowledge and experience to carry out the work, as explained in point 1.3.1 of ACS' Code of Conduct.

C.1.6 Explain the measures, where appropriate, the Nominations Committee has decided to ensure that the selection processes do not suffer from implicit biases that hinder the selection of women Board Members and that the company deliberately seeks and includes women who meet the professional profile sought among the potential candidates:

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Explanation of the measures

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The Appointments and Remuneration Committee, in accordance with that laid down in the Rules of the Board of Directors and the Group's Code of Conduct, promotes the inclusion of women among potential candidates, ensuring that they have the appropriate professional profile and the objective criteria of merit and capacity.

**When, in spite of the measures which have been adopted, where applicable, the number of women Board Members is few or zero, explain the reasons justifying this:**

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Explanation of the reasons

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The Group has a policy on renewals on the Board of Directors which approximates to the criteria put forward by the Unified Code, coordinating the principles of representative nature with those of equality and independence.

For this reason, the vacancies which have opened in the last 5 years have been used to reduce the number of male Board Members and to include women Board Members. On 28 February 2017 a new independent woman Board Member was added to the Board who will also form part of the Audit Committee as its Chair. With this incorporation this percentage of women now totals 17.5% of the Board.

C.1.6 (ii) Explain the appointments committee's findings on its verification of compliance with policy for the selection of Board Members. 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.

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Explanation of findings

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Six of the members of the Board of Directors at 31 December 2016 have joined in the last 2 years, and two of these (representing one third of the incorporations) are women. Taking into account the addition of a woman to the Board on 28 February 2017, the percentage of incorporations rises to 43%.

C.1.7 Explain the form of representation on the Board of shareholders with significant holdings.

The External Proprietary Board Members Mr. Javier Echenique Landiribar and Mr. Manuel Delgado Solís, represent shareholders Mr. Alberto Alcocer and Mr. Alberto Cortina, whose shares they hold through various companies.

The Chief Executive Officer Mr. Florentino Pérez Rodríguez and the External Proprietary Board Member Ms. María Soledad Pérez Rodríguez, represent Inversiones Vesan, S.A.

C.1.8 If applicable, explain the reasons for appointing Proprietary Board Members at the request of shareholders who have a holding of less than 3% of share capital.

**Indicate whether any formal requests by a shareholder to have a Board Member appointed were denied although the shareholder holds the same or a higher number of shares than another shareholder at whose request Proprietary Board Members were appointed. In this case, explain the grounds for denying this request:**

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Yes	No
	X

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C.1.9 Indicate whether any Board Members resigned from office before the expiration of their term of office, whether and in what manner the Board Member explained the reasons for resignation to the Board and, in the event that resignation was tendered in writing to the Board in full, detail below the reasons given by the Board Member:

Name of Board Member	Reason for resignation:
PABLO VALLBONA VADELL	<p>On 29 June 2016 shareholder Corporación Financiera Alba S.A. sent a letter indicating that although it had been maintaining a significant participation in and a very satisfactory relationship with ACS Actividades de Construcción y Servicios S.A. (ACS), in recent times it has been affected by severe restrictions on the possibility of operating in the market as a consequence of the frequent performance of corporate transactions, added to the coming into force of new regulations that have lengthened the term during which trading is blocked, which together have represented a significant hindrance to the normal operations of a financial corporation, which logically needs to be able to count on sufficient flexibility to take and implement its investment and divestment decisions.</p> <p>In view of this situation Corporación Financiera Alba stated that it would be more consistent with its investment philosophy if it were to cease to be represented on the Board of ACS, a position it had been exercising through proprietary Board Member Pablo Vallbona Vadell.</p>
SANTOS MARTÍNEZ-CONDE GUTIÉRREZ-BARQUIN	Santos Martínez-Conde resigned from the Board of ACS on 17 March and was replaced by Javier Fernández Alonso, who was co-opted to the Board as the proprietary representative of Corporación Financiera Alba, S.A.
IBEROSTAR HOTELES Y APARTAMENTOS, S.L.	On 22 December 2016 company Iberostar Hoteles y Apartamentos S.L. indicated its resignation as a Board Member driven by new Community legislation that has meant an increase in the restrictions on security markets trading for shareholders represented on Boards of Directors, and specifically the increase in the blocked periods, so as to be able to count on sufficient flexibility to adopt and implements the investment and divestment decisions corresponding to it as a shareholder in the company.
JAVIER FERNÁNDEZ ALONSO	<p>On 29 June 2016 shareholder Corporación Financiera Alba S.A. sent a letter indicating that although it had been maintaining a significant participation in and a very satisfactory relationship with ACS Actividades de Construcción y Servicios S.A. (ACS), in recent times it has been affected by severe restrictions on the possibility of operating in the market as a consequence of the frequent performance of corporate transactions, added to the coming into force of new regulations that have lengthened the term during which trading is blocked, which together have represented a significant hindrance to the normal operations of a financial corporation, which logically needs to be able to count on sufficient flexibility to take and implement its investment and divestment decisions.</p> <p>In view of this situation Corporación Financiera Alba stated that it would be more consistent with its investment philosophy if it were to cease to be represented on the Board of ACS, a position it had been exercising through proprietary Board Member Javier Fernández Alonso.</p>
JAVIER MONZÓN DE CÁCERES	Expiry of the term for which appointed.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Name or company name of the Board Member:	Brief description:
FLORENTINO PÉREZ RODRÍGUEZ	ALL POWERS CORRESPONDING TO THE BOARD EXCEPT THOSE THAT CANNOT BE TRANSFERRED

C.1.11 Identify, if applicable, the Board Members who hold office as Board Members or executives at other companies forming part of the listed company's group:

Name or company name of the Board Member	Company name of the group entity	Position	Executive functions?
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	DRAGADOS, S.A.	BOARD MEMBER	NO
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	ACS SERVICIOS, COMUNICACIONES Y ENERGÍA, S.L.	BOARD MEMBER	NO
JOSÉ LUIS DEL VALLE PÉREZ	HOCHTIEF, A.G.	MEMBER OF THE SUPERVISORY BOARD	NO
JOSÉ LUIS DEL VALLE PÉREZ	DRAGADOS, S.A.	BOARD MEMBER/SECRETARY	NO
JOSÉ LUIS DEL VALLE PÉREZ	CIMIC GROUP LIMITED	BOARD MEMBER	NO
JOSÉ LUIS DEL VALLE PÉREZ	ACS SERVICIOS, COMUNICACIONES Y ENERGÍA, S.L.	BOARD MEMBER/SECRETARY	NO
JOSÉ LUIS DEL VALLE PÉREZ	ACS SERVICIOS Y CONCESIONES, S.L.	BOARD MEMBER/SECRETARY	NO
JOSÉ LUIS DEL VALLE PÉREZ	COBRA GESTIÓN DE INFRAESTRUCTURAS, S.A.U	BOARD MEMBER/SECRETARY	NO
PEDRO JOSÉ LÓPEZ JIMÉNEZ	HOCHTIEF, A.G.	CHAIRMAN OF THE SUPERVISORY BOARD	NO
PEDRO JOSÉ LÓPEZ JIMÉNEZ	DRAGADOS, S.A.	ACTING CHAIRMAN	NO
PEDRO JOSÉ LÓPEZ JIMÉNEZ	CIMIC GROUP LIMITED	BOARD MEMBER / MEMBER APPOINTMENT AND REMUNERATION COMMITTEE	NO
PEDRO JOSÉ LÓPEZ JIMÉNEZ	ACS SERVICIOS, COMUNICACIONES Y ENERGÍA, S.L.	DEPUTY CHAIRMAN,	NO
PEDRO JOSÉ LÓPEZ JIMÉNEZ	ACS SERVICIOS Y CONCESIONES, S.L.	DEPUTY CHAIRMAN, ACTING CHAIRMAN	NO
JAVIER ECHENIQUE LANDIRIBAR	ACS SERVICIOS, COMUNICACIONES Y ENERGÍA, S.L.	BOARD MEMBER	NO
ANTONIO GARCÍA FERRER	DRAGADOS, S.A.	BOARD MEMBER	NO
ANTONIO GARCÍA FERRER	ACS SERVICIOS, COMUNICACIONES Y ENERGÍA, S.L.	BOARD MEMBER	NO
ANTONIO GARCÍA FERRER	ACS SERVICIOS Y CONCESIONES, S.L.	BOARD MEMBER	NO
MANUEL DELGADO SOLÍS	DRAGADOS, S.A.	BOARD MEMBER	NO
MARÍANO HERNÁNDEZ HERREROS	DRAGADOS, S.A.	BOARD MEMBER	NO
MARÍANO HERNÁNDEZ HERREROS	ACS SERVICIOS Y CONCESIONES, S.L.	BOARD MEMBER	NO

C.1.12 List, if applicable, any Board Members of the company who are members of the Boards of Directors of other non-group companies that are listed on official securities markets in Spain, as disclosed to the company:

Name or company name of the Board Member	Company name of the Group company	Position
CATALINA MIÑARRO BRUGAROLAS	MAPFRE	BOARD MEMBER
JOSÉ MARÍA LOIZAGA VIGURI	ZARDOYA OTIS. S.A.	DEPUTY CHAIRMAN
JOSÉ MARÍA LOIZAGA VIGURI	CARTERA INDUSTRIAL REA. S.A.	CHAIRMAN
JAVIER ECHENIQUE LANDIRIBAR	BANCO SABADELL. S.A.	DEPUTY CHAIRMAN
JAVIER ECHENIQUE LANDIRIBAR	GRUPO EMPRESARIAL ENCE, S.A.	BOARD MEMBER
JAVIER ECHENIQUE LANDIRIBAR	REPSOL YPF, S.A.	BOARD MEMBER
MIGUEL ROCA JUNYENT	ENDESA, S.A.	BOARD MEMBER
MIGUEL ROCA JUNYENT	AIGÜES DE BARCELONA	BOARD MEMBER
JAVIER ECHENIQUE LANDIRIBAR	TELEFONICA, S.A.	BOARD MEMBER

C.1.13 Indicate, and if applicable, explain whether the Company has established any rules about the number of Boards on which its Board Members may sit:

	Yes	No
		X

C.1.14 Section revoked

C.1.15 Indicate the overall remuneration for the Board of Directors:

<b>Remuneration of the Board of Directors (thousands of euros)</b>	13,643
<b>Amount of rights accumulated by current Board Members as regards pensions (thousands of euros)</b>	52,366
<b>Amount of rights accumulated by former Board Members as regards pensions (thousands of euros)</b>	0

C.1.16 Identify the Senior Executives who are not Executive Board Members and indicate the total remuneration paid to them during the year:



Name or company name	Position
GONZALO GÓMEZ-ZAMALLOA BARAIBAR	Manager of Iberoamérica en Dragados, S.A
GUSTAVO TUNELL AYUSO	Manager of Maquinaria de Dragados, S.A.
FRANCISCO JAVIER LÓPEZ SÁNCHEZ	Manager of Building at Dragados, S.A.
RAÚL LLAMAZARES DE LA PUENTE	CEO of Intecsa and Makiber
JOSÉ MARÍA CASTILLO LACABEX	General Manager of Cobra Instalaciones y Servicios, S.A.
MIGUEL ÁNGEL MARTÍNEZ ANUGUITA	General Manager of Sociedad Española de Montajes Industriales, S.A. (SEMI)
JAVIER ROMÁN HERNANDO	General Manager of Clece, S.A.
EMILIO GRANDE ROYO-VILLANOVA	Finance Manager of Iridium, Concesiones de Infraestructuras, S.A.
ÁNGEL GUERRA ZALABARDO	General Manager of Sice, Tecnología de Sistemas, S.A.
PEDRO JESÚS CUEVAS MORENO	Regional Manager for Africa in Cobra
EUGENIO LLORENTE GÓMEZ	Chairman and CEO of the Industrial Services Area
JOSÉ MARÍA AGUIRRE FERNÁNDEZ	Sole Director of Vías y Construcciones, S.A.
RICARDO MARTÍN DE BUSTAMANTE VEGA	Contract Manager, Dragados, S.A.
JOSÉ MIGUEL MORENO PÉREZ	Chief Legal Officer of ACS, Actividades de Construcción y Servicios, S.A.
CRISTÓBAL GÓNZALEZ WIEDMAIER	Finance Manager of ACS Servicios Comunicaciones y Energía, S.L.
EUSEBIO ARNEDO FERNÁNDEZ	Head of Resources of Dragados, S.A.
MARTA FERNÁNDEZ VERDES	Finance Director of Dragados, S.A.
RICARDO CUESTA CASTIÑEYRA	Head of the Legal Department of Dragados, S.A.
FRANCISCO JAVIER GÓMEZ GARCÍA	General Manager of Initec Energía, S.A.
JOSÉ REIS COSTA	Chairman of Procme LTD
ÁNGEL MANUEL GARCÍA ALTOZANO	Corporate General Manager of ACS, Actividades de Construcción y Servicios, S.A.
LUIS MIGUEL VIARTOLA LABORDA	Technical Manager of Dragados, S.A.
SANTIAGO GONZALO PÉREZ	General Manager of Imesapi, S.A.
MANUEL PEÑALVA MIRA	Manager of Cobra Electricidad y Comunicaciones
JOSÉ LUIS CELORRIO GARCÍA	General Manager of Maetel, S.A.
JOSÉ ALFONSO NEBRERA GARCÍA	General Manager of ACS Servicios Comunicaciones y Energía, S.L.
CRISTÓBAL VALDERAS ALVARADO	Natural person representing the Sole Administrator of Clece, S.A.
JOSÉ ANTONIO FERNÁNDEZ GARCÍA	General Manager of Grupo Etra y Cobra Energía
CRISTINA ALDAMIZ-ECHEVARRÍA GONZÁLEZ DE DURANA	Finance and Corporate Development Manager of ACS Actividades de Construcción y Servicios, S.A.
SALVADOR MYRO CUENCO	Development Manager of Iridium, Concesiones de Infraestructuras, S.A.
RAÚL GUTIERREZ RODRÍGUEZ	Administration and Finance Manager of Clece, S.A.
RICARDO FRANCO BARBERA	Manager for Canada in Dragados, S.A.
PEDRO ASCORBE TRIAN	Chairman of Dragados Off Shore, S.A.
ALEJANDRO EMILIO CANGA BOTTEGHEIZ	Manager for Europe of Dragados, S.A.
PURIFICACIÓN GONZÁLEZ PÉREZ	HR Manager of Clece, S.A.
FRANCISCO REINOSO TORRES	Administration and Finance Manager of ACS Servicios y Concesiones, S.L.
ALEJANDRO MATA ARBIDE	Administration Manager of ACS, Actividades de Construcción y Servicios, S.A.
LUIS NOGUEIRA MIGUELSANZ	Secretary General for Construction, Concessions and Environment
JULIÁN GARÍ MUNSURI	Risk and Management Control Manager in Dragados, S.A.
FERNANDO BOLINAGA HERNÁNDEZ	Assistant to the Latin America Manager in Dragados, S.A.
EPIFANIO LOZANO PUEYO	Corporate General Manager of ACS Servicios Comunicaciones y Energía, S.L.
ELOY DOMÍNGUEZ-ADAME BOZZANO	General Manager of Drace Infraestructuras, S.A.
SANTIAGO GARCÍA SALVADOR	Sole Administrator of Iridium, Concesiones de Infraestructuras, S.A.
ANDRÉS SANZ CARRO	Manager in ACS, Servicios Comunicaciones y Energía, S.A.
IGNACIO SEGURA SURIÑACH	Chief Executive Officer of Dragados, S.A.
ENRIQUE JOSÉ PÉREZ RODRÍGUEZ	Chief Executive Officer of Cogesa, S.A.
DIEGO MIGUEL ZUMAQUERO GARCÍA	Operations Manager for Spain in Dragados, S.A.
PABLO FERNÁNDEZ FERNÁNDEZ	General Manager of Geotecnia y Cimientos, S.A. (Geocisa)

**Total Senior Executive remuneration (thousand euros)**

28,135

C.1.17 Where applicable, indicate the identity of any Board Members that are, at the same time, Board Members or executives at companies that hold significant shareholdings in the listed company and/or entities in the group:

List, as appropriate, any material relationships, other than those envisaged under the preceding heading, of the members of the Board of Directors with significant shareholders and/or at group companies:

Name or company name of the related Board Member	Name or company name of the related significant shareholder	Description of relationship
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	INVERSIONES VESAN, S.A.	SISTER OF MR. FLORENTINO PÉREZ RODRÍGUEZ, SOLE ADMINISTRATOR OF INVERSIONES VESÁN, S.A..
MANUEL DELGADO SOLÍS	ALBERTO CORTINA ALCOGER	LAWYER OF PERCACER, S.L.
MANUEL DELGADO SOLÍS	ALBERTO ALCOGER TORRA	LAWYER OF INVERNELIN PATRIMONIO, S.L.
MARIANO HERNÁNDEZ HERREROS	INVERSIONES VESÁN, S.A.	BROTHER-IN-LAW OF MR. FLORENTINO PÉREZ RODRÍGUEZ, SOLE ADMINISTRATOR OF INVERSIONES VESAN, S.A.

C.1.18 Indicate whether any amendments have been made to the Rules of the Board of Directors during the year:

Yes	No
	X

C.1.19 Indicate the procedures for selection, appointment, re-election, evaluation and removal of Board Members. List the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

The appointment of Board Members is regulated in the Rules of the Board of Directors:

- Composition and appointment in Article 3.
- Duties in Article 5.
- Period of appointment in Article 13.
- The Chairman in Article 18.
- The Vice Chairmen in Article 19.
- The Chief Executive Officer in Article 20.
- The Secretary in article 21.
- The Appointments and Remuneration Committee in Article 26.

The wording of the Rules of the Board of Directors mentioned above is detailed in section H of this report.

C.1.20 Explain to what extent the annual assessment of the Board led to significant changes to its internal organisation and to the procedures applicable to its activities.

#### Description of amendments

The self-assessment did not lead to significant changes to the internal organisation of the Board of Directors or of its Delegated Committees.

C.1.20 (ii) Describe the assessment process and the areas assessed by the Board of Directors with the assistance, where applicable, of an external consultant with regard to the diversity of the Board's membership and its powers, the functioning of Board committees, the performance of the Chairman of the Board of Directors and the chief executive officer of the company, and the performance and contributions made by each of the Board Members.

The Board performs an annual evaluation of its operation and that of its Committees (Executive Committee, Audit Committee and Appointments and Remunerations Committee) consisting of a broad-ranging written survey addressed by the Secretary of the Board to all its members and to all the members of the respective Committees, commenting subsequently on their results and any measures to be taken in relation to their operation.

C.1.20 (iii) Indicate, where appropriate, any business relations maintained by the consultant or any company forming part of its group with the company or any group company.

No use has been made of any external consultant.

C.1.21 Indicate the cases in which the Board Members must resign.

In accordance with Article 13 of the Rules of the Board of Directors, the Proprietary Board Members shall resign from the Board of Directors when the shareholder they represent fully disposes of its shares by any means.

C.1.22 Article revoked

C.1.23 Are qualified majorities, other than statutory majorities, required for any type of decision?

Yes	No
	X

Where applicable, describe the differences.

C.1.24 State whether there are specific requirements, other than those related to Board Members, to be nominated as Chairman.

Yes	No
	X

C.1.25 Indicate if the chairman has a casting vote:

Yes	No
	X

C.1.26 Indicate whether the By-laws or the Rules of the Board of Directors set any age limit for Board Members:

Yes	No
	X

C.1.27 Indicate if the Company By-laws or the Rules of the Board of Directors establish a limited mandate for Independent Board Members, differing from that laid down in the regulations:

Yes	No
	X

C.1.28 Indicate whether the Company By-laws or the Rules of the Board of Directors establish specific rules for delegating votes on the Board of Directors, the form of doing so and, in particular, the maximum number of delegations that a Board Member can hold, as well as any limitations established with regard to the classes of Board Member to whom votes may be delegated above and beyond the legal restrictions established. Where applicable, give a brief description of these rules.

Without prejudice to attendance obligations, Board Members who are unable to attend a meeting in person may be represented and cast a vote through another Board Member. This delegation must be in writing to the Chairman and must be in the form of a letter, email or any other written means that acknowledges receipt by the addressee. Non-executive Board Members may only delegate their votes to other non-executive Directors.

C.1.29 Indicate the number of meetings that the Board of Directors held during the year. In addition, indicate the number of times the Board has met without the presence of the Chairman, if applicable: In this calculation, Board Members who have granted proxies without specific instructions shall be considered to present:

Number of Board meetings	7
Number of Board meetings without chairman's attendance	0

If the chairman is also an executive director, indicate the number of meetings held under the chairmanship of the coordinating director without the attendance in person or by proxy of any executive director:

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

Commission	Nº de Meetings
Executive Committee	10
Audit Committee	6
Appointments and Remuneration Committee	5

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with all members present. In this calculation, Board Members who have granted proxies without specific instructions shall be considered to be present:

Number of meetings attended by all Board Members	3
Number of attendances as a % of the total votes during the year	95.73%

C.1.31 Indicate whether the individual and consolidated financial statements are certified before being presented to the Board of Directors for approval:

Yes	No
X	

**Identify, if applicable, the person(s) who certified the company's individual and consolidated financial statements for authorisation by the Board:**

Name	Position
ÁNGEL MANUEL GARCÍA ALTOZANO	CORPORATE GENERAL MANAGER

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being presented at the General Shareholders' Meeting without a qualified auditors' report.

In this respect, routine meetings are held between the accounts auditor and the Audit Committee to analyse with sufficient notice any differences between the accounting criteria of the Company and its Group and the auditors' interpretation of the accounts. It is considered that the 2016 auditors' reports on both ACS, Actividades de Construcción y Servicios, S.A. and the ACS Group will be favourable.

C.1.33 Is the Secretary of the Board a Board Member?

	Yes	No
	X	

Complete the following table if the Secretary is not a Board Member:

C.1.34 Section revoked

C.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the external auditors, of financial analysts, investment banks and of rating agencies.

In regard to the auditor, Article 24 of the Rules of the Board of Directors expressly establishes the duties of the Audit Committee.

The wording of the aforementioned article 24 is provided in Section H of this report.

C.1.36 Indicate whether the company changed its external auditors during the year. If so, identify the incoming and outgoing auditors:

	Yes	No
		X

In the event of any disagreement with the outgoing auditors, specify the substance thereof:

C.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group and, if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

	Yes	No
	X	

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	707	1,442	2,149
Amount of other non-audit work/total amount billed by audit firm (as a %)	78.41%	11.61%	16.13%

C.1.38 Indicate whether the Auditors' report on the financial statements for the previous year had any reservations or qualifications. If so, indicate the reasons given by the chairman of the Audit Committee to explain the content and scope of the reservations or qualifications.

Yes	No
	X

C.1.39 Indicate the number of uninterrupted years that the current auditing firm has carried out the audit of the financial statements of the Company and/or its Group. Also indicate the percentage that the number of years audited by the current auditing firm represents of the total number of years which the financial statements have been audited:

	Company	Group
<b>Number of uninterrupted years</b>	15	15
<b>Number of years audited by current auditing firm /Number of years that the company has been audited in %</b>	53.60%	53.60%

C.1.40 Indicate whether there is a procedure for Board Members to be able to receive outside advisory services, and if so, give details:

Yes	No
X	

#### Detail of procedure

Article 15 of the Rules expressly provides that Board Members have the right to request and obtain information and advice required to carry out their duties. This information may be requested through the Chairman or Secretary of the Board and, under special circumstances, may consist of external advice at the Company's expense.

C.1.41 Indicate whether there is a procedure for the Board Members to be able to receive the necessary information to prepare for meetings of the managing bodies sufficiently in advance and, if so, give details:

Yes	No
X	

#### Detail of procedure

Article 14 of the Board Rules expressly states that in regard to the duty of loyalty, Board Members shall avoid conflicts of interest (regulated in article 15 of the Board Rules) among themselves, or their closest relatives and the Company. Should any conflict of interest exist and be unavoidable, it must be reported to the Board of Directors and recorded in the minutes of the first Board meeting that takes place. Furthermore, they must notify the Company, in the shortest possible term and in all cases within the five following days, of the shares, stock options or derivatives referring to the share value which may be held, directly or indirectly, either by the Board Members themselves or their closest relatives.

Board Members must notify the Company of the most significant changes that take place in their professional circumstances and especially those affecting the qualities taken into account for appointing them as such. Furthermore, they shall notify the Company of any legal or administrative proceedings which, on account of their importance, may seriously affect the Company's reputation.

The Board Members shall abstain from intervening in the deliberations and casting their vote on those matters in which they have a particular interest, which will be expressly registered in the Minutes.

C.1.42 Indicate if the company has established rules which oblige the Board Members to report and, where applicable, to resign in cases which may involve causing damage of the company's credit and reputation, and if so explain said rules:

Yes	No
X	

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Explanation of rules

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Board Rules – Article 14

“Board Members must notify the Company of the most significant changes that take place in their professional circumstances and especially those affecting the qualities taken into account for appointing them as such. Furthermore, they shall notify the Company of any legal or administrative proceedings which, on account of their importance, may seriously affect the Company's reputation.”

C.1.43 Indicate whether any member of the Board of Directors has informed the Company that legal action has been taken or that a lawsuit had been filed against him or her for any of the crimes set forth in Article 213 of the Spanish Companies Law:

Yes	No
	X

Indicate whether the Board of Directors has analysed the case. If the answer is yes, provide a reasoned explanation of the decision taken on whether or not the Board Member should continue in his or her post or, where applicable, explain the actions taken by the Board of Directors before the date of this report or which it plans to take.

C.1.44 Detail the significant agreements entered into by the Company that will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid, and the effects thereof.

- Issue by ACS Actividades Finance 2 B.V. of bonds convertible into Iberdrola shares for an outstanding face value of EUR 235,000,000 at 31 December 2015, maturing on 27 March 2019 and bearing nominal annual interest at a fixed rate of 1.625%. These bonds are listed on the unregulated Freiverkehr market of the Frankfurt Stock Exchange. The bonds may redeemed early at the discretion of bondholders under certain conditions.
- Issue by ACS Actividades Finance B.V. of bonds convertible into Iberdrola shares for an outstanding face value of EUR 297,600,000 at 31 December 2015, maturing on 22 October 2018 and bearing nominal annual interest at a fixed rate of 2.625%. These bonds are listed on the unregulated Freiverkehr market of the Frankfurt Stock Exchange. The bonds may redeemed early at the discretion of bondholders under certain conditions.
- Issue by ACS, Actividades de Construcción y Servicios, S.A. of Euromarket Notes for a total of EUR 500 million on 16 March 2015 under its Euro Medium Term Note Programme (EMTN Programme) authorized by the Central Bank of Ireland, the latest version of which was approved on 11 March 2015. This issue matures in five years and was paid on 1 April 2015. The annual coupon is 2.875% and the issue price was 99.428%. The Notes are listed on the Irish Stock Exchange.
- Issue of €82 million under the same EMTN Programme in October 2015, also approved for listing on the Irish Stock Exchange, maturing in October 2018 with an annual coupon of 2.5%.
- Issue in 2016 under this same EMTN Programme of €28 million, also listed on the Irish Stock Exchange, maturing in October 2018 with an annual coupon of 2.5%.

C.1.45 Identify, in aggregated form, and indicate, in detail, the agreements between the Company and its executive and management posts or employees who have termination benefits, guarantee or golden parachute clauses, when they resign or are dismissed unfairly or the contractual relationship ends due to a takeover bid or other type of operation.

**Number of beneficiaries: 0**

**Type of beneficiary:**

Members of senior management, including Executive Board Members.

**Description of agreement:**

The contracts expressly envisaged the right to compensation when dismissed without due cause from their executive duties, or if the employment relationship was concluded as a result of a change in control of the Company, with maximum compensation of between 3 and 5 years of their remuneration. These contracts were signed on the basis of market conditions at the time and with an age limit for each executive. As this age limit has been exceeded, at the date of this report there is no possibility of such compensation being paid. Furthermore, the terms of current legislation are now applicable to senior management contracts.

**Indicate whether these contracts have to be disclosed to and/or approved by the bodies of the Company or of its Group:**

	Board of Directors	General Meeting
<b>Body authorising the clauses</b>	Yes	No

	Yes	No
Is the General Meeting informed about the clauses?	X	

## C.2 COMMITTEES OF THE BOARD OF DIRECTORS

C.2.1 Detail all the Committees of the Board of Directors, their members and the proportion of executive, proprietary, independent and other external Board Members on them:

**Executive Committee**

Name	Position	Type
ANTONIO GARCÍA FERRER	MEMBER	Executive
PEDRO JOSÉ LÓPEZ JIMÉNEZ	DEPUTY CHAIRMAN	Other External
FLORENTINO PÉREZ RODRÍGUEZ	CHAIRMAN	Executive
JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Proprietary
JOSÉ MARÍA LOIZAGA VIGURI	MEMBER	Other External
<b>% Executive Board Members</b>		40.00%
<b>% Proprietary Board Members</b>		20.00%
<b>% Independent Board Members</b>		0.00%
<b>% Other External Members</b>		40.00%

**Explain the functions assigned to this committee, describe the procedures and rules governing its organization and functioning, and provide a summary of key activities during the year.**

The Executive Committee shall exercise all duties delegated thereto by the Board of Directors, except those that cannot be delegated by law or the Company By-laws. Nevertheless, the Board of Directors may pass on knowledge of and the decision upon any matter of its competence, and in turn, the Executive Committee may subject the decision



on any matter to the Board of Directors, which even though a matter of its competence, it deems necessary or expedient for the Board to decide upon.

Insofar as deemed necessary, and with the natural adaptations, the operation of the Executive Committee shall be governed by the provisions of the company By-laws or the Board Rules regarding the operation of the Board of Directors.

**Indicate whether delegated or executive membership reflects the participation of the different classes of Board Members in the Board of Directors:**

Yes	No
	X

**If not, explain the composition of your delegated or executive committee**

As a result of the change by José María Loizaga from independent member to "Other External" to comply with the end of the 12-year legal mandate, there are no longer any independent members on the Executive Committee. This is because the members of this Committee are chosen on the basis of their person (personal and professional profile) and not on the basis of their category of director.

**Audit Committee**

Name	Position	Class
EMILIO GARCÍA GALLEGRO	CHAIRMAN	Independent
JOSÉ MARÍA LOIZAGA VIGURI	BOARD MEMBER	Other External
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	BOARD MEMBER	Proprietary
CATALINA MIÑARRO BRUGAROLAS	BOARD MEMBER	Independent
ANTONIO BOTELLA GARCÍA	BOARD MEMBER	Independent
<b>% Proprietary Board Members</b>		20.00%
<b>% Independent Board Members</b>		60.00%
<b>% Other External Board Members</b>		20.00%

**Explain the functions assigned to this committee, describe the procedures and rules governing its organization and functioning, and provide a summary of key activities during the year.**

- a) To report to the General Shareholders' Meeting on all matters arising within the remit of the Committee.
- b) To supervise effectiveness of the Company's internal controls, internal audits and risk management systems (including tax risks), and to discuss any significant weaknesses in the internal control system which may be detected in the course of audit procedures with the external auditor.
- c) To supervise the process of preparing and presenting mandatory financial information.
- d) To make proposals to the Board of Directors with regard to the selection, appointment, re-selection or replacement of the external auditor as well as proposals relating to the terms of engagements; regularly to seek and obtain information from the auditors with regard to their audit plan and the progress thereof; and to safeguard the auditors' independence in the discharge of their functions.
- e) To establish appropriate relations with the external auditor in order to receive information regarding matters which might risk their independence for examination by the Audit Committee, and any other information related to the course of audit procedures as well as such other communications as are provided for in legislation governing the audit of financial statements and in prevailing audit standards; In any event, the Audit Committee shall obtain the auditors annual representations of independence in relation to the company and other companies directly or indirectly related with the same, as well as information on any additional services of any kind provided 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.
- f) To issue a report an annual report before the issuance of the audit report, expressing an opinion on the independence of the auditor. This 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 the system in place to assure auditor independence and compliance with prevailing audit regulations.

- g) To report to the Board of Directors on all matters where so required by Law, the By-Laws and the Board Regulations, in particular with regard to:
- 1) the financial information published by the Company on a regular basis,
  - 2) the creation or acquisition of investments in special purpose vehicles registered in countries or territories listed as tax havens; and
  - 3) related-party transactions.
- h) Directly to oversee the performance of the internal control and risk management functions carried out by any unit or Department of the Company.

The functions described in paragraphs d), e) and f) above are discharged without prejudice to prevailing legislation governing auditing.

**Identify the Board Member appointed to a seat on the audit committee in view of his/her knowledge and expertise in accounting and audit matters, and indicate the number of years for which the audit committee's chairman has held office.**

<b>Name of Board Member with relevant expertise</b>	EMILIO GARCÍA GALLEGO
<b>Number of chairman's years in office</b>	2

### Appointments and Remuneration Committee

<b>Name</b>	<b>Position</b>	<b>Class</b>
ANTONIO BOTELLA GARCÍA	CHAIRMAN	Independent
MANUEL DELGADO SOLÍS	BOARD MEMBER	Proprietary
JAVIER ECHENIQUE LANDIRIBAR	BOARD MEMBER	Proprietary
MARÍA SOLEDAD PÉREZ RODRÍGUEZ	BOARD MEMBER	Proprietary
EMILIO GARCÍA GALLEGO	BOARD MEMBER	Independent
MIGUEL ROCA JUNYENT	BOARD MEMBER	Other External
JOSÉ MARÍA LOIZAGA VIGURI	BOARD MEMBER	Other External

<b>% Proprietary Board Members</b>	42.86%
<b>% Independent Board Members</b>	28.57%
<b>% Other External Board Members</b>	28.57%

**Explain the functions assigned to this committee, describe the procedures and rules governing its organization and functioning, and provide a summary of key activities during the year.**

- a) To evaluate the capabilities, expertise and experience required by the Board of Directors. For these purposes, the Appointments and Remuneration 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.
- b) 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.
- c) To make proposals to the Board of Directors for the appointment of independent Boards of Directors by co-option or by approval at the Shareholders' General Meeting, as well as proposals for the re-election or removal of such Board Members by the Shareholders' General Meeting;

- d) To make proposals for the appointment of other Board Members by co-option or by approval at the Shareholders' General Meeting, as well as proposals for the re-election or removal of such Board Members by the Shareholders' General Meeting;
- e) To make informed proposals for the appointment or removal of senior executives, and to report on or propose the basic terms and conditions of their contracts.
- f) To examine and organize the succession of the Chairman of the Board of Directors and of the Chief Executive Officer of the Company and, if applicable, to make proposals to the Board of Directors for such succession to occur in an orderly and well-planned fashion.
- g) To report to the Board of Directors on policy regarding the remuneration of directors and general managers or other persons discharging senior management functions and reporting directly to the Board of Directors, executive committees or Executive Board Members, as well as the individual remuneration and other contractual terms applicable to the executive Board Members, and to verify compliance with the policy established.
- h) To verify compliance with the remuneration policy established by the Company.
- i) Periodically to review the remuneration policy applied to Board Members 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.
- j) To ensure that potential conflicts of interest do not adversely affect the independence of external advice provided to the Committee.
- k) To verify information on the remuneration of Board Members and senior executives contained in corporate documents, including the Annual Report on Board Members' Remuneration.

Insofar as may necessary, and with the natural adaptations, the functioning of the Appointments and Remuneration Committee shall be governed by the provisions of these Rules regulating the functioning of the Board of Directors.

C.2.2 Complete the following table with information relating to the number of women Board Members on the Committees of the Board of Directors during the last four financial years.

	Number of women Board Members							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	2	40.00%	1	20.00%	0	0.00%	0	0.00%
Appointments and Remuneration Committee	1	14.30%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked

C.2.4 Section revoked

C.2.5 Indicate, if applicable, if there are Rules of the Board Committees, where they can be consulted and amendments made during the year. Also indicate whether any annual report on the activities of each committee has been prepared voluntarily.

The Board Committees are governed by Articles 19 to 23 of the Company By-laws and Articles 22 to 26 of the Rules of the Board of Directors. Both documents are available on the corporate website, <http://www.grupoacs.com/gobierno- corporativo>.

<b>Name or company name Comisión</b>	<b>Brief description</b>
EXECUTIVE OR STEERING COMMITTEE	The Executive Committee is regulated in article 23 of the Rules of the Board of Directors.
AUDIT COMMITTEE	The Audit Committee is regulated in article 24 of the Rules of the Board of Directors, which prepares an annual report on its activities.
APPOINTMENTS AND REMUNERATION COMMITTEE	The Appointments and Remuneration Committee is regulated in article 26 of the Rules for the Board of Directors.

#### C.2.6 Section revoked

## D RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

### D.1 EXPLAIN THE PROCEDURE FOR APPROVING TRANSACTIONS WITH RELATED PARTIES AND WITHIN THE GROUP.

#### Procedure for approving related party transactions

In accordance with the Rules of the Board of Directors, related-party transactions require approval by the Board of Directors, subject to a report from the Audit Committee on the transactions carried out by the Company or group companies with directors under the terms established by prevailing legislation, or with shareholders owning significant shareholdings either individually or in concert, including shareholders represented on the Company's Board of Directors or shareholders of other companies forming part of the same group, or persons related with the same. Directors linked, representing or related to the shareholders affected shall abstain from participating in deliberations and voting on the resolution in question. The only exception shall be made in the event of approval of transactions simultaneously meeting the following three conditions:

1. They are carried out under contracts entered based on standard terms and conditions applied en masse to large numbers of customers;
2. They are carried out at prices or rates established in general by the provider of the good or service in question; and
3. The sum involved does not exceed one per cent of the Company's annual revenues.

### D.2 LIST THOSE TRANSACTIONS, WHICH ARE SIGNIFICANT DUE TO THEIR MAGNITUDE OR RELEVANT DUE TO THEIR SUBJECT, CARRIED OUT BETWEEN THE COMPANY OR GROUP COMPANIES AND THE COMPANY'S SIGNIFICANT SHAREHOLDERS:

### D.3 LIST ANY MATERIAL TRANSACTIONS ENTAILING A TRANSFER OF FUNDS OR OBLIGATIONS BETWEEN THE COMPANY OR GROUP COMPANIES AND THE COMPANY'S ADMINISTRATORS OR EXECUTIVES:

### D.4 REPORT ANY SIGNIFICANT TRANSACTIONS BY THE COMPANY WITH OTHER ENTITIES IN THE SAME GROUP, WHERE SUCH TRANSACTIONS ARE NOT ELIMINATED IN THE PROCESS OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS AND FROM THE STANDPOINT OF THEIR SUBJECT-MATTER OR TERMS AND CONDITIONS ARE NOT PART OF THE COMPANY'S ORDINARY BUSINESS.

In any case, report any intragroup transaction carried out with entities established in countries or territories considered to be tax havens:

Corporate name of the group entity	Amount (thousands of euros):	Brief description of the transaction:
Makiber, S.A.	1,247	Makiber is carrying out a project consisting of the supply and installation of medical equipment for the new national hospital in St. Lucia, with the Government of St. Lucia as the client. This project has a term for execution of 120 days and is paid in euros in Spain, with financing from the European Development Fund, for an amount of 1,247 thousand euros.
Cobra Gestión de Infraestructuras S.L.U.	2,043	Equipment shipped to Humiclíma Est in St. Lucia
Sermicro, S.A.	124	Sale: Installation and maintenance of telephone exchange. Client.- Gibraltar Health Care Authority
Sermicro, S.A.	3	Purchase: TV Repair subcontractor. Supplier Hammonds Gibraltar

**D.5 INDICATE THE VALUE OF THE TRANSACTIONS CARRIED OUT WITH OTHER RELATED PARTIES.****D.6 LIST THE MECHANISMS IN PLACE FOR DETECTING, IDENTIFYING AND RESOLVING ANY POTENTIAL CONFLICTS OF INTEREST BETWEEN THE COMPANY AND/OR ITS GROUP AND ITS BOARD MEMBERS, EXECUTIVES OR SIGNIFICANT SHAREHOLDERS.**

Article 15 of the Rules of the Board of Directors specifically regulates such matters, establishing that the duty to prevent conflicts of interest obliges Board Members to refrain from the following:

- a) entering into transactions with the Company, except in the case of minor, ordinary transactions carried out under standard terms and conditions applicable to customers, understood as those which it is not necessary to report to present fairly the equity, financial situation and results of operations of the Company;
- b) Using the Company's name or invoking the condition of Board Member in order improperly to influence private transactions.
- c) Using corporate assets, including confidential information belonging to the Company, for private purposes.
- d) Seeking to benefit from the Company's business opportunities.
- e) Receiving benefits or compensation from third parties outside the Company and its group associated with the discharge of the office of director, unless they consist merely of items.
- f) Undertaking any activities either personally or on behalf of any third party which might result in effective competition, whether actual or potential, with the Company, which might otherwise give rise to any permanent conflict of interests with the Company.

2. The above obligation to refrain shall be where the beneficiary of the prohibited actions and activities is a person relate to a Board Member. The following persons shall be deemed to be related to the Board Members:

- a) A Board Member's spouse or persons with a like affective relationship.
- b) The ancestors, descendants and siblings of any Board Member and/or of his/her spouse.
- c) The spouses of a Board Member's ancestors, descendants or siblings.
- d) Companies with respect to which a Board Member is affected by any of the situations mentioned in article 42.1 of the Spanish Commercial Code, either personally or via any intermediary.

3. In the case of a legal entity acting as Board Member, the following shall be deemed to be related persons:

- a) Partners affected by any of the situations mentioned in article 42.1 of the Commercial Code with respect to the corporate Board Member.
- b) The *de jure* and *de facto* directors, the liquidators, or representatives holding general powers of attorney granted by the corporate Board Member.
- c) Companies forming part of the same group and their partners.
- d) Persons deemed related parties of Board Members in accordance with paragraph 2 above, standing in such relationship towards the natural person representing the corporate Board Member.

4. In any event, Board Members shall notify the Board of Directors of any situation of conflict of interests, whether direct or indirect, which they or their related parties might have with the Company.

Any situations of conflict affecting Board Members shall be disclosed in the Annual Report in accordance with prevailing legislation.

**D.7 IS MORE THAN ONE GROUP COMPANY LISTED IN SPAIN?**

Yes	No
	X

**Identify the subsidiaries listed in Spain:**

**Listed subsidiary**

**State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group.**

---

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group.

---

**Describe the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group.**

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Mechanisms for the resolution of possible conflicts of interest.

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## E RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 EXPLAIN THE SCOPE OF THE COMPANY'S RISK MANAGEMENT SYSTEMS, INCLUDING TAX RISKS.

The ACS Group's risk control system is based on a range of strategic and operational actions designed to mitigate risks and fulfil the objectives established by the Board of Directors. The diversity and complexity of the sectors in which the Group carries out its activities implies a variety of risks; the Corporate Unit is responsible for defining basic guidelines in order to homogenise performance criteria in each of the divisions to guarantee an adequate level of internal control. With this aim in mind, at its meeting on 29 July 2016 the Company's Board of Directors, with the approval of the Audit Committee on the same date, gave its approval to the General Policy for Risk Control and Management so that risks can be managed appropriately with a risk level that will enable:

- a) Attaining of the strategic objectives established by the group with controlled volatility;
- b) Providing the highest possible level of guarantees to shareholders;
- c) Protecting the results and the reputation of the Group;
- d) Defending the interests of shareholders, customers and other stakeholder groups in the progress of the Company and society in general;

and

- e) Ensuring business stability and financial strength in a sustained manner over time.
- f) The Group's companies and divisions are responsible for developing the required and appropriate internal regulation to govern the implementation of any necessary internal controls, which, in turn, shall guarantee optimum performance of such internal control in accordance with the special circumstances of their activities.

In order to respond to the need for global and homogeneous risk management, the Corporate Unit has established a risk management model which includes the identification, evaluation, classification, valuation, processing and follow-up of risks at the Group and operational business line levels.

When these risks have been identified, a risk map is prepared which is updated regularly based on the different variables involved and the types of activities in which the Group is involved, assessing them on the basis of their impact and the probability of their occurrence.

The risk control systems adopt the Group's decentralised nature, enabling each business unit to exercise its own risk control and evaluation policies, being designed to control and mitigate risks and comply with the following basic principles:

- a) Integration of the approach to risk within the management of the Organisation through the definition of risk strategy and appetite.
- b) Preservation of strict segregation of duties between the areas that take on risk and the areas responsible for its analysis, control and supervision, providing an adequate level of independence.
- c) Ensuring the use of appropriate instruments to mitigate the impact of risks in accordance with the requirements of applicable legislation.
- d) Providing of information to the regulators and principal external agents on Group risks and those of its operating units in a transparent manner, as well as on the operation of the systems developed for their control.
- e) Ensuring proper compliance with corporate governance rules established by the Group, with permanent updating and improvement of such rules.
- f) Acting at all times in accordance with the law and the values and standards of behaviour as reflected on the Code of Conduct and the principles of sound practice indicated in corporate fiscal policy, adopting "zero tolerance" attitude to illicit acts and fraud.
- g) The systems provide the necessary information to supervise and evaluate the risk exposure of each business area and develop the corresponding management information required for decisions with the monitoring of the appropriate indicators.

Tax risks are subject to control both within the context of the general risk control system and via specific procedures. At its meeting held on 24 March 2015, ACS' Board of Directors approved the Corporate Tax Policy for the ACS Group, which sets out the tax strategy of the Company and the key criteria underlying the management of tax risks, establishing specific guidelines to define the best tax practices applicable. In addition, at its meeting of 12 May 2016 it approved an Internal Tax Control Policy that contains specific tax management and internal control procedures to



be followed by the companies making up the group, as well as guidelines for review of the correct following of such procedures and the definition of plans for a response in the event of any breach of such rules. The procedures that have been established include a series of standard rules to be observed by all areas of the business, with special emphasis on the identification of parties responsible, as well as a detail of aspects that must be developed by each area, given the uniqueness of the business activity of each one. Such developments have been approved in 2016 by the Board of Directors of the three area parent companies in Spain.

Hochtief, the German listed company which has been fully consolidated by the ACS Group since 2011, has defined its risk control policy to be consistent with its business activity and in line with the ACS Group's policies. The detail of these policies and systems is included in the 2016 Annual Report on pages 127 to 137 inclusive, available on the website [www.hochtief.com](http://www.hochtief.com)

## **E.2 IDENTIFY THE COMPANY BODIES RESPONSIBLE FOR PREPARING AND EXECUTING THE RISK MANAGEMENT SYSTEM, INCLUDING TAX RISK MANAGEMENT.**

The ACS Group's Management Committee defines the Group's global risk policy and, if appropriate, sets up the appropriate management mechanisms to ensure that the risks are kept within the approved levels.

The Board of Directors entrusts the Audit Committee with the task of monitoring compliance with the established procedures and effective generic supervision of compliance with the established risk levels for each business activity.

The Board of Directors approves the global risk policy and the system for control and management. The different areas concerned also include management of tax risks, as indicated in the previous paragraph.

## **E.3 INDICATE THE MAIN RISKS, INCLUDING TAX RISKS THAT MAY AFFECT THE ACHIEVEMENT OF THE BUSINESS OBJECTIVES.**

The ACS Group's Risk Management System identifies and evaluates various risk scenarios grouped into two categories: business risks and corporate risks.

Business risks are those specifically affecting each of the businesses. These vary according to the characteristics of each activity and are grouped in turn into:

- Operational Risks, including risks relating to contracting and tendering for works and projects, to planning and control of execution of the various works and projects, to client and credit risks, to product quality, environmental, purchasing and subcontracting risks.
- Non-Operational Risks, including risks relating to risk prevention and health and safety at work, with Human Resources, compliance with the specific legislation and tax regulations applicable to the business, the reliability of accounting and financial information and the management of financial resources and indebtedness.

Corporate risks affect the Group as a whole and the listed Company in particular and can be summarised as:

- Financial Risks, including the level of indebtedness, liquidity risk, risks resulting from fluctuations in exchange rates, risks deriving from the fluctuation of interest rates, risks from the use of derivative financial instruments, risks from investments and exposure to risk from variable yields from investments made in listed companies.
- Regulatory Risks derived from company litigation, Securities Market regulations, the data protection law, possible changes in tax regulations both domestically and internationally, and civil liability for the integrity of assets.
- Information Risks, both arising from the reliability of published Financial Information and from the reputational risks that could affect the image of the Group, and from the transparency and relations with analysts and investors.

Two types of tax risks exist:

- On the one hand, there is the risk of changes in tax legislation which either could not be foreseen at the time when investment decisions involving a relevant tax factor were taken, impacting the attainment of objectives, or which affect the effective application of tax credits carried forward, in turn affecting forecasts of future taxes payable.

- On the other, tax regulations are frequently subject to differing interpretations, which can result in additional appraisals by the tax authorities, even though the corporate tax policy established by ACS prioritizes prudence in the tax practices followed.

#### **E.4 IDENTIFY WHETHER THE ENTITY HAS A LEVEL OF RISK TOLERANCE, INCLUDING TAX RISKS.**

The ACS Group's Management Committee has defined a framework for action in order to homogenise the identification, classification, evaluation, management and tracking of the risks of the different divisions. Once the risks have been identified and their magnitude and probability have been evaluated, as well as the indicators for measuring them, these form the basis for preparing the Risk Map, in which all the heads of each of the Divisions or business units are involved, determining the level of tolerance for each variable.

Periodic updating of the Risk Map, both at corporate level and in each of the businesses, is carried out by each of the Heads of the different divisions by tracking the indicators measuring exposure to risk.

#### **E.5 INDICATE WHAT RISKS, INCLUDING TAX RISKS, HAVE ARISEN DURING THE FINANCIAL YEAR.**

The main risks which arose during the year were:

- In relation to the Gorgon Jetty & Marine STR project, for which the claims against the customer have been recognized in the consolidated financial statements for the amount expected to be recovered, after a period of negotiation the parties have embarked on an Arbitration process in accordance with the terms of the Gorgon contract. The three arbitrators and the chairman were appointed in December 2016.

The first procedural meeting is planned for the first quarter of 2017 together with a possible visit to Barrow Island by the arbitrators shortly afterwards. The procedural schedule for the arbitration must be determined at the first procedural meeting. Subject to the pertinent schedules, the availability of the arbitrators and compliance with the necessary procedural stages, hearings should begin approximately at the beginning of 2019, with a ruling subsequently. The process described represents standard arbitration procedure.

Furthermore, with the aim of pursuing its rights under the contract, Cimic has filed suit in the United States against Chevron. The start to these proceedings will have no effect on the negotiation process or on the right of the Cimic Group to the amount under negotiation.

- In relation to the participation in TP Ferro, 15 September 2016 was the date set for the holding of the Creditors' Meeting to vote on the proposal for a Creditors' Agreement submitted by the Company. As there was insufficient quorum for approval, the judge ruled that TP Ferro should enter into liquidation. At present the Group has recorded the value of this investment at zero, and it has not been necessary to record additional provisions, as no guarantees have been provided by the Group in relation to this project.

By means of a letter dated 23 November 2016 the States notified the start to the procedure for an administrative termination of the concession contract. Both the Insolvency Administration and the Company through its Board of Directors filed pleadings. Nevertheless, despite the adoption of an irregular procedure giving rise to defenselessness (for example, imposing short terms not justified either in law or in contract, without reply to the pleadings, etc.), on 16 December 2016 the Granting States issued a joint termination of the concession because of default by the concession-holder. Lastly, on 20 December at Llers the termination of the concession was signed, with its effective transfer to the States. Following the approval of the Liquidation Plan, the judge proceeded to open the corresponding section for evaluation of the degree of fault in relation to the bankruptcy of the concession-holder, a proceeding at which the Banks and Funds have appeared, while the report of the Insolvency Administration remains pending.

- In the case of tax exposures, in Spain in fiscal 2016 a series of changes were made to the Corporate Income Tax Law, establishing new and significant restrictions on the application of tax credits affecting even amounts generated in prior years, particularly on the matter of the use of negative taxable bases from previous years and losses generated by participation in entities not included in the fiscal group. This has resulted in an increase in amounts forecasted to be payable in cash terms in Spain for 2016 itself and subsequent years, and more relevantly for the Group, given its tax situation, a potential deterioration in the long-term value of some of its tax assets, leading to the setting up of a provision, which has been calculated following prudent criteria.

During the year, general audit of the Tax Group in Spain for the years 2009 to 2012 by the Tax Inspectorate was concluded with the issue of assessments that have not determined any material tax debt, as indicated in the Group's annual financial statements.

#### **E.6 EXPLAIN THE PLANS FOR RESPONDING TO AND SUPERVISING THE ENTITY'S MAIN RISKS, INCLUDING TAX RISKS.**

The ACS Group's geographic and business diversification, together with the high level of operating decentralisation that characterises the organisation, makes it necessary for it to have a dual system for risk control and supervision. Added to the corporate risk management system is the system belonging to each business unit or listed company, in which each management level is responsible for complying with the standards and the applicable internal procedures.

Their effectiveness is evaluated and verified periodically by the production units' internal audits and by Corporate Internal Audit, which also contributes to the management of the general risks the Group faces in achieving its objectives. The alerts, recommendations and conclusions generated are reported both to Group Management and to the heads of the business areas and companies assessed.

To carry out their duties, the Business and Corporate Internal Audit departments have qualified, expert personnel who are independent of the lines of production.

In the case of taxation, the above-mentioned internal controls on tax approved in 2016 establish in a specific manner the plans for response that identify the person responsible in each group company for taking action upon the appearance of any tax risk, proceeding to perform a diagnosis. It has been established that when the risk cannot be eliminated within the context of regular tax management, it must be reported to senior management of the company with a proposal for action, including, by way of example, the filing of complementary returns, the restructuring of operations, changes in practices, adoption of new procedures, performance of a specific internal audit review, or the assuming of the risk taking specified precautions. In addition, it is established that in certain instances, a report should be made to the senior management of the business area, or if appropriate, of the Group.

## F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms which make up the risk control and management systems in relation to the process of issuing financial information (ICFRS) for the entity.

### F.1 COMPANY'S CONTROL ENVIRONMENT

Indicating their main characteristics, detail at least the following:

**F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFRS; (ii) its implementation; and (iii) its supervision.**

The Internal Control over Financial Reporting System (hereinafter ICFRS) is part of the ACS Group's overall internal control system and is set up to provide reasonable assurance regarding the reliability of the financial information published. As stipulated in the Rules of the ACS Group Board of Directors, the Board of Directors is responsible for this system and has delegated the supervisory function thereof to the Audit Committee in accordance with its rules.

In accordance with Article 5 of its Rules, the Board of Directors is empowered to approve "the financial information to be periodically made public by the Company given that it is listed on the stock exchange". In this regard, article 7 of the Rules establish that "The Board of Directors shall prepare the individual and consolidated Annual Accounts and Management Reports in view of the report issued by the Audit Committee, in order to comply with prevailing legislation and to facilitate understanding by shareholders and by the general public."

In accordance with the aforesaid article 5, meanwhile, the functions of the Board that cannot be delegated include "preparing the financial statements and submitting them for approval at the General Shareholders' Meeting" and approving the "risk management and control policy determined, including tax risk, and oversight of the internal reporting and control systems".

The ACS Group's General Corporate Management is responsible for the Group's ICFRS. This entails defining, updating and monitoring the system to ensure that it operates correctly.

The head of each business area is responsible for designing, reviewing and updating the system in accordance with its own needs and characteristics. General Corporate Management validates these designs and their operation to guarantee compliance with the objectives set to assure the reliability of the financial information reported.

In relation to the above, in accordance with Article 24 of the Rules of the Board of Directors, the Audit Committee is responsible, inter alia, for the following:

- b) Monitoring the effectiveness of the Company's internal control, internal auditing and risk management systems, including tax risks, and discussing any significant weaknesses in the internal control system identified during the performance of the audit with the auditor.
- c) Overseeing the preparation and presentation of mandatory financial information."

On the other hand, Hochtief, which forms part of the ACS Group as an investee, lists its shares on the German stock market and, in turn, has a majority ownership interest in Cimic, which in turn lists its shares on the Australian stock market. Both companies have implemented their own risk management and internal control over financial reporting systems in accordance with applicable legislation. Additional information on these systems can be found in their 2016 annual reports, which are available on [www.hochtief.com](http://www.hochtief.com) and [www.leighton.com.au](http://www.leighton.com.au).

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

**Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) implementing procedures so this structure is communicated effectively throughout the company.**

In accordance with the Rules of the Board of Directors, the Appointments and Remuneration Committee under this Board is responsible, *inter alia*, for nominating Senior Executives, particularly those who are to be a member of the Group's Management Committee, and for proposing the basic conditions of their contract.

Corporate General Management, in the case of ACS, Actividades de Construcción y Servicios, S.A., and the CEO or Chairman, in the case of the various business areas, are responsible for determining the organisational structure in their area of activity and communicating this to the interested parties through the anticipated channels in each case.

**Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether specific reference is made to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The ACS Group has a General Code of Conduct, the latest update of which was approved by the Board of Directors on 12 November 2015. This Code has been disseminated and is accessible to all employees via the Group's website.

Both Hochtief AG, and the parent company of its Cimic subgroup, Cimic Group Limited, are companies listed on the German and Sydney stock exchanges, respectively, and they are therefore subject to their own regulatory bodies' rules and have both their own Codes of Conduct and their own internal channels for complaints and control, under similar terms to those of the ACS Group. For this reason, the ACS Group's General Code of Conduct does not apply directly to investee companies belonging to the Hochtief Group and the Cimic Group.

Section 1.2 of the General Code of Conduct emphasises the principle of transparency. The Code stipulates that "all employees shall provide truthful, necessary, full and due environment concerning the progress of activities related with their work and areas of competence".

To ensure compliance with the General Code of Conduct, resolve incidents or concerns about its interpretation and take the measures required to ensure the best compliance, the above Code provides for the creation of a General Code of Conduct Monitoring Committee to be composed of three members appointed by the ACS Group's Board of Directors following their nomination by the Appointments and Remuneration Committee. After approval by the Audit Committee, at its meeting on 29 July 2016 the Board of Directors gave its approval to the Regulation for the Procedures of the Code of Conduct Monitoring Committee.

In accordance with this Regulation, this Monitoring Committee has been assigned the following functions:

- Promoting the dissemination, knowledge of and compliance with the code in each and every Group company.
- Establishing the appropriate communications channels to ensure that any employee can seek or provide information regarding compliance with this code, ensuring the confidentiality of complaints processed at all times.
- Interpreting the regulations derived from the Code and supervising their implementation.
- Ensuring the accuracy and fairness of any proceedings commenced, as well as the rights of persons allegedly involved in possible breaches.
- Defining the cases in which the scope of the Code should be extended to third parties that are to have business or trade relations or with the ACS Group.
- Gathering data on levels of compliance with the Code and disclosing the specific related indicators.
- Preparing an annual report on its actions, making the recommendations it deems appropriate to the Board of Directors through the Audit Committee.

The Annual Report on Actions and Recommendations of the General Code of Conduct Monitoring Committee for 2016 will be submitted by the Audit Committee in March 2017.

**Whistle-blowing channel, for reporting to the Audit Committee any irregularities of a financial or accounting nature, as well as breaches of the Code of Conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

In accordance with the foregoing, the General Code of Conduct has established an Ethics Channel, allowing any person to report irregularities observed in any of the ACS Group companies, or behaviour that fails to comply with the rules provided in the General Code of Conduct.

For this purpose, there are two channels of communication:

- An e-mail address: canaletico@grupoacs.com
- A postal address: Ethics Channel

Grupo ACS

Avenida de Pío XII, No. 102

28036 Madrid, Spain

In any case, the General Code of Conduct ensures the confidentiality of all complaints received by the Monitoring Committee through these channels.

A total of 102 communications were received in 2016, 99 of which gave rise to opening informative or investigation proceedings. Three of the communications received did not lead to the opening of any cases, being merely requests for information about the Ethics Channel and the Code of Conduct, and 28 of the communications have given rise to the issue of a report with recommendations. The digital communication channel was used in 100 cases, and in two cases the digital and telephone channels were used.

**Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating the ICFRS, which address, at least, accounting rules, auditing, internal control and risk management.**

In regard to training and refresher courses, the ACS Group believes that continuous training for its employees and managers both at the corporate level and at the Group company level is important. Relevant and up-to-date training on regulations that affect financial reporting and internal control is considered to be necessary to ensure that the information reported to the markets is reliable and in accordance with the regulations in force.

Therefore, in 2016 throughout the entire ACS Group approximately 18,000 hours of training courses in finance, accounting rules, consolidation, auditing, internal control and risk management were given, attended by approximately 1,200 employees.

## F.2 RISK ASSESSMENT IN FINANCIAL REPORTING

Detail at least the following:

**F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

**The process exists and is documented.**

The ACS Group has established a risk management model that supports a range of actions in order to comply with the objectives established by the Board of Directors. The Corporate Risk Map summarises the Group's situation in relation to its main risks, except for those with regard to Hochtief and Cimic since they have their own risk control systems.

The Risk Map includes the identification and assessment of risks at both the Group level and that of the operating divisions. The risks identified are as follows:

- Corporate Risks: affecting the Group as a whole and, in particular, the listed Company.
- Business Risks: specifically affecting each of the business areas and varying based on the unique characteristics of each business.

These risks were basically assessed qualitatively, with no defined frequency, in order to establish both their importance and probability of occurrence. However an objective or quantitative risk indicator was established where possible.

Accordingly, the risks are classified as follows:

- Operational risks
- Non-operational risks

This system is explained in section E of the ACGR in the description of the ACS Group's general risk policy.

**Whether the process covers all financial reporting objectives, (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.**

In addition to financial risks (liquidity, exchange rate, interest rate, credit and equity), the Group's risks also include those risks relating to the reliability of the financial information, including tax risks.

As part of ICFRS management, the ACS Group has a procedure that allows its scope to be identified and maintained by identifying all relevant subgroups and divisions, as well as the significant operating and support processes of each of the subgroups or divisions. This identification was carried out based on the materiality and risks factors that are inherent to each business.

The materiality criteria are established, on one hand, from the quantitative point of view in accordance with the most recent consolidated financial statements based on the various parameters, such as revenue, volume of assets or profit before tax and, on the other hand, from the qualitative point of view in accordance with various criteria, such as the complexity of the information systems, the risk of fraud or accounting based on estimates or bases that may have a subjective component. In practice, this means being able to determine which of the accounting headings of the financial statements are material, as well as other relevant financial information. In addition, the processes or business cycles in which this information is generated are identified.

The ACS Group's Corporate General Management is responsible for updating the scope of the Internal Control over Financial Reporting System and informing the various business areas and the auditor of any changes that occur.

For each process or business cycle included within the scope, the Group has identified the risks that can specifically affect financial reporting taking into account all of the financial reporting objectives (existence and occurrence; integrity; valuation; rights and obligations; and presentation and comparability), and taking into account the different risk categories described in section E of the ACGR to the extent that they could significantly affect financial reporting.

**A specific process is in place for identifying the scope of consolidation, taking into account the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

This assessment is performed at least on an annual basis and whenever companies are included in or excluded from the Group's scope of consolidation.

**The process takes into account the effects of other types of risks (operational, technological, financial, legal, risks to reputation, environmental, etc.) to the extent that they affect the financial statements.**

The ACS Group's Risk Management System considers risks of the operational, technological, legal or any other type which, if they arise, could have a significant impact on the Group's financial statements.

**Which of the company's governing bodies monitors the process.**

The Board of Directors has the power to approve the risk management and control policy and the periodic monitoring of the information and control systems, while the Audit Committee has the power to oversee the internal risk management and control systems.

### F.3 CONTROL ACTIVITIES

Indicating their main characteristics, detail at least the following:

**F.3.1. Procedures for reviewing and authorising the financial information and description of the ICFRS to be disclosed to the markets, indicating who is responsible in each case, as well as documentation and flow charts for activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the specific review of the relevant judgements, estimates, evaluations and projections.**

Prior to their approval by the Board of Directors and to their publication, General Corporate Management must submit both the annual and half-yearly condensed financial statements as well as any other periodic public information supplied to the markets to the Audit Committee, taking into consideration the most relevant effects and those matters whose contents or components are based on accounting opinions or assumptions for the purpose of calculating estimates and provisions.

Prior to the publication of the financial statements, those responsible for each line of business are required to review the information reported for the purposes of consolidation in their respective areas of responsibility.

This report with the description of the ICFRS is prepared by Corporate General Management based on the information supplied by all affected departments and business areas and is submitted for review and approval by the Audit Committee.

All business areas which are relevant for the purpose of financial reporting have different controls to ensure the reliability of the financial information. These controls are identified for the significant business cycles at consolidated level, based on the internal procedures used, as well as the reporting systems which are used as the basis for preparing the financial information of each business area.

The Group documents the significant processes, risks and control activities implemented in the business areas in a systematic and homogeneous manner, with the exceptions described for the listed investee companies which follow their own procedures. This documentation is based on the following:

- Identification of the companies and processes or business cycles that may significantly affect the financial information. Each significant process has a flow chart and a description of key activities.
- Identification of the risks and controls established to mitigate the financial reporting risks and those responsible for this control, under a common methodology.

The processes considered within the scope include the operating business cycles and the accounting close, communication of information and consolidation. The possible risks of fraud and the specific review of relevant judgements, estimates, evaluations and projections are taken into account in each of the business cycles.

Those companies that fall within the scope of ICFRS but have not yet completed the relevant implementation are under the obligation to prepare a plan to proceed with implementation and report on roll-out to General Corporate Management.

#### F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, operating continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

Following a policy of decentralisation and independence of each of its business areas, the ACS Group does not centrally manage its information systems, but rather each business area manages these resources based on the particular features of each business. This is not an obstacle hindering each of the business areas from defining its policies, standards and procedures for internal control over the reporting systems and security management.

Access to the information systems is managed in accordance with tasks assigned to each job position, and each company defines its users' profiles for accessing, modifying, validating or consulting information following a criterion of segregation of duties defined by each area. Management of access, changes in the applications and the flows of approval are defined in the procedures of each business area, as are the responsibilities of those responsible for monitoring and control.

The control mechanisms for the recovery of information and information systems are defined in the corresponding continuity plans. Each of the business areas has storage and backup processes at different locations that provide for contingencies if necessary. Each Group company also establishes the required security measures against leakage or loss of physical and logical information, depending on the level of confidentiality.

The main information systems have protection against viruses and Trojans and have elements that are periodically updated to prevent intrusions to the information systems.

#### F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The ACS Group does not usually subcontract work to third parties that could materially affect the financial statements. In any case, when the ACS Group outsources work to third parties, it ensures the technical training, independence



and skills of the subcontractor. In the case independent experts are used, the person responsible for contracting these experts must validate the work and conclusions reached from their work.

In the specific case of valuations made by independent experts, the criteria and results thereof are revised by Group management or by management of the business areas affected, requesting comparison valuations when necessary.

#### F.4 INFORMATION AND COMMUNICATION

Indicating their main characteristics, detail at least the following:

**F.4.1. A specific function in charge of defining accounting policies, keeping them up to date (accounting policies area or department) and resolving any doubts or disputes that may arise over their interpretation, which is in regular communication with the team in charge of operations, as well as a manual of accounting policies regularly updated and communicated to all the company's operating units.**

Corporate General Management, through the Corporate Administration Department, is responsible for defining and updating the accounting policies and responding to queries and doubts arising from the implementation of the applicable accounting regulations. This can be done in writing and replies to queries are made as quickly as possible depending on their complexity.

The Group has an accounting policies manual that is in line with the International Financial Reporting Standards (IFRS) as these are adopted by the European Union. This manual, updated in January 2016, is applicable to all companies included in the Group's scope of consolidation and to its joint ventures and associates.

In cases where the ACS Group does not have control but does have a significant influence, the required adjustments and reclassifications are made to the associate's financial statements in order to ensure that the accounting criteria are uniform with those of the Group.

Group companies may have their own manual as long as it does not contradict that indicated in the Group's manual, so as to be able to ensure the uniformity of the accounting policies of ACS.

**F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning the ICFRS.**

Reporting to the ACS Group's Corporate General Management is carried out in accordance with the following guidelines:

##### 1) Frequency of information reporting

Once the meeting schedule of the Executive Committee and the Board of Directors has been set, the reporting dates and type of information to be reported are sent to the various heads of the divisions or Group companies on an annual basis.

##### 2) Typology of information

The information to be reported varies and is detailed based on the reporting period (monthly / quarterly / half-yearly / annually).

##### 3) Financial reporting format

The information sent to the Administration Department (Corporate General Management) by the various business areas was reported using the SAP BPC consolidation program that gathers both accounting information (mainly for the statement of financial position, the income statement, the comprehensive statement of recognised income and expense and the cash flow statement) and off the books information. This information is complemented with various Excel templates parameterised and automated for the aggregation and elaboration of various items of information, usually of an off-balance sheet and management nature.

For the preparation of the consolidated statements, all business areas must report any changes in the scope of consolidation of their business area prior to the end of the month. Before making the openings for the corresponding month, the consolidation program includes all the parameterisation of the consolidation system, which specifically includes the scope of consolidation affecting the entire ACS Group.

The new consolidation tool became fully operational in 2016, making it possible to improve the existing consolidation processes, by reducing the associated risks and enabling greater traceability in the processing and storage of data and the use of more automated control mechanisms.

#### 4) Model for internal control information

The ACS Group has defined a reporting system for the most significant controls included within the framework of the Internal Control over Financial Reporting System, in which each person responsible for its implementation and monitoring must send the Group's General Corporate Management a report detailing its operations during the period.

This reporting took place in 2016 on a half-yearly basis, at the same time as the publication of the ACS Group's interim half-yearly financial statements.

## F.5 SUPERVISION OF SYSTEM OPERATION

Indicating their main characteristics, detail at least the following:

**F.5.1. The ICFRS supervision activities carried out by the Audit Committee, as well as whether the company has an internal audit function which includes support to the Committee in its work on supervising the internal control system, including the ICFRS, among its duties. Furthermore, indicate the scope of the assessment of the ICFRS carried out in the financial year and of the procedure by means of which the person responsible communicates the results, whether the entity has an action plan that details possible corrective actions and whether its impact on the financial information has been considered.**

The ACS Group's Internal Audit Department is set up as an independent service, the function of which is to provide support to the Group's Board of Directors and senior management in the examination, evaluation and supervision of the internal control and risk management systems both of the Parent and the other companies forming part of the Group.

The ACS Group's Internal Corporate Audit functions are carried out by the Internal Audit Department, which coordinated the auditing of the Group's various business areas.

The Corporate Internal Audit Department is included in the organisational structure as a body reporting hierarchically to the Corporate General Management and functionally to the Audit Committee of the Board of Directors. It has no hierarchical or functional link to the business areas. Therefore, the appointment/dismissal of the person responsible is at the suggestion of the Audit Committee. In this regard, Hochtief and Cimic, as noted in point F.1, have their own control systems and the internal audits for these companies report to their Audit Committees, as indicated in the Hochtief Risk Report included in the 2016 Annual Report (pages 127 to 137, both inclusive) and in Cimic's 2016 Corporate Governance Statement.

In turn, the internal audit departments of the Parents of the Group's non-listed business areas report hierarchically to the Chairman and/or CEO of these areas and functionally to the Corporate Internal Audit Department. The functions assigned to the Internal Audit Department are as follows:

- Reviewing the implementation of policies, procedures and standards established in the Group's business areas, as well as the operations and transactions they perform.
- Identifying faults or errors in the systems and procedures, indicating their causes, issuing suggestions for improvement in the internal controls established and monitoring recommendations adopted by the management of the various business areas.
- Reviewing and assessing, in the performance of their work, the internal controls established, included among which are those which make up the risks associated with the financial information for the audited units.

- Reporting any anomalies or irregularities identified, recommending the best corrective actions and following up on the measures taken by the management of the different business areas.

The Corporate Internal Audit Department submits the Annual Audit Plan each year for approval by the Audit Committee. This Audit Plan consolidates the internal audits of the Group companies, except for Hochtief and Cimic.

The Corporate Internal Audit Management periodically submits to the Audit Committee a summary of the reports already drafted and the status of the internal audits of the various business areas.

The Corporate Internal Audit Department submitted the 2016 Activities Report and the 2017 Audit Plan to the Audit Committee in February 2017. These included among other aspects a substantial increase in the review of the operation of the control procedures and operations included in the internal control system for financial information. The audits carried out in 2016 were of the following type:

- Audits of specific projects.
- Audits of branches or geographic areas within a company.
- Audits of processes or specific areas.
- Audits of companies or groups of companies.

A total of 79 audits were carried out in all Divisions of the Group in 2016, representing coverage equal to 31% of the ACS Group's total revenues excluding Hochtief and Cimic.

The internal audits in which reviews were carried out of procedures and other matters related with internal control of financial information corresponded to corporate processes and certain Services, Construction and Industrial subsidiaries. No material weaknesses were observed which could have a significant effect on internal controls

The pertinent action plans have been proposed for the matters and weaknesses observed in the course of the audits. Implementation will be monitored at the divisional level. Also, a report on the status of the most significant matters observed in prior years' audits but not yet resolved has been presented to the Audit Committee.

[F.5.2. A discussion procedure whereby the auditor \(pursuant to TAS\), the Internal Audit Department and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or administrators. Also report any action plan in place to correct or mitigate weaknesses observed.](#)

In accordance with the Rules of the Board of Directors, the Audit Committee has the following functions:

- Monitoring the effectiveness of the company's internal control, internal audit, and if applicable, risk management systems, and discussing any significant weaknesses in the internal control system identified during the performance of the audit with the auditors or audit firms.
- Establishing the appropriate relationships with auditors or audit firms for the purpose of receiving information on any matter which may compromise their independence and any other matter relating to the process of auditing the accounts, in addition to any other communication laid down in Spanish legislation regarding auditing accounts and technical auditing standards.

As a result of this work, the internal audit departments of the Group companies issue a written report which summarises the work carried out, the situations identified, the action plan including, where applicable, the timetable and persons responsible for correcting the situations identified, and opportunities for improvement. These reports are sent to the head of the business area and to Corporate General Management.

As mentioned above, the Corporate Internal Audit Manager submits an Activities Report to the Audit Committee which contains a summary of the activities carried out and the reports drawn up during the year, as well as monitoring the main significant aspects and recommendations contained in the various reports.

The Audit Committee holds meetings with the external auditor on a regular basis and, in any case, whenever there is a review of the interim financial statements for the first and second half of the year prior to their approval, and prior to the meeting held by the Board of Directors to prepare the full annual individual financial statements of the parent, and the consolidated statements of the ACS Group. Additionally, it holds formal meetings to plan the work of external auditors for the current year, as well as to report the results that have been obtained in the preliminary review prior to the end of the financial year.

In 2016, the Internal Auditor attended five meetings of the Audit Committee, and the External Auditor attended six Audit Committee meetings.

## **F.6 OTHER RELEVANT INFORMATION**

### **F.7 EXTERNAL AUDITOR'S REPORT**

Indicate:

F.7.1. Whether the ICFRS information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be included as an appendix. Otherwise, explain the reasons for the absence of this review.

The information relating to the ICFRS issued to the markets for 2016 was reviewed by the external auditor.

## G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of good governance in listed companies.

If any recommendations are not followed or are only partially followed, a detailed explanation of the reasons for this must be included so that the shareholders, investors and the market in general have sufficient information to assess the company's conduct. Explanations of a general nature will not be acceptable.

1. The By-laws of listed companies may not limit the number of votes held by a single shareholder or impose other restrictions on the company's takeover via the market acquisition of its shares.

Complies	Explain
X	

2. In the event that a parent and subsidiary company are separately listed, they must publish an exact definition of:
- The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
  - The mechanisms in place to resolve possible conflicts of interest.

Complies	Partially complies	Explain	Not applicable
			X

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 shareholders on key corporate governance issues in the company, including in particular the following:
- Changes since the last annual general meeting.
  - 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.

Complies	Partially complies	Explain
	X	

The company complies with point a). At the Annual General Meeting held on 5 May 2016, the Chairman outlined the changes made.

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.

Complies	Partially complies	Explain
X		

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.

Complies	Partially complies	Explain
X		

6. Listed companies preparing the reports mentioned below, whether on a mandatory or voluntary basis, should publish the same on their corporate website sufficiently 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 remuneration committees
- c) Audit committee report on related-party transactions
- d) Report on corporate social responsibility policy

Complies	Partially complies	Explain
	X	

Reports a) and d) are published.

Nevertheless, reports b) and c) are not published because it is not considered that they provide any relevant information in addition to that already published in other documents. Specifically, related party transactions are published with a wealth of detail both in the notes to the annual accounts and in the annual corporate governance report itself, both in section D on related party transactions and in section H in the case of all such matters not expressly included in mentioned section D. In the case of the reports on the operation of the audit and appointments and remuneration committees, they would not add any information to that included in the reports that are already published, such as that on the remuneration of Directors,

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

Complies	Explain
X	

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;

Complies	Partially complies	Explain
X		

9. The company should publish the requirements and procedures required to accredit ownership of shares, the right of attendance at shareholders' general meetings and the delegation of voting rights 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.

Complies	Partially complies	Explain
X		

10. Where any shareholder may legitimately have exercised the right to make any addition to the agenda or presented 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 matters or proposals made by the board of directors, including in particular any assumptions or deductions with regard to the nature of votes.
- d) After the shareholders' general meeting, the company should provide a breakdown of votes cast on any such additional agenda items or alternative proposals.

Complies	Partially complies	Explain	Not applicable
X			

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.

Complies	Partially complies	Explain	Not applicable
X			

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.

Complies	Partially complies	Explain
X		

13. In the interests of the effectiveness and participatory nature of its functioning, the board of directors should comprise between five and fifteen members.

Complies	Explain
	X

There are currently 16 Board Members, which is a number comprised within the 11 to 21 member limit provided in Article 13 of the Company By-laws and is in accordance with the Spanish Capital Companies Law. To date, this was considered to be most appropriate number in accordance with the company's needs and characteristics with regard to shareholder structure.

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 re-election of members are based on a prior analysis of the needs of the board of directors.
- c) Favours diversity of expertise, experience and gender.

The result of the prior analysis of the needs of the board of directors should be set forth in a report of the appointments, which shall be published on the occasion of the call to the shareholders' general meeting at which the ratification, appointment or re-election of each board member is to be sought.

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 explain its findings in the annual corporate governance report.

Complies	Partially complies	Explain
	X	

The ACS Group promotes all those policies necessary to ensure equality of opportunity and prevent implicit bias and any discrimination in the selection process, not just in the case of Board Members but also for any job position, so as to ensure that the candidates meet the skill, knowledge and experience requirements for the post, as reflected in the ACS Code of Conduct.

It is true that at 31 December 2016 the requirement that 30% of the members of the Board should be women is not met. Although the number of women board members currently represents 12.5% of the total, it should be considered that of the six vacancies that have arisen in recent years, one third have been filled by women. Complying with the terms of the Board regulations and the Group's Code of Conduct, the Appointments and remuneration Committee favours the inclusion of women among the potential candidates, ensuring that they possess the appropriate professional profile and meet objective merit and capability criteria.

The Group has a policy on new Board of Director membership designed to achieve the criteria suggested by the Unified Code, coordinating principles of representation with those of equality and independence.

For this reason, the vacancies that have taken place in the last 5 years have been used to reduce the number of male members to be able to incorporate women members, so that 33% of incorporations have been women.

15. A broad majority on the board of directors should be proprietary and independent board members and the number of executive board members should be the minimum necessary, taking into account the complexity of the group of companies as well as each executive board members' holding in the share capital of the company.

Complies	Partially complies	Explain
	X	

16. The percentage of the total non-executive board members represented by proprietary board members should not be greater than the proportion of capital represented on the board and the remainder of the company's capital.

This proportional criterion may be relaxed

- a) In large cap companies where few ownership interests attain the legal threshold for significant shareholdings.
- b) In companies where multiple, otherwise unrelated shareholders are represented on the board of directors.

Complies	Explain
	X

17. The number of independent board members should represent at least half of all board members.

Nevertheless, in companies which are not large cap concerns, or if they are, where a single shareholder or several acting in concert to control more than 30% of share capital, the number of independent board members should represent at least one third of the total board members.



Complies	Explain
	X

The Company considers that the composition of the Board of Directors is appropriate for the representation of the interests of the shareholders, whether majority or minority. It should be considered that a significant proportion (three of the four) of the Other External directors are directors who although they have exceeded the legal rule setting a maximum term of 12 years for independent directors are considered because of their personal and professional qualifications to be directors able to perform their duties without being constrained by any relationship with the company or its group, its major shareholders or its management.

18. Companies shall post the following information regarding the board members on their websites, and keep them permanently updated:

- a) Professional experience and background.
- b) Board memberships held at other companies, listed or otherwise, and any other remunerated activities of any kind in which the board member may engage.
- c) An indication of the board member's classification as executive, in the case of proprietary board members stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments or reselection as a company board member.
- e) Shares held in the company and any options thereon.

Complies	Partially complies	Explain
		X

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.

Complies	Partially complies	Explain	Not applicable
			X

20. Proprietary board members shall resign when the shareholders they represent dispose of the shares owned in their entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary board members, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and C.1.2.

Complies	Partially complies	Explain	Not applicable
			X

21. The Board of Directors may not propose the removal of any independent board members before the expiry of the statutory term for which they were appointed, as mandated by the by-laws, except where just cause is found by the board based on a report of the appointments committee. In particular, just cause will be presumed when a board member takes up any new posts or contracts new obligations such as might prevent him/her from dedicating the necessary time to the discharge of the duties proper to the office of director, is found to be in breach of the duties inherent in his/her position or comes under one of the grounds leading to disqualification as independent, in accordance with the provisions of applicable legislation.

The removal of Independent board members may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure and such changes in the structure of the board of directors are a consequence of the proportionality criterion set out in Recommendation 16.

Complies	Explain
X	

22. Companies shall lay down rules requiring board members to inform the board, and if necessary, resign, in cases where the company's name and reputation is harmed. In particular, board members shall be required to inform the board of directors immediately of any criminal charges brought against them and the progress of any subsequent trial.

When a board member is accused of or brought to trial for any of the offences defined by prevailing legislation, the board should examine the matter as soon as possible and, in view of the specific circumstances, should decide whether or not the board member so arraigned should be called upon to resign. The board should also disclose all such determinations in the annual corporate governance report.

Complies	Partially complies	Explain
X		

23. All board members should express clear opposition when they feel a proposal submitted for approval by the board of directors might harm the corporate interest. In particular, independents and other board members unaffected by potential conflicts of interest should challenge any decision that could be detrimental to the interests of shareholders lacking board representation.

When the board of directors makes any material or recurring decisions on any matter about which a board member has expressed serious reservations, then he or she should draw the pertinent conclusions. Board members resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, whether or not he/she is also a board member.

Complies	Partially complies	Explain	Not applicable
X			

24. Board members who resign or otherwise step down before their term expires, shall explain their reasons for doing so in a letter sent to all members of the board of directors. Regardless whether such resignation is filed as a significant event, the motive for it must be explained in the annual corporate governance report.

Complies	Partially complies	Explain	Not applicable
X			

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

The board regulations should establish a maximum number of other companies' boards on which the board members may hold seats.

Complies	Partially complies	Explain
	X	

The company is considered to be partly compliant, because although it must be taken into account that the Rules of the Board of Directors do not establish a maximum number of other companies' boards on which the board members may hold seats, this is not considered to be the only variable that can impact on the dedication of the Company's directors, with the performance of their professional activity outside the Company's Board being one relevant variable. The Company considers that with the aim of maintaining a balance between

dedication to the Company and the benefits and experience they contribute from their own activity and presence on other boards, their presence on them cannot be restricted, as it is a personal matter to be decided by the board members themselves, if they consider that they cannot offer the dedication necessary for an appropriate performance. At no time has the existence been detected of any lack of time or dedication by Board Members for the adequate performance of the duties with which they have been charged.

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 board member may also individually propose other initially unscheduled items for inclusion in the agenda.

Complies	Partially complies	Explain
	X	

In 2016 the Board of Directors held 7 meetings, the number considered necessary during the year for it to carry out its activity with the necessary efficiency. The Executive Committee is the body delegated by the Board which normally records a greater number of meetings held, although this was not the case in 2016, because of its greater decision-making agility, as it possesses all the powers of the Board except for those that cannot be delegated according to the law and the by-laws, enabling it to adequately manage the group.

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.

Complies	Partially complies	Explain
	X	

As indicated in section C.1.30, the Company has recorded 95.73% attendance, calculated according to the compliance instructions of the Annual Corporate Governance Report and not by the number of sessions attended by all the Board Members in relation to the total held but in number of votes (112) in relation to the theoretical total (117). Proxies with voting instructions are in many cases impossible to comply with because unlike the agenda for the convening of a General Shareholders' Meeting, which is fixed, in the case of summonses to Board Meetings there is no fixed agenda. In many of the board meetings this makes it very difficult to delegate specific voting instructions for each item on the agenda.

28. Where the directors or the secretary express any concerns over a proposal, or in the case of board members, 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.

Complies	Partially complies	Explain	Not applicable
X			

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.

Complies	Partially complies	Explain
	X	

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

Complies	Partially complies	Explain
	X	

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.

Complies	Partially complies	Explain
X		

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

Complies	Partially complies	Explain
X		

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 by-laws, and shall 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 shall likewise be responsible for directing 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.

Complies	Partially complies	Explain
X		

34. Where there is a coordinating director, the by-laws or rules of the board of directors shall 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 chairmen, 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.

Complies	Partially complies	Explain	Not applicable
X			

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

Complies	Explain
X	

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 powers.

- d) The performance of the chairman of the board of directors and 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 shall 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 shall be assisted in its evaluation by an external consultant, whose independence shall be verified by the appointments committee.

Business relations maintain 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 shall be described in the annual corporate governance report.

Complies	Partially complies	Explain
X		

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

Complies	Partially complies	Explain	Not applicable
	X		

As a result of the change by José María Loizaga from independent member to "Other External" to comply with the end of the 12-year legal mandate, there are no longer any independent members on the Executive Committee. This is because the members of this Committee are chosen on the basis of their person (personal and professional profile) and not on the basis of their category of director.

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

Complies	Partially complies	Explain	Not applicable
X			

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

Complies	Partially complies	Explain
X		

40. A unit shall 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 shall report functionally to the non-executive chairman of the board or to the audit committee.

Complies	Partially complies	Explain
X		

41. The head of the internal audit unit shall submit an annual work plan to the audit committee and shall 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.

Complies	Partially complies	Explain	Not applicable
X			

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 consolidation scope defined and appropriate application of accounting criteria.
- b) To oversee the independence of the internal audit unit; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the budget for the service; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on internal activities; and ensure that senior management takes the conclusions and recommendations of internal audit reports into consideration.
- c) To establish and oversee a whistle-blowing mechanism allowing employees confidentially and, if possible and 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 of resignation of the external auditor.
- b) To ensure that the remuneration of the external auditor's work does not compromise quality or 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 content 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 services other than audit, the limits on the concentration of the auditor's business and the terms of regulations governing auditor independence in general.

Complies	Partially complies	Explain
X		

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

Complies	Partially complies	Explain
X		

44. The audit committee shall be apprised of all information concerning transactions involving structural or corporate changes which the company or any company forming part of its group plan 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.

Complies	Partially complies	Explain	Not applicable
X			

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

- a) The different types of financial and non-financial (operational, technological, legal, corporate, environmental, political and reputational) risk to which the company is exposed, including contingent liabilities and other off-balance sheet risks among the financial and business risks identified.
- 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.

Complies	Partially complies	Explain
X		

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 internal control and risk 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.

Complies	Partially complies	Explain
X		

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

Complies	Partially complies	Explain
	X	

Although the Independent Board Members do not account for half of the members of the Appointments and Remuneration Committee, if account is taken of the independence with which the "Other External Directors" act (who have ceased to be independent from the mere passage of time), in addition to the chairman, who is independent, it can be considered that although there is no majority of independent board members, the existing directors do possess the appropriate knowledge, skills and experience to perform their duties.

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

Complies	Partially complies	Explain
	X	

The Company considers that although it does not formally comply with this requirement, it must also be taken into account that if split into two separate committees, one for appointments and another for remuneration, they could well have an almost identical composition, as the Committee deals with each of these matters separately. Nevertheless, the separation and setting up of two different committees, one for appointments and one for remunerations, is being studied.

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

Any board member may request that the appointments committee to take potential candidates to cover vacancies in the board of directors into consideration, where they understand the same to be suitable.

Complies	Partially complies	Explain
X		

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

- a) To propose the basic terms and conditions 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 board members 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 board members and senior executives contained in corporate documents, including the annual report on board members' remuneration.

Complies	Partially complies	Explain
X		

51. The remuneration committee shall consult with the chairman or chief executive officer, especially on issues involving executive board members and senior executives.

Complies	Partially complies	Explain
X		

52. The rules governing the membership and functioning of supervisory and control committees should be set forth in the rules of the board of directors and should be consistent with those applied by law to mandatory committees in accordance with the foregoing recommendations, including:

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

Complies	Partially complies	Explain	Not applicable
			X

53. Compliance with the rules of corporate governance, internal codes of conduct and corporate social responsibility policy shall be supervised by one or more board committees, which may be the audit committee,



the appointments committee, the corporate social responsibility committee, where applicable, or a specialized committee set up by the board of directors for that purpose in the exercise of its powers of self-organization and vested with at least the following powers:

- 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 alignment of the company's corporate governance system in order to ensure that it fulfils its mission of furthering the corporate interest and takes the legitimate interests of other stakeholders into account where 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 affecting 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.

Complies	Partially complies	Explain
X		

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 implemented 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, social issues, the environment, diversity, fiscal responsibility, human rights and the prevention of unlawful conduct.
- d) The methods and monitoring systems applicable to the specific practices referred to in point c) above, the associated risks and their management.
- e) Mechanisms established to monitor 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 honour.

Complies	Partially complies	Explain
X		

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

Complies	Partially complies	Explain
X		

56. Directors' remuneration should be set at the necessary levels to attract and retain board members 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 board members.

Complies	Explain
X	

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 board members subject to the condition that any securities delivered by held until the board member 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.

Complies	Partially complies	Explain
X		

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 should 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) Should 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.

Complies	Partially complies	Explain	Not applicable
X			

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.

Complies	Partially complies	Explain	Not applicable
X			

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

Complies	Partially complies	Explain	Not applicable
X			

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

Complies	Partially complies	Explain	Not applicable
X			

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 securities which the board member concerned may need to dispose of, where applicable, to settle acquisition costs.

Complies	Partially complies	Explain	Not applicable
	X		

The current plan was awarded in 2014 before the changes approved by the current Code of Good Governance, so it does not include the recommendations on the matter. Nevertheless, in the following plans that the Group plans to establish as a mechanism for variable multiple-year remuneration in line with the creation of long-term value for the shareholder, it is planned to include most of these recommendations. Specifically, the next 2017 Plan intends to include:

1. Prior compliance with operating and financial objectives set by the Board of Directors for allocation.
2. A term for the exercise of the option of more than 3 years from allocation.

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.

Complies	Partially complies	Explain	Not applicable
		X	

No such clause has been included in the options plans established to date.

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

Complies	Partially complies	Explain	Not applicable
X			

## H OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects relating to corporate governance in the company or group entities which have not been reflected in the other sections of this report, but which need to be included to give more complete and reasoned information on the structure and governance practices in the company or its group, detail them briefly.
2. This section can also include any other information, clarification or qualification relating to the previous sections of the report, provided that it is material and not repetitive.

In particular, indicate whether the company is subject to any legislation other than the Spanish legislation on corporate governance and, if so, include the information that it is required to furnish, where such information differs from that required in this report.

3. The company may also indicate whether it has adhered voluntarily to other codes on ethical principles or good practices, whether international or applying to the sector or other scope. Where applicable, identify the code in question and the date of adherence.

C.1.16. - The list of senior management members provided in section C.1.16 does not include executives of the ACS Group whose activities are concerned with listed companies like Hochtief and Cimic.

C.1.19. - Literal content of the applicable articles of the Rules of the Board of Directors.

### Article 3. Composition and appointments

1. Within the limits stipulated in Article 13 of the Company by-laws in force and notwithstanding the powers of proposal which, under the legislation in force, may correspond to the shareholders, the Board of Directors shall be responsible for proposing to the General Shareholders' Meeting the number of Board Members and individuals or legal entities to be appointed.

The appointment proposal shall specify whether the Board Member is an Executive, Proprietary, Independent or External Board Member.

Furthermore, should any vacancies arise, the Board of Directors may provisionally fill them by appointing Directors by co-option until the next General Shareholders' Meeting where a definitive appointment shall be made. If any vacancy arises after the general shareholders' meeting has been called but before it is held, the Board of Directors may appoint a Board Member until the following general meeting is held. The director so appointed by the Board of Directors need not necessarily be a shareholder of the Company.

2. Proposals for the appointment or re-election of Board Members shall be made by the Appointments and Remuneration Committee in the case of independent Board Members, and by the Board of Directors in all other cases. Proposals shall in any event be accompanied by a report from the Board assessing the competence, expertise and merits of the proposed candidate, which shall be attached to the minutes to the General Meeting of the Shareholders or the Board meeting, As appropriate. Proposals for the appointment or re-election of any non-independent Board Member shall require the preparation of a prior report of the appointments and remuneration committee. The Board of Directors shall ensure that the procedures applied in the selection of its members foster diversity of gender, experience and knowledge, and are not affected by any implicit bias which could imply discrimination of any kind and, in particular, they shall facilitate the selection of female Board Members.
3. The provisions set forth in this article shall likewise apply to any natural persons appointed to represent legal entities on the Board of Directors. Proposals for the appointment of a natural person as representative shall be subject to report from the Appointments and Remuneration Committee.

### Article 5.- Functions

1. In accordance with article 18 of the prevailing By-Laws, the Board of Directors shall be responsible for representing the Company, for the management of its affairs and for the transaction of all business comprising the corporate purpose or related therewith.

In the exercise of its functions the Board of Directors shall act in conformity with the corporate interest and shall safeguard the interest of the shareholders.

2. The Board of Directors shall not delegate the following powers under any circumstances:

- a) Supervision of the effective functioning of the Committees created, and of the activities of delegate bodies and of the executives appointed.
- b) Definition of the Company's general policies and strategies.
- c) Waiver or dispensation of obligations arising in respect of the duty of loyalty.
- d) Its own organization and functioning.
- e) Preparation of the annual accounts and presentation thereof at the Annual General Meeting.
- f) Preparation of reports of any kind required of the management body by Law, wherever the operation referred to in the report cannot be delegated.
- g) Appointment and removal of the Company's executive officers, and determination of the terms and conditions of their contracts.
- h) Appointment and removal of executives reporting directly to the Board of Directors or any of the Board Members, and determination of the basic terms and conditions of their contracts, including remuneration.
- i) Decisions relating to the remuneration of the Board Members within the statutory framework, and where applicable, to the remuneration policy approved by the shareholders at their general meeting.
- j) Issues of calls for the Shareholders' General Meeting, preparation of the agenda and proposed resolutions.
- k) Policy relating to treasury shares.
- l) Powers delegated by the Shareholders' General Meeting to the Board of Directors, unless the Board is expressly authorized to sub-delegate such powers.
- m) Approval of the strategic or business plan, management objectives and the annual budgets, investment and financing policies, and policy in matters of corporate social responsibility.
- n) Definition of policy for the control and management of risks, including tax risks, and supervision of internal information and control systems.
- o) Definition of the corporate governance policy of Company and the Group of which it is the parent, as well as the Board's own organization, functioning and, in particular, approval or amendment of its own rules.
- p) Approval of the financial information which the Company is required to publish periodically, given its condition as a listed undertaking.
- q) Definition of the structure of the group of companies of which the Company is the parent.
- r) Approval of investments and operations of all kinds which in view of the significant amounts involved or their special characteristics may be considered of a strategic nature or constitute special tax risks, unless approved by the shareholders at their General Meeting.
- s) Approval of the creation or acquisition of equity investments in special purpose vehicles and entities registered in countries or territories defined as tax havens, as well as any other transactions or operations of a similar nature which in view of their nature could adversely affect the transparency of the Company or its group.
- t) Approval, subject to a report from the Audit Committee, of the transactions carried out by the Company and its group companies with Board Members under the terms established by prevailing legislation, or with shareholders owning significant shareholdings either individually or in concert, including shareholders represented on the Company's Board of Directors or shareholders of other companies forming part of the same group, or persons related with the same. Directors linked, representing or related to the shareholders affected shall abstain from participating in deliberations and voting on the resolution in question.

The only exception shall be made in the event of approval of transactions simultaneously meeting the following three conditions:

1. They are carried out under contracts entered based on standard terms and conditions applied In masse to large numbers of customers;
2. They are carried out at prices or rates established in general by the provider of the good or service in question; and
3. The sum involved does not exceed one per cent of the Company's annual revenues.

u) Determination of the Company's tax strategy.

Where so required in duly justified, urgent cases, decisions relating to the above matters may be adopted by delegate bodies or persons. However, such decisions shall require ratification at the first meeting of the Board of Directors held after they are taken.

Article 13. Term of appointment for Board Members

1. Board Members shall hold office for a term of four years. The Board Members may be re-elected one or more times for terms of the same maximum duration.
2. The appointment of the Board Members shall expire when their term has ended and the next General Meeting has been held, or following the legal period within which the Meeting is to be held to resolve on whether or not to approve the financial statements for the previous year.
3. Notwithstanding the foregoing, Proprietary Board Members shall resign when the shareholder they represent fully disposes of its shares by any means.

Article 18. - Chairman and Coordinating Board Member

1. Subject to a report from the Appointments and Remuneration Committee, the Board of Directors shall appoint a Chairman from among its members, and where applicable one or more Deputy Chairmen.
2. The Chairman shall be fully responsible for the effective functioning of the Board of Directors, and he/she shall have, *inter alia*, the following duties and powers:
  - a) To call and preside over meetings of the Board of Directors, setting the agenda for the meetings and directing the discussion and debate;
  - b) Unless otherwise established in the by-laws, to chair the Shareholders' General Meeting.
  - c) To ensure that the Board Members receive sufficient information before meetings to debate the items on the agenda.
  - d) To stimulate debate and the active participation of Board Members at meetings, safeguarding the free adoption of positions and ensuring that sufficient time is allowed to discuss strategic issues.
  - e) To organize and coordinate regular evaluations of the Board, as well as the Company's chief executive officer, unless the Chairman holds such position.
  - f) To ensure the existence of programmes to allow Board Members to update their knowledge where circumstances so require.
  - g) To prepare and submit to the Board of Directors a programme of dates and issues to be debated at the meetings of the Board;
3. The Chairman of the Board of Directors may be an executive Board Member. In such case, the appointment of the Chairman shall require the votes in favour of two thirds of the members of the Board of Directors.
4. If the Chairman is an executive Board Member, the Board of Directors shall necessarily appoint a Coordinating Board Member with the abstention of the executive Board Members. The Coordinating Board Member shall have the following powers and responsibilities:
  - a) to chair the Board of Directors in the absence of the Chairman and the Deputy Chairmen, if any.
  - b) To request that the Board of Directors be convened or that new items be included in the agenda for any meeting of the Board already called.
  - c) To coordinate and bring together the non-executive Board Members, and to voice their concerns, in particular with regard to corporate governance.
  - d) To direct periodic evaluations of the Chairman of the Board of Directors;
  - e) To coordinate the succession plan for the Chairman.

Article 19. Deputy Chairmen

The Board may also elect from among its Board Members one or two Deputy Chairmen who shall act as the Chairman in cases of delegation, absence or illness and, in general, perform all the tasks that may be entrusted to them by the Chairman, the Executive Committee and the Board of Directors.

Substitution of the Chairman shall take place by chronological order of the Deputy Chairmen's appointment, in the absence of such order, by order of seniority and, lastly by order of greater to lesser age.

#### Article 20. Chief Executive Officer

The Board may appoint one or more Executive Officers, delegating to him the powers deemed expedient except those which, by law or Company By-laws, cannot be delegated.

If a Board Member is appointed Chief Executive Officer, or if executive functions are assigned to any Board Member in any other way, a contract shall be made between the person so appointed and the Company, the terms of which shall be approved in advance by the Board of Directors with the votes in favour of two thirds of its members. The Board Member concerned shall leave the debate and shall abstain from voting. The contract so approved shall be attached as an annex to the minutes of the meeting.

#### Article 21.- The Secretary

1. Subject to a report from the Appointments and Remuneration Committee, the Board of Directors shall appoint a Secretary from among its members, and where applicable one or more Deputy Secretaries. The same procedure shall be used to decide the removal of the Secretary and, if applicable, of each Deputy Secretary. The Secretary and the Deputy Secretaries may or may not be Board Members.
2. In addition to the functions assigned by law and by the Company's By-Laws or the present Rules, the Secretary shall discharge the following duties:
  - a. To keep the documentation of the Board of Directors, record the proceedings of meetings in the minutes books and certify the content of meetings and the resolutions adopted;
  - b. To ensure that the Board of Directors acts in accordance with prevailing legislation and with the provisions of the Company's By-Laws and other internal regulations, and that the Board takes into account generally accepted good governance recommendations and recommendations made for listed Spanish companies.
  - c. To assist the Chairman in providing the Board Members with all relevant information necessary for the performance of their functions with sufficient time in hand and in an appropriate format.

#### Article 26. The Appointments and Remuneration Committee

1. Likewise, the Board of Directors shall set up an Appointments and Remuneration Committee to be made up of a Chairman and a minimum of two Members who shall be freely elected and removed, from among its members, by the Board of Directors, and who shall perform their duties indefinitely or during the term for which they were elected. At least two of the members of the Appointments and Remuneration committee shall be independent Board Members. The appointment of the Chairman shall fall to one of the Independent Board Members. The Secretary to the Board of Directors shall attend the Committee's meetings, shall act as its Secretary, with entitlement to participate but not to vote, and shall write up the Minutes of the meeting, which shall be forwarded to all members of the Board of Directors following their approval.

The Appointments and Remuneration Committee shall only be deemed duly convened when the majority of its members attend and agreements shall be adopted by majority vote of those attending, with the Chairman having the casting vote in the event of a tie. The Committee shall meet, when convened by the Chairman, at least twice a year.

The Appointments Remuneration Committee shall consult with the Chairman of the Board of Directors and the Company's chief executive officer, in particular on matters relating to executive board members. Any Board Member may request that the appointments committee to take potential candidates to cover vacancies in the board of directors into consideration.

2. The Appointments and Remuneration Committee has the following duties:
  - a. To evaluate the capabilities, expertise and experience required by the Board of Directors. For these purposes, the Appointments and Remuneration 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.
  - b. 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.

- c. To make proposals to the Board of Directors for the appointment of independent Boards of Directors by co-option or by approval at the Shareholders' General Meeting, as well as proposals for the re-election or removal of such Board Members by the Shareholders' General Meeting;
- d. To make proposals for the appointment of other Board Members by co-option or by approval at the Shareholders' General Meeting, as well as proposals for the re-election or removal of such Board Members by the Shareholders' General Meeting.
- e. To make informed proposals for the appointment or removal of senior executives, and to report on or propose the basic terms and conditions of their contracts.
- f. To examine and organize the succession of the Chairman of the Board of Directors and of the Chief Executive Officer of the Company and, if applicable, to make proposals to the Board of Directors for such succession to occur in an orderly and well-planned fashion.
- g. To report to the Board of Directors on policy regarding the remuneration of directors and general managers or other persons discharging senior management functions and reporting directly to the Board of Directors, executive committees or Executive Board Members, as well as the individual remuneration and other contractual terms applicable to the executive Board Members, and to verify compliance with the policy established.
- h. To verify compliance with the remuneration policy established by the Company.
- i. Periodically to review the remuneration policy applied to Board Members 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.
- j. To ensure that potential conflicts of interest do not adversely affect the independence of external advice provided to the Committee.
- k. To verify information on the remuneration of Board Members and senior executives contained in corporate documents, including the Annual Report on Board Members' Remuneration.

Insofar as it were deemed necessary, and with the natural adaptations, the operation of the Appointments and Remuneration Committee shall be governed by the provisions of these Rules regarding the operation of the Board of Directors.

C.1.30 The percentage of votes in the Board are not calculated by the number of meetings at which all the Board Members were present with respect to the total number held, but rather by the number of votes (123) with respect to the total theoretical number.

#### C.1.34 - Article 24.- Audit Committee

1. In conformity with article 21 of the Company's By-Laws, an Audit Committee shall be created, formed by a minimum of three and maximum of five members, who shall be appointed and removed by the Board of Directors from among its members. No person who currently discharges, or in the immediately preceding three years has discharged, any executive functions in the Company, or who is or was an employee in the aforementioned period, shall be appointed as an Audit Committee member. At least two of the members of the Audit Committee shall be independent Board Members, and one of them shall be appointed taking into account his/her knowledge and expertise in accounting and/or audit matters. The Committee Chairman shall likewise be appointed by the Board of Directors from among the two independent Board Members. The Chairman shall not remain in office for a term of more than four years, but may nevertheless be re-elected thereafter once a period of one year has elapsed after termination. The Secretary to the Company's Board of Directors shall attend meetings with the right to speak but not to vote, and shall take the minutes, copies of which shall be sent upon approval to each of the members of the Board of Directors.
2. A unit shall 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 shall report functionally to the non-executive Chairman of the Board or to the Audit Committee. The head of the internal audit unit shall submit an annual work plan to the Audit Committee and shall 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.
3. The Audit Committee shall be deemed duly convened when the majority of its members are present, and it shall adopt resolutions by majority vote of those present. The Chairman shall have the casting vote in the event of a tie. The Audit Committee shall meet as often as it may be convened by the Chairman, and it shall in any event meet at the beginning and end of the audit of the Company's and the Group's individual and



consolidated financial statements, and before the issue of the pertinent audit reports. The Committee shall also meet on the occasion of the preparation of the mandatory financial information which the Company is required to publish. The Company's Auditor may attend meetings of the Audit Committee where specifically invited to explain key issues arising from the audit procedures carried out.

4. The functions of the Audit Committee shall be as follows:

- a. To report to the General Shareholders' Meeting on all matters arising within the remit of the Committee.
- b. To supervise effectiveness of the Company's internal controls, internal audits and risk management systems (including tax risks), and to discuss any significant weaknesses in the internal control system which may be detected in the course of audit procedures with the external auditor.
- c. To supervise the process of preparing and presenting mandatory financial information.
- d. To make proposals to the Board of Directors with regard to the selection, appointment, re-selection or replacement of the external auditor as well as proposals relating to the terms of engagements; regularly to seek and obtain information from the auditors with regard to their audit plan and the progress thereof; and to safeguard the auditors' independence in the discharge of their functions.
- e. To establish appropriate relations with the external auditor in order to receive information regarding matters which might risk their independence for examination by the Audit Committee, and any other information related to the course of audit procedures as well as such other communications as are provided for in legislation governing the audit of financial statements and in prevailing audit standards; In any event, the Audit Committee shall obtain the auditors annual representations of independence in relation to the company and other companies directly or indirectly related with the same, as well as information on any additional services of any kind provided 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.
- f. To issue a report an annual report before the issuance of the audit report, expressing an opinion on the independence of the auditor. This 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 the system in place to assure auditor independence and compliance with prevailing audit regulations.
- g. To report to the Board of Directors on all matters where so required by Law, the By-Laws and the Board Regulations, in particular with regard to:
  1. the financial information published by the Company on a regular basis;
  2. the creation or acquisition of investments in special purpose vehicles registered in countries or territories listed as tax havens; and
  3. related-party transactions.
- h. Directly to oversee the performance of the internal control and risk management functions carried out by any unit or Department of the Company.

The functions described in paragraphs d), e) and f) above are discharged without prejudice to prevailing legislation governing auditing.

5. In addition to the functions in the preceding point, the Audit Committee shall discharge the following duties in relation to information and internal control systems and to the external auditor:

- 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 consolidation scope defined and appropriate application of accounting criteria.
- b. To oversee the independence of the internal audit unit; propose the selection, appointment, re-election and removal of the head of the internal audit department; propose the budget for the service; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on internal activities; and ensure that senior management takes the conclusions and recommendations of internal audit reports into consideration.
- c. To establish and oversee a whistle-blowing mechanism allowing employees confidentially to report any potentially material irregularities, especially of a financial or accounting nature, which they may observe in the company.
- d. To examine the circumstances and reasons in the event of resignation of the external auditor.

- e. To ensure that the remuneration of the external auditor's work does not compromise quality or independence.
  - f. 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 content thereof.
  - g. 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.
  - h. To ensure that the Company and the external auditor respect prevailing regulations governing the provision of services other than audit, the limits on the concentration of the auditor's business and the terms of regulations governing auditor independence in general.
6. The Audit Committee may call any employee or executive of the company, and may even require attendance without the presence of any other executive. The Audit Committee shall be apprised of all information concerning transactions involving structural or corporate changes which the company or any company forming part of its group plan 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.
7. Insofar as may be necessary, and with the natural adaptations, the functioning of the Audit Committee shall be governed by the provisions of these Rules regulating the functioning of the Board of Directors.

#### Article 25. Functions of the Audit Committee in the matter of governance and corporate social responsibility

In addition to the functions listed in the previous article, the Audit Committee shall supervise compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policies, being assigned the following functions:

- a) Supervision of the internal codes of conduct and the corporate governance rules of the Company.
- b) Supervision of the strategy for communication and relations with shareholders and investors, including small and medium-size shareholders.
- c) Regular evaluation of the adequacy of the Company's system of corporate governance to ensure it fulfils its mission of promoting the corporate interest and takes into account in an appropriate manner the legitimate interests of the remaining stakeholders.
- d) Review of the Company's corporate social responsibility policy, to ensure it is designed for the creation of value.
- e) Monitoring of the strategy and practices of corporate social responsibility and the evaluation of their degree of compliance.
- f) Supervision and evaluation of the processes for handling relations with the various stakeholders.
- g) Evaluation of all matters in relation to the non-financial risks of the company – including those that are operational, technological, legal, social, environmental, political and reputational.
- h) Coordination of the process for the reporting of non-financial information and on diversity pursuant to applicable regulations and international benchmark standards.

C.1.45.- The Shareholders' General Meeting shall be deemed to have been informed of clauses to the extent that they may be mentioned in the Annual Remuneration Report submitted for approval at the General Meeting on a consultative basis only.

D.2 and D.3 In relation to this section, list any relevant transactions entailing a transfer of funds or obligations between the company or group companies and companies related to the company's significant shareholders. In relation to this section, the only transactions between executives and administrators are those remunerations already detailed in those sections:

Transactions carried out in 2016 are as follows (in thousands of euros):

<b>Management or collaboration agreements:</b>	Terratest, Técnicas Especiales, S.A. EUR 4,289
<b>Leases:</b>	Fidalsar, S.L. EUR 192
<b>Services received:</b>	Grupo Iberostar EUR 104 Fidalsar, S.L. EUR 72 Terratest Técnicas Especiales, S.A. EUR 2,924 Zardoya Otis, S.A. EUR 1,783
<b>Dividends and other distributed profit:</b>	March - JLT, S.A. EUR 16,206
<b>Services rendered:</b>	Rosán Inversiones, S.L. EUR 40 Grupo Iberostar EUR 746 Comunidad de Propietarios Pablo Aranda EUR 185 Zardoya Otis, S.A. EUR 102
<b>Sale of assets (finished or in progress):</b>	Administradores y/o Directivos EUR 1,625
<b>Financing agreements: loans and capital contributions:</b>	Banca March/Alba Participaciones, S.A. EUR 14,550 Banco Sabadell EUR 583,150
<b>Guarantees given:</b>	Banca March/Alba Participaciones, S.A. EUR 10,310
<b>Dividends and other distributed profit:</b>	Fapin Mobi EUR 695
<b>Other transactions</b>	Banca March/Alba Participaciones, S.A. EUR 19,983

At 31 December 2016 the outstanding balance payable to Banca March in respect of overdrafts and loans granted to ACS Group companies was EUR 6,855 thousand (EUR 12,353 at 31 December 2015). According to the information available in the ACS Group companies, transactions at 31 December 2016 totalled EUR 10,004 thousand in respect of guarantees (EUR 14,709 thousand at 31 December 2015) and EUR 20,031 thousand in respect of “reverse factoring” operations with suppliers (EUR 31,561 thousand at 31 December 2015).

At 31 December 2016 the outstanding balance payable to Banco Sabadell in respect of overdrafts and loans granted to ACS Group companies was EUR 107,833 thousand (EUR 186,572 thousand at 31 December 2015). According to the information available in the ACS Group companies, transactions with said bank at 31 December 2016 totalled EUR 331,269 thousand in respect of guarantees (EUR 366,188 thousand at 31 December 2015) and EUR 37,797 thousand in respect of “reverse factoring” operations with suppliers (EUR 23,451,000 at 31 December 2014).

Corporación Financiera Alba, S.A. and its significant shareholder Banca March are disclosed separately due to the relationship that existed during the year because of the membership on the Board of Pablo Vallbona and Javier Fernández until their resignation on 29 July 2016. Banca March, as a financial institution, has performed typical transactions relating to its ordinary course of business, such as granting loans, providing guarantees for bid offers and/or the execution of works, reverse factoring and non-recourse factoring to several ACS Group companies.

Iberostar is disclosed as it was on the Board of ACS, Actividades de Construcción y Servicios, S.A. until 22 December 2016, when it submitted its resignation. As a tourism and travel agency, this Group has provided services to ACS Group companies as part of its business transactions. The ACS Group has also carried out mainly air-conditioning activities in Iberostar hotels.

Rosán Inversiones, S.L. is itemised due to its links with the Company’s Chairman and CEO, who has a significant holding through Inversiones Vesán, S.A.

The transactions with other related parties are listed due to the relationship of certain Board Members of ACS, Actividades de Construcción y Servicios, S.A. with companies in which they are either shareholders or senior managers. In this regard, the transactions with Fidalsar, S.L., Terratest Técnicas Especiales, S.A. and Fapin Mobi, S.L. are listed due to the relationship of the Board Member, Pedro Lopez Jimenez, with these companies.. The transactions performed with the Zardoya Otis, S.A. are indicated due to the relationship it had with the director José María Loizaga. The transactions with Banco Sabadell are listed due the bank’s relationship with the Board Member Javier Echenique. The transactions with the insurance broker, March-JLT, S.A., are listed due to the company’s relationship with Banca March, although in this case the figures listed are intermediate premiums paid by ACS Group companies, rather than considerations for insurance brokerage services.

“Other transactions” includes all transactions not related to the specific sections included in the periodic public information reported in accordance with the regulations published by the CNMV. In 2016 “Other transactions” related

exclusively to Banca March. The latter, as a financial institution, provides various financial services to ACS Group companies in the ordinary course of business amounting to a total of EUR 19,983 thousand (EUR 30,320 thousand in 2015) in respect of reverse factoring facilities for suppliers.

All these commercial transactions were carried out on an arm's length basis in the ordinary course of business and relate to the normal operations of the Group companies.

Transactions between companies forming part of the consolidated ACS Group were eliminated in the consolidation process and formed part of the ordinary business conducted by said companies in terms of their purpose and contractual conditions. Transactions are carried out on the arm's length basis and disclosure is not required to present a true and fair image of the Group's equity, financial situation and results.

D,4 No information is include on specific transactions made by subsidiaries listed in countries other than the group parent, Hochtief and CIMIC in particular (as well as their own subsidiaries) that are subject to their own regulations on corporate governance and transparency for listed companies. Such regulations could restrict the majority shareholder's ability to determine and publish specific elements that were not made public because of the application of such rules.

#### G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

With regard to Recommendation 37 of Section G, structure of ownership interests of the various categories of Board Members on the Board of Directors and Executive Committee is as follows:

Executive Board Members on the Board of Directors	22.22%
Executive Board Members on the Executive Committee:	33.33%
External Proprietary Board Members on the Board of Directors:	38.89%
External Proprietary Board Members on the Executive Committee	33.33%
External Independent Board Members on the Board of Directors	16.67%
External Independent Board members on the Executive Committee	0%
Other External Board Members on the Board of Directors	22.22%
Other External Board Members on the Executive Committee:	33.33%

#### SECTION.- H.3

The Company at the meeting of its Board on 19 November 2010 took a decision to adhere to the Code of Best Tax Practice drawn up by the Spanish Revenue Service and notified the Agency of the fact on 1 December 2010. The objective of this Code is to underpin transparency and cooperation in the Company's tax practices, and to enhance legal certainty with regard to the interpretation of tax regulations.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at its meeting held on 23/03/2017.

Indicate whether any Board Members voted against or abstained in relation to the approval of this Report.

	Yes	No
		X

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

**ASSURANCE' REPORT ON THE 2016 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF ACS, Actividades de Construcción y Servicios, S.A. FOR 2016**

To the Directors of  
ACS, Actividades de Construcción y Servicios, S.A.:

As requested by the Board of Directors of ACS, Actividades de Construcción y Servicios, S.A. ("the Entity") and in accordance with our engagement letter of 19 December 2016, we have applied certain procedures to the accompanying "Information relating to the ICFR" of ACS, Actividades de Construcción y Servicios, S.A. for 2016, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of 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 reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of 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. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2016 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of 22 December, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Ignacio Alcaraz Elorrieta  
March 23, 2017