GOVERNANCE BODIES

OWNERSHIP STRUCTURE AND STOCK PERFORMANCE

RISK MANAGEMENT

Risk management

Within the corporate policies approved by the Board of Directors, the Risk Control and Management Policy lays down the basic principles and general framework for control and management of the business risks, including tax risks, and internal control of financial reporting to which the Company and other companies in its group are exposed.

This general framework is set out in an integrated, homogenous Risk Control and Management System, guided by the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) integrated framework and guidance on internal control. This System is based on the preparation of a business risk map to identify, assess and rate the management capacity of different risks and thus obtain a ranking from greater to lesser impact for the Group and their probability of occurrence. Risks are classified into four main groups: compliance, operational, strategic and financial.

In the classification process, a dynamic assessment is made of both inherent risk and the residual risk after applying the internal controls and protocols established to mitigate them. Those controls include preventive measures, adequate segregation of duties, clear levels of authorisation and the definition of policies and procedures.

The model is both qualitative and quantitative and can measure risks in the Group earnings, considering whether the risk level is acceptable or tolerable on a corporate level.

In 2015, in the wake of the amendments to the Corporate Enterprises Act in 2014 and the new recommendations made in the Code of Good Governance of Listed Companies in February 2015, the Group has reinforced its Risk Control System, including tax risks, and internal control of financial information. The most important new feature is the creation of the Risks Committee as an internal committee reporting to the Audit and Compliance Committee, designed to be the centrepiece of the control system.

Following that review, the Risk Control and Management System, including tax risks and control over financial information, rests on the following structure:

- The Board of Directors, as the body responsible for the system, determines the risk control and Management System, including tax risks and control over financial information.

- The Audit and Compliance Committee, through the Risks Committee, performs the duties of oversight and monitoring of financial information and risk control systems, reporting regularly to the board on any significant aspects arising in these areas. It is responsible for supervising and promoting internal control of the Group and risk management systems, and submitting proposals to the Board on the risk control and management policy and possible measures for improvement.

- The Risks Committee, following the policy established by the Board and supervised by and reporting to the Audit Committee, is specifically responsible for coordination and monitoring of the risk control and management system, including tax risks and control of the Group's financial information. The Risks Committee also analyses and assesses any risks associated with new investments.

- The Management Committees of the different units, with the participation of the Chairman of the Board and the Chief Operating Officer (COO), assess the risks and decide on the measures to be taken.

- Risk officers in the different units. The Risks Committee appoints officers responsible in the relevant subsidiaries for monitoring the risk control and management systems, including tax risks and financial information, and reporting to the Committee.

- Internal Audit Department. Within the internal audits made on the different subsidiaries, the company's Internal Audit Department checks that the testing and control of financial information and risk management systems are being done correctly, as stipulated by the Risks Committee.

NB: A full description of the risks and the measures taken to mitigate them can be consulted in Note 28 to the Consolidated Annual Accounts and point 4 of the consolidated Directors' Report.