

## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

#### ISSUER IDENTIFICATION DATA

<b>DATE OF END OF REFERENCE YEAR</b>	31/12/2013
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<b>TAX ID NUMBER</b>	A28165587
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<b>COMPANY NAME</b>
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PRIM, S.A.
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<b>DOMICILE</b>
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CALLE F Nº 15 - POL. IND. Nº 1 ARROYOMOLINOS, (MOSTOLES) MADRID
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# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## A OWNERSHIP STRUCTURE

A.1 Complete the next table about the company's ownership structure:

Date of last change	Share capital (€)	No. of shares	Number of voting rights
05/12/2008	4,336,781.00	17,347,124	17,347,124

Indicate whether there are different classes of shares, with different associated rights:

Yes

No

A.2 Detail of direct and indirect owners of significant stakes, and of their stake at year-end, excluding directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
FID LOW PRICED STOCK FUND	1,032,168	0	5.95%
Ms ELISA PRIM BARTOMEU	409,628	1,312,765	9.92%
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ	977,187	0	5.63%
Ms ANA MARIA PRIM GONZALEZ	714,206	0	4.11%
Mr FRANCISCO RUIZ DE ALDA	647,868	0	3.74%
Ms ANA PRIM RELLAN	526,426	0	3.03%
Ms MONICA PRIM RELLAN	526,426	0	3.03%
Mr JOSE LUIS GARCÍA ARIAS	0	870,305	5.01%
CARTERA DE INVERSIONES MELCA, S.L	891,860	0	5.14%
FMR LLC	0	1,032,168	5.95%

Name of indirect owner of stake	Through: Name of direct owner of stake	Number of voting rights
Ms ELISA PRIM BARTOMEU	BARTAL INVERSIONES, S.L.	1,312,765
Mr JOSE LUIS GARCÍA ARIAS	CARTERA DE INVERSIONES MELCA, S.L	703,773
Mr JOSE LUIS GARCÍA ARIAS	SERVICIOS INMOBILIARIOS AVILES	166,532
FMR LLC	FID LOW PRICED STOCK FUND	1,032,168

Indicate significant changes in the ownership structure in the year:

A.3 Complete the next tables regarding the members of the company's board of directors who own stock options in the company:

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Mr JOSE LUIS MEIJIDE GARCÍA	115,969	0	0.66%
Mr JUAN JOSÉ PÉREZ DE MENDEZONA	9,192	0	0.05%
IGNACIO ARRAEZ BERTOLIN	3,332	0	0.02%

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Mr VICTORIANO PRIM GONZÁLEZ	1,633,697	3,403	9.43%
Mr ENRIQUE GIMENEZ-REYNA RODRIGUEZ	1,000	0	0.01%
BARTAL INVERSIONES, S.L.	1,312,765	0	7.56%

Name of indirect owner of stake	Through: Name of direct owner of stake	Number of voting rights
Mr VICTORIANO PRIM GONZÁLEZ	SPOUSE --	3,403

<b>Total % of voting rights held by the board of directors</b>	17.73%
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Complete the next tables regarding the members of the company's board of directors who own stock options in the company.

A.4 Indicate any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the company, unless they are not material or are derived from ordinary commercial transactions:

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

Elisa Prim Bartomeu has a family relationship with M<sup>a</sup> Dolores Prim González

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms ANA MARIA PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

Elisa Prim Bartomeu has a family relationship with Ana M<sup>a</sup> Prim González.

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Elisa Prim Bartomeu has a family relationship with Ana Prim Rellán.

Name of related shareholders
Ms ELISA PRIM BARTOMEU

Name of related shareholders
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Elisa Prim Bartomeu has a family relationship with Mónica Prim Rellán.

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

M<sup>a</sup> Dolores Prim González has a family relationship with Elisa Prim Bartomeu.

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms ANA MARIA PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

M<sup>a</sup> Dolores Prim González has a family relationship with Ana M<sup>a</sup> Prim González

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

M<sup>a</sup> Dolores Prim González has a family relationship with Ana Prim Rellán

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

M<sup>a</sup> Dolores Prim González has a family relationship with Mónica Prim Rellán

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms ANA MARIA PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

Ana M<sup>a</sup> Prim González has a family relationship with Elisa Prim Bartomeu.

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms ANA MARIA PRIM GONZALEZ

**Relationship type:** Family

**Brief description:**

Ana M<sup>a</sup> Prim González has a family relationship with M<sup>a</sup> Dolores Prim González

Name of related shareholders
Ms ANA MARIA PRIM GONZALEZ
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana M<sup>a</sup> Prim González has a family relationship with Ana Prim Rellán

Name of related shareholders
Ms ANA MARIA PRIM GONZALEZ
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana M<sup>a</sup> Prim González has a family relationship with Mónica Prim Rellán

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana Prim Rellán has a family relationship with Elisa Prim Bartomeu.

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana Prim Rellán has a family relationship with M<sup>a</sup> Dolores Prim González

Name of related shareholders
Ms ANA MARIA PRIM GONZALEZ
Ms ANA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana Prim Rellán has a family relationship with Ana M<sup>a</sup> Prim González

Name of related shareholders
Ms ANA PRIM RELLAN
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Ana Prim Rellán has a family relationship with Mónica Prim Rellán

Name of related shareholders
Ms ELISA PRIM BARTOMEU
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Mónica Prim Rellán has a family relationship with Elisa Prim Bartomeu

Name of related shareholders
Ms M <sup>a</sup> DOLORES PRIM GONZALEZ
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Mónica Prim Rellán has a family relationship with M<sup>a</sup> Dolores Prim González

Name of related shareholders
Ms ANA MARIA PRIM GONZALEZ
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Mónica Prim Rellán has a family relationship with Ana M<sup>a</sup> Prim González

Name of related shareholders
Ms ANA PRIM RELLAN
Ms MONICA PRIM RELLAN

**Relationship type:** Family

**Brief description:**

Mónica Prim Rellán has a family relationship with Ana Prim Rellán

A.5 Indicate any commercial, contractual or corporate relationships between owners of significant stakes and the company and/or its group, unless they are not material or are derived from ordinary commercial transactions:

A.6 Indicate whether shareholders' agreements that affect the company have been notified to the company as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe the agreements and agreement and the shareholders involved:

Yes

No

Indicate if the company is aware of any concerted actions among its shareholders. If so, give a brief description:

Yes

No

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

A.7 Indicate if any natural or legal person exercises or can exercise control over the company in accordance with article 4 of the Securities Market Act. If so, identify that person:

Yes

No

Comments

**A.8 Complete the next tables about the company's own shares: At**

**year-end:**

Number of direct shares	Number of indirect shares (*)	Total % of share capital
352,772	0	2.03%

**(\*) Through:**

Detail the significant changes in the year, in accordance with Royal Decree 1362/2007:

Date of communication	Total direct shares acquired	Total indirect shares acquired	Total % of share capital
08/04/2013	353,125	0	2.03%

**A.9 Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to buy or sell own shares.**

On 29 June 2013, the Shareholders' Meeting authorised the Board of Directors of Prim, S.A. to acquire own shares, and it also authorised the subsidiaries to acquire shares of the parent company, within the limits and subject to the requirements established in article 509 of the consolidated text of the Capital Companies Act and other matching legislation, by any means established by law. The maximum number of shares to be acquired was set at 10% of capital stock, at a price of at least 1 euro and at most 15 euro. This authorisation is valid for 18 months from the date of the Meeting, and revokes the authorisation granted by the Shareholders' Meeting on 23 June 2012, in the part not used.

**A.10 Indicate whether there are any restrictions on the disposal of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might impair the acquisition of control of the company by purchasing its shares in the market.**

Yes  No

**A.11 Indicate whether the Shareholders' Meeting has decided on the adoption of neutralisation measures vis-à-vis a takeover bid, in accordance with Act 6/2007.**

Yes  No

Detail any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

**A.12 Indicate whether the company has issued securities that are not listed in a regulated market in the European Union.**

Yes  No

If so, state the classes of shares and, for each class of shares, their corresponding rights and obligations.

**B GENERAL MEETING**

**B.1 Indicate whether there are differences with respect to the minimum requirements set out in the Capital Companies Act in connection with the quorum for a General Meeting of Shareholders, and describe any such differences.**

Yes  No

**B.2 Indicate whether there are differences with respect to the rules provided by the Capital Companies Act for the adoption of corporate resolutions:**

Yes  No

Describe the differences with respect to the rules set out in the Capital Companies Act.

**B.3 Describe the rules that apply to amendments of the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and any rules for safeguarding shareholders' rights in the event of an amendment of the Articles.**

For amendments to the Company's Articles of Association, the Articles require the same quorum and majority as set out in the Capital Companies Act (CCA).



B.4 Indicate the attendance at the shareholders' meetings held in the reporting year and the preceding year:

Date of General Meeting	Attendance data				Total
	% of attendance:	% by proxy:	% distance voting		
			Electronic voting	Other	
29/06/2013	39.94%	22.53%	0.00%	0.00%	62.47%

B.5 Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting:

Yes  No

B.6 Indicate whether it has been agreed that certain decisions entailing an amendment to the company's structure (subsidiarisation, purchase or sale of essential operating assets, transactions equivalent to liquidating the company, etc.) must be submitted for approval by a Shareholders' Meeting even if this is not expressly required by company law.

Yes  No

B.7 Give the address of the company's website and the way to access the information about corporate governance and other information about General Meetings that must be placed at shareholders' disposal via the company's website.

This information is available on the company's website at [www.prim.es/index.php/informacion-accionistas-e-inversores.html](http://www.prim.es/index.php/informacion-accionistas-e-inversores.html)

## C STRUCTURE OF THE COMPANY'S ADMINISTRATION

### C.1 Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles:

Maximum number of directors	10
Minimum number of directors	4

C.1.2 Complete the next table with the members of the board:

Name of director	Representative	Board position	Date first appt.	Date last appt.	Type of appointment
Mr JOSE LUIS MEIJIDE GARCÍA		VICE-SECRETARY DIRECTOR	23/12/1996	29/06/2013	SHAREHOLDERS' MEETING RESOLUTION
Mr JUAN JOSÉ PÉREZ DE MENDEZONA		DIRECTOR	30/06/1990	19/06/2010	SHAREHOLDERS' MEETING RESOLUTION
IGNACIO ARRAEZ BERTOLIN		SECRETARY DIRECTOR	14/06/2012	14/06/2012	CO-OPTATION
Mr VICTORIANO PRIM GONZÁLEZ		CHAIRMAN	26/06/1993	21/06/2008	SHAREHOLDERS' MEETING RESOLUTION

Name of director	Representative	Board position	Date first appt.	Date last appt.	Type of appointment
Mr ENRIQUE GIMENEZ-REYNA RODRIGUEZ		DIRECTOR	14/06/2012	14/06/2012	CO-OPTATION
BARTAL INVERSIONES, S.L.	Mr ANDRÉS ESTAIRE ÁLVAREZ	VICE-CHAIRMAN	25/06/2005	19/06/2010	SHAREHOLDERS' MEETING RESOLUTION

<b>Total number of directors</b>	6
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Indicate any removals from the Board of Directors in the reporting period:

C.1.3. Complete the next tables with the members of the board and their status:

### **EXECUTIVE DIRECTORS**

Name of director	Committee consulted with respect to the appointment	Position in the company
Mr JOSE LUIS MEIJIDE GARCÍA	APPOINTMENTS AND REMUNERATION COMMITTEE	Director - Orthopaedics Division
Mr VICTORIANO PRIM GONZÁLEZ	Appointments and Remuneration Committee	General Manager

<b>Total number of executive directors</b>	2
<b>% of total Board</b>	33.33%

### **EXTERNAL PROPRIETARY DIRECTORS**

Name of director	Committee consulted with respect to the appointment	Name of the significant shareholder who the director represents or who proposed his/her appointment
BARTAL INVERSIONES, S.L.	APPOINTMENTS AND REMUNERATION COMMITTEE	Ms ELISA PRIM BARTOMEU

<b>Total number of proprietary directors</b>	1
<b>% of total Board</b>	16.67%

### **EXTERNAL INDEPENDENT DIRECTORS**

**Name of director:**

Mr JUAN JOSÉ PÉREZ DE MENDEZONA

**Profile:**

Economist, former tax inspector, auditor

**Name of director:**

## IGNACIO ARRAEZ BERTOLIN

### Profile:

Lawyer, Master's degree in Tax Law (CEU); member of the Spanish Association of Tax Lawyers

### Name of director:

## Mr ENRIQUE GIMENEZ-REYNA RODRIGUEZ

### Profile:

Lawyer; former Director-General of Taxes and Secretary of State for Finance.

#### Total number of independent directors

	3
% of total board	50.00%

Indicate whether any director classified as independent receives, from the company or the same group, any amount or benefit under a heading other than director remuneration, or holds or has held, during the last year, a business relationship with the company or any other company in its group, either in his/her own name or as a significant shareholder, director or senior manager of an entity that holds or has held such a relationship.

Ignacio Arraez is also a director of Maio Legal SLP.

The amounts paid for legal services hired in competition with other law firms are not so large as to compromise independence.

If yes, give the reasons why it is considered that the director qualifies as an independent director.

## OTHER EXTERNAL DIRECTORS

Detail the reasons why they cannot be classified as proprietary or independent, and any relations they have with the company, its executives or its shareholders:

Indicate any changes in each director's status in the period:

C.1.4 Complete the following table with information on the number of female directors in the last four years, and their category:

	Number of female directors				% of total directors in each category			
	2013	2012	2011	2010	2013	2012	2011	2010
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%

C.1.5 Detail any measures adopted to seek to appoint women so as to achieve a balance of women and men on the Board of Directors.

**Detail such measures**

The Board of Directors considers it advisable that specific efforts be made to ensure that the list of candidates for forthcoming director appointments include women, and it has asked the Appointments and Remuneration Committee to take this into consideration when making proposals.

C.1.6 Describe any measures adopted by the Appointments Committee to ensure that the selection procedure is free of an implicit bias that might prevent the selection of women, and that the Company deliberately seeks female candidates with the necessary professional profile:

**Detail such measures**

When proposing candidates for directorships, the Appointments and Remuneration Committee focuses primarily on the candidate's professional profile and on the Board's recommendation referred to in section C.1.5.

Where, despite such measures, there are few or no female directors, indicate the reasons for this situation.

**Detail of reasons**

In 2013, there were no proposals from the Appointments and Remuneration Committee or appointments of new directors.

C.1.7 Detail how the significant shareholders are represented on the Board.

As a significant shareholder, the company Barta Inversiones, S.L. has a seat on the Board.

C.1.8 Indicate any reasons for which proprietary shareholders were appointed at the proposal of a shareholder owning less than 5% of capital:

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others which applied successfully for a proprietary directorship. Detail the reasons for any such rejection:

Yes

No

C.1.9 State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means and, in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:

C.1.10 Indicate any powers delegated to the chief executive officer(s):

C.1.11 Identify any board members with directorships or management positions in other companies that form part of the listed company's group:

Name of director	Name of the group's subsidiary	Position
Mr JOSE LUIS MEIJIDE GARCÍA	ESTABLECIMIENTOS ORTOPÉDICOS PRIM, S.A.	Joint & Several Administrator
Mr JOSE LUIS MEIJIDE GARCÍA	LUGA SUMINISTROS MÉDICOS, S.L.	Joint & Several Administrator
Mr VICTORIANO PRIM GONZÁLEZ	ENRAF NONIUS IBERICAPORTUGAL LDA.	MANAGER
Mr VICTORIANO PRIM GONZÁLEZ	INMOBILIARIA CATHARSIS, S.A.	Joint & Several Administrator
Mr VICTORIANO PRIM GONZÁLEZ	ESTABLECIMIENTOS ORTOPÉDICOS PRIM, S.A.	Joint & Several Administrator
Mr VICTORIANO PRIM GONZÁLEZ	ENRAF NONIUS IBERICA, S.A.	Joint & Several Administrator
Mr VICTORIANO PRIM GONZÁLEZ	SIDITEMEDIC. S.L. (SOCIEDAD UNIPERSONAL )	Joint & Several Administrator
Mr VICTORIANO PRIM GONZÁLEZ	LUGA SUMINISTROS MÉDICOS, S.L.	Joint & Several Administrator
BARTAL INVERSIONES, S.L.	ENRAF NONIUS IBERICA S.A.	Joint & Several Administrator

C.1.12 Indicate any company directors who are members of the board of directors of other companies listed on Spanish official stock markets, other than group companies, of which the company has been notified:

Name of director	Name of the group's subsidiary	Position
IGNACIO ARRAEZ BERTOLIN	Inversiones Mobiliarias Barcino, S.A.	DIRECTOR

C.1.13 Indicate whether the company has established rules about the number of directorships that board members can hold, and describe any such rules:

Yes

No

C.1.14 Identify the company's policies and general strategies that it has been decided must be approved by a plenary meeting of the Board of Directors:

	Yes	No
Investment and funding policy	X	
Definition of the group structure	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
The strategic or business plan, and the management objectives and annual budgets	X	
Remuneration policy and assessment of senior management performance	X	
Risk control and management policy, and regular oversight of internal reporting and control systems	X	
Policy on dividends and own shares, particularly any limits	X	

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

Board of Directors remuneration (thousand euro)	706
Amount of accumulated pension rights	0

held by directors (thousand euro)Overall Board of Directors	
remuneration (thousand euro)	706

C.1.16 Identify senior management members who are not executive directors and the total remuneration accrued to them in the year:

Name	Position
Mr ANDRÉS ESTAIRE ÁLVAREZ	DIRECTOR OF THE HOSPITAL SUPPLIES DIVISION
Mr JUAN ALCANTARA MORALES	CORPORATE GENERAL MANAGER
Ms ESPERANZA DEZA ANTA	CFO

Total remuneration of senior management (in thousand euro)	536
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C.1.17 Identify any board members who are also board members or executives of a significant shareholder and/or subsidiaries of its group:

Identify any significant relationships, other than those stated in the preceding section, of board members that link them to significant shareholders and/or subsidiaries in the group:

**Name of related director:**

Mr VICTORIANO PRIM GONZÁLEZ

**Name of related significant shareholder:**

Ms ELISA PRIM BARTOMEU

**Description of relationship:**

Family

C.1.18 Indicate whether there were any amendments to the board regulation in the year.

Yes

No

C.1.19 Indicate the procedure for appointing, re-appointing, assessing and removing directors. Indicate the competent bodies, the process and the criteria for each procedure.

Based on the recommendations of the Appointments and Remuneration Committee, the Board of Directors makes proposals to the Shareholders' Meeting for the appointment and removal of directors, and their number, having regard to the Company's circumstances at any given time. The Board of Directors determines, at any given time, the procedures for appointing, re-appointing, evaluating and removing directors.

C.1.20 Indicate whether the board of directors assessed its own performance during the year:

Yes

No

Describe the extent to which the annual evaluation of the Board, if any, led to significant changes in its internal organisation and the procedures applicable to its activities:

**Description of the amendments**

The self-assessment by the Board did not give rise to changes in the Board's internal organisation or procedures.

C.1.21 Indicate the reasons for which directors may be forced to resign.

In accordance with article 13 of the Board of Directors Regulation, directors have a duty to resign where their continuance on the board might have a negative impact on the board's performance or on the Company's good name or reputation.

C.1.22 Indicate whether the function of chief executive of the company is assigned to the Chairman. If so, indicate the measures taken to limit the risk of a single person accumulating power:

Yes

No

**Measures to limit risks**

All decisions of strategic importance are discussed with the Board of Directors.

State whether the company has established rules to empower an independent director to request a board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation; detail any such rules.

Yes

No

**Detail the rules**

Both article 18 of the Articles of Association and article 8 of the Board Regulation establish that the Board of Directors will meet whenever the Chairman so decides or at the request of a director, in which case a meeting must be convened within the 15 days following such request.

C.1.23 Is a supermajority, other than the legal majority, required in some decisions?

Yes

No

Describe the differences, if any.

C.1.24 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

Yes

No

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

Yes

No

**Issues on which there is a casting vote**

C.1.26 Indicate if the articles or board regulation establish an age limit for directors:

Yes  No

Age limit for chairperson: 75

Age limit for CEO: 75

Age limit for director: 75

C.1.27 Indicate if the articles or board regulation establish a term limit for independent directors other than that provided in the regulations:

Yes  No

C.1.28 Indicate whether or not the Articles of Association or the Board Regulation set out specific rules for directors to grant proxy in Board of Directors meetings, the method of doing so and, more specifically, the maximum number of proxies that a director can hold, as well as whether it has been established that directors may grant proxy only to another director of the same category. Give a brief description of any such rules.

Directors may only grant proxy to another director.

C.1.29 Indicate the number of board of directors meetings held in the year. Also, state the number of times that the Chairman did not attend Board meetings. Proxies granted with specific instructions are not counted as absences:

<b>Number of board meetings</b>	11
<b>Number of Board meetings held without the chairman</b>	0

Indicate the number of meetings held by board committees in the year:

<b>Committee</b>	<b>No. of meetings</b>
APPOINTMENTS AND REMUNERATION COMMITTEE	5
AUDIT COMMITTEE	9

C.1.30 Indicate the number of board of directors meetings held in the year which were attended by all members. Proxies granted with specific instructions are not counted as absences:

<b>Director attendance</b>	7
<b>Attendance as a % of the total number of votes during the year</b>	93.33%



C.1.31 Indicate whether the separate and consolidated financial statements that are presented for board approval are certified beforehand:

Yes

No

Identify the person(s) that certified the company's separate and consolidated financial statements for board authorisation:

C.1.32 Detail any mechanisms established by the Board of Directors to ensure that the separate and consolidated financial statements authorised by it are presented to the Shareholders' Meeting with a clean auditors' report.

The Company has an Audit Committee which oversees that the law is complied with and that generally-accepted accounting principles are applied in connection with the financial statements and directors' report in order to avoid qualifications in the auditors' report.

C.1.33 Is the board secretary a director?

Yes

No

C.1.34 Describe the procedures for appointment and removal of the Secretary of the Board, stating whether the Appointments Committee is consulted about such appointments and removals and whether they are approved by the full Board.

**Procedure for appointment and removal**

The Board appoints and removes the Board secretary based on a reasoned proposal from the Appointments and Remuneration Committee

	Yes	No
Is the Appointments Committee consulted on the appointment?	X	
Is the Appointments Committee consulted on the removal?	X	
Does the full Board approve the appointment?	X	
Does the full Board approve the removal?	X	

Is the Board Secretary entrusted in particular with ensuring compliance with corporate governance recommendations?

Yes

No

**Comments**

C.1.35 Describe any mechanisms established by the company to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

The Audit Committee is entrusted with ensuring the independence of the external auditors.

C.1.36 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

Yes

No

If there was a disagreement with the outgoing auditor, describe it:

C.1.37 Indicate whether the audit firm performs work for the company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of total fees billed to the company and/or its group:

Yes

No

C.1.38 State whether or not the auditors' report on the previous year's financial statements was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to explain the content and scope of the qualification or exception.

Yes

No

**Description of the reasons**

In their report on the financial statements of the Company for the year ended 31 December 2014, the auditors expressed a scope limitation, in that, at the time the financial statements were authorised by the Board of Directors, those of one of the subsidiaries, namely Saarema Sociedad Promotora de Centros Residenciales, S.L. (formerly Residencial CDV-16, S.A.), had not been audited and, consequently, the last available audited financial statements, i.e. those for 2012, were used to draw up our financial statements. These are the reasons given by the Audit Committee, through its Chairman, who noted that, since the company does not have a majority of voting rights in that subsidiary, there may be similar delays in the audit of that company in the future, and that Prim, S.A. does not have the legal power to avoid such a scope limitation in this or subsequent years.

C.1.39 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	3	3
<b>No. of years audited by the current audit firm/No. of years that the company has been audited (%)</b>	14.00%	14.00%

C.1.40 Indicate whether there is a procedure for directors to engage external consultants and, if so, provide details:

Yes

No

**Detail the procedure**

Any director seeking external advice may propose it to the Board of Directors for approval.

C.1.41. Indicate whether there is a procedure for directors to have the necessary information to prepare for the meetings of the governing bodies with sufficient time and, if so, provide details.

Yes

No

**Detail the procedure**

The Secretary of the Board of Directors will provide the necessary information sufficiently in advance so that directors may debate the items on the agenda. Any additional information that is required may be requested from the Secretary of the Board of Directors or any of the Executive Directors before, during or after the Board Meeting, or whenever it is considered appropriate.

C.1.42 State whether the company has rules obliging directors to inform the board of any circumstance that might harm the company's good name or reputation, and describe any that exist:

Yes

No

**Describe the rules**

Article 13 of the Board of Directors Regulation requires directors to resign in the event that their membership of the Board might affect the Company's performance, credit or reputation.

C.1.43 State whether any member of the Board of Directors has informed the Company that he/she has been charged with, or tried for, any of the crimes covered by article 213 of the Capital Companies Act:

Yes

No

State whether the Board of Directors has analysed the case. If it has, detail and explain the decision as to whether or not the director should retain his/her position or describe any actions taken by the Board up to the date of this report or those that it plans to take.

C.1.44 Detail any significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Not applicable.

C.1.45 Provide an aggregate list and give details of any agreements between the company and its officers, executives or employees that provide for indemnity payments or contain golden parachute clauses for cases where they resign or suffer unfair dismissal or if their employment relationship is terminated due to a takeover or another type of transaction.

**Number of beneficiaries: 1**

**Type of beneficiary:**

[Description of beneficiaries]

**Description of agreement:**

[Description of agreement]

Indicate whether these contracts have to be notified to and/or approved by the company's or group's bodies:

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

	<b>Yes</b>	<b>No</b>
Is the General Meeting informed of the clauses?		<b>X</b>

**C.2. Board of Directors sub-committees**

C.2.1 Detail all the Board of Directors committees, their members and the proportion of proprietary and independent directors:

**APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
Mr VICTORIANO PRIM GONZÁLEZ	DIRECTOR	Executive
BARTAL INVERSIONES, S.L.	SECRETARY	Proprietary

<b>% executive directors</b>	1.00%
<b>% proprietary directors</b>	1.00%
<b>% independent directors</b>	0.00%
<b>% other external directors</b>	0.00%

**AUDIT COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
IGNACIO ARRAEZ BERTOLIN	SECRETARY	Independent
Mr VICTORIANO PRIM GONZÁLEZ	DIRECTOR	Executive
Mr ENRIQUE GIMENEZ-REYNA RODRIGUEZ	CHAIRMAN	Independent

<b>% executive directors</b>	1.00%
<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	2.00%
<b>% other external directors</b>	0.00%

C.2.2 Complete the following table with information on the number of female directors in the Board sub-committees in the last four years:

	Number of female directors							
	2013		2012		2011		2010	
	Number	%	Number	%	Number	%	Number	%
APPOINTMENTS AND REMUNERATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Indicate which of the following functions are attributed to the Audit Committee:

	Yes	No
Monitor the preparation and the integrity of the company's financial reporting and, where appropriate, that of the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation scope, and the proper application of accounting principles.	X	
Review internal control and risk management systems on a regular basis, so that the main risks are properly identified, managed and disclosed.	X	
Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular reports on its activities; and verify that senior management are acting on the findings and recommendations of its reports.		X
Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.	X	
Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.	X	
Monitor the independence of the external auditor	X	

C.2.3. Describe the rules that govern the organization and workings of each board committee and their assigned responsibilities.

#### APPOINTMENTS AND REMUNERATION COMMITTEE

1. Oversee the process of selecting the Company's directors and senior executives.
2. Propose and supervise the remuneration policy for the Company's directors and senior executives.
3. Advise on the appointment and removal of the Secretary.

#### AUDIT COMMITTEE

1. Inform the Shareholders' Meeting about the matters within the scope of its competency that are raised by shareholders during the meeting.
2. Propose to the Board of Directors, for submission to the Shareholders' Meeting, the appointment of external auditors or audit firms, as referred to in article 264 of the current Capital Companies Act.
3. Supervise the internal audit unit, if the Company has one.
4. Be apprised of the Company's financial information and internal control systems.
5. Liaise with the Company's external auditors to receive information about matters that might jeopardise their independence and any other matters related to the audit process as well as other communications envisaged in the audit legislation and technical audit standards.
6. Avoid qualifications in the auditors' report.

C.2.5 Indicate if there are any Board sub-committee regulations, where they can be consulted, and amendments made in the year. Also, indicate if an annual report on each committee's activities has been drafted voluntarily.

#### APPOINTMENTS AND REMUNERATION COMMITTEE

Governed by the Appointments and Remuneration Committee Regulation adopted in December 2007 and amended in July 2012. This document is available for consultation on the CNMV website and on that of the company - www.prim.es. No annual report has been produced about this committee's activities.

#### AUDIT COMMITTEE

Governed by the Audit Committee Regulation, which was adopted in June 2003 and has not been amended. This document is available for consultation on the CNMV website and on that of the company - www.prim.es. No annual report has been produced about this committee's activities.

C.2.6 Indicate if the executive committee's composition reflects the composition of the board in terms of director category:

Yes

No

**If not, detail the composition of the executive committee.**

There is no Executive Committee.

## **D RELATED-PARTY AND INTERCOMPANY TRANSACTIONS**

D.1 Identify the competent body and detail any procedure for the approval of related-party and intercompany transactions.

**Body competent to approve related-party transactions**

Board of Directors

**Procedure for approving related-party transactions**

In the event of a related-party transaction, the Audit Committee draws up a reasoned report and submits it to the Board of Directors.

Detail whether approval of related-party transactions has been delegated, and identify the body or person to which this function has been delegated.

D.2 Give details of any transactions that are significant, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

D.3 Give details of any transactions that are significant, because of their size or nature, between the company or any group undertakings and the company's directors or executives:

D.4 Detail the significant transactions between the company and other companies in the group, except those that are eliminated in consolidation or do not form part of the company's normal operations because of their purpose and conditions:

In any event, provide details of any intercompany transactions carried out with undertakings established in countries or territories that are classified as tax havens:

D.5 State the value of transactions carried out with other related parties.

0 (thousand euro)

D.6 Specify the mechanisms established to detect, identify and resolve any conflicts of interest arising between the company and/or the group and its directors, senior managers or significant shareholders.

Directors and executives are obliged to notify the Board of any conflict of interest they may have with the Company. In the event of a conflict, the director in question may not participate in resolving the conflict.

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

Yes

No

Identify the subsidiaries that are listed in Spain:

### Listed subsidiary companies

State whether their respective areas of activity and any business dealings between them, as well as between the listed subsidiary and other group companies, have been defined precisely in a public document;

**Define any business relationships between the parent company and the listed subsidiary, and between the latter and the rest of the group companies**

Identify the mechanisms established to resolve any conflicts of interest between the listed subsidiary and the other companies in the group:

**Mechanisms in place to resolve possible conflicts of interest**

## **E** RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Describe the scope of the company's Risk Management System.

The Company's risk control process ranges from the Board of Directors and senior management down to the operational and control areas, the goal being to identify and manage each risk in a way that is compatible with the strategic plans.

### E.2 Identify the bodies of the company responsible for drawing up and executing the Risk Management System.

The Board of Directors, senior management, the Audit Committee, heads of operational and support areas and the Controller's office.

### E.3 Indicate the main risks that may affect attainment of the business targets.

1. Financial risks, including interest rate risk, exchange rate risk, credit risk and liquidity risk.

2. Loss of revenues due to withdrawal of a healthcare product from the market.

Any healthcare product such as those distributed by medical supply companies like ours is susceptible to being withdrawn from the market by the health authorities of any of the countries in which it is marketed as a result of an incident in its application. This would immediately halt marketing of the product in all other countries, with the consequent negative impact on revenues. This risk is real but has arisen only very rarely in practice because manufacturers of healthcare products are very careful to comply strictly with the law in the respective countries and because of our requirement that the manufacturer of any product distributed by the Company should comply strictly with the applicable international product safety standards.

3. Civil liability resulting from adverse effects on patients of products sold by the Company.

Every company in the industry accepts the risk that a product which it distributes may have undesired effects when applied to patients. Although this risk might in principle be attributable to the manufacturer, and is therefore covered by the manufacturer's insurance, if we distribute the product it is also covered by our own product liability insurance, which covers both our distribution and manufacturing activities.

4. Tax risk

The years 2006 to 2013, both inclusive, are open for inspection; the first two years of that period are in the process of being resolved.

#### E.4 Identify whether the organisation has a high level of tolerance to risk.

The Company exerts qualitative risk control and management for each of the main risks, in line with its strategic objectives.

#### E.5 State what risks materialised during the year.

Uncertainty in connection with the delay in receiving payments under Spain's Autonomous Region Liquidity Fund.

#### E.6 Describe the response and supervision plans for the company's main risks.

Each of the identified risks is analysed periodically by the department most directly affected in order to detect it as early as possible, bring it to the attention of management and propose possible actions.

### **F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

#### F.1 The organisation's control environment

Provide details, highlighting the main characteristics of, at least:

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

The Board of Directors holds the final responsibility for ICFR, the Finance Department for its implementation and maintenance, and the Audit Committee for its supervision.

F.1.2. The following elements, if any, with regard to the process in which the financial reporting is formulated:

- Departments and/or mechanisms in charge of: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for its proper dissemination within the company.

The CFO's Office is responsible for the design and maintenance of the organisation structure and matrix of responsibilities within the department that draws up the financial information.

- Code of conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the register of operations and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

There is an Internal Code of Conduct that was approved by the Board of Directors; it can be viewed on the company's website.

- A whistleblowing channel, that allows reporting to the auditing committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.



There is a whistleblowing channel through which any irregularity detected by an employee can be reported to the Audit Committee.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least the accounting standards, auditing, internal control and risk management.

The quality system includes a training plan in which each head of department proposes training for their subordinates. The quality system is certified to ISO 13485 and is audited each year.

## F.2 Evaluation of financial reporting risks

Provide information on, at least:

F.2.1. What are the chief characteristics of the risk identification process, including error or fraud, in relation to:

- If the process exists and is documented.

The company takes the necessary action to identify risks, paying particular attention to financial risks, although the procedure is not documented.

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

The financial information that is drawn up each month is reviewed by the Controller's Office in order to check its accuracy and identify any risks.

- The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles.

The consolidation scope is defined and, given the group's stability, it would only be necessary to review it in the event of a change in the group' composition.

- If the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

Other risks, such as operational, technology and environmental risks, are considered to be minor for the purposes of financial risk control.

- What governing body of the companies supervises the process.

The Audit Committee is the governing body with ultimate responsibility for supervising the process of risk identification.

## F.3 Control activities

State whether the company has at least the following, and describe their characteristics:

F.3.1. Review and authorisation procedures for financial reporting and description of ICFR, to be disclosed to the securities markets, indicating those responsible, and risk documentation describing the flows of activities and controls (including those related to fraud risk) for the various types of transactions that may have a significant effect on material judgements, estimates, valuations and projections.

The financial information from each group company is drawn up by the accounting departments, consolidated by the finance department and validated by the CFO's office.

F.3.2. Internal control policies and procedures on security, the information systems (amongst others, access control, change control, operation of same, operating continuity and segregation of functions) that support the major processes of the entity with regard to the formulation and publication of financial reporting.

There are internal control procedures for the financial reporting systems that control and guarantee secure user access, using personalised logins and passwords, in line with their level of responsibility. The system automatically logs any changes.  
Operational continuity is guaranteed through redundant servers and an established contingency policy and backups under the responsibility of the Systems Department.

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

The Company does not subcontract nor has it outsourced any activity related to the financial information or its production.

## F.4 Information and reporting

State whether the company has at least the following, and describe their characteristics:

F.4.1. A specific function responsible for defining accounting policies and keeping them up to date (accounting policies department or area) and resolving doubts or conflicts arising from their interpretation, maintaining fluid communications with the persons responsible for the operations within the organisation, together with an updated accounting policies manual reported to all units that operate in the entity.

The CFO's Office is responsible for defining and updating the accounting policies based on current regulations and keeping the operating divisions informed. It is also responsible for resolving any doubts or conflicts of interpretation that may arise and for keeping the Audit Committee informed.

F.4.2. Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the company or group, to support the main financial statements and notes as well as detailed disclosures with regard to ICFR.

All companies in the group follow the same chart of accounts and apply the same accounting practices. During 2013, the only company that used a non-standard ERP transitioned to the group system, so that only one system will be in operation from 2014 onwards.

## F.5 Supervision of system operation

Report on at least the following, giving details of their main features:

F.5.1. The supervision of ICFR performed by the Audit Committee, and whether the entity has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the head of assessment reports the results, whether the entity has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

ICFR information is reviewed by the external auditor.  
The Company is working to review and update the ICFR procedures.

F.5.2. Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Company has a discussion procedure whereby the external auditor communicates material internal control weaknesses identified during the process of auditing the financial statements to the Audit Committee. Once it has been apprised of any weaknesses, the Audit Committee makes a proposal to the Board with regard to the appropriate measures to correct or mitigate such weaknesses.

## F.6 Other material information

### F.7 External auditor report

Report on:

F.7.1. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The full-year financial statements authorised by the Board of Directors are disclosed to the markets with the mandatory auditors' report.

## **G** DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

Indicate the company's degree of compliance with the recommendations of the Unified Code of Corporate Governance.

If any recommendation is not followed or is followed only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have sufficient information to be able to evaluate the company's course of action. Explanations of a general nature will not be sufficient.

1. The articles of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Compliant

Explain

2. When a controlling company and a subsidiary are both listed, the two should provide detailed disclosure on:

- a) The respective fields of business and any business relationships between them, as well as those between the listed subsidiary and other companies in the group;
- b) The mechanisms for settling any conflicts of interest that might arise.

See sections: D.4 and D.7

Compliant

Partially compliant

Explain

Not applicable.

3. Even when not expressly required under company law, any decisions involving a structural change in the company should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

- a) The transformation of listed companies into holding companies through the process of subsidiarisation or the reallocation to subsidiaries of core activities that were previously carried out by the originating firm, even though the latter retains full control of the former;**
- b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**
- c) Operations that are equivalent to the company's liquidation.**

See section: B.6

Compliant

Partially compliant

Explain

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the notice of the Meeting.

Compliant

Explain

5. Separate votes should be taken at the General Shareholders' Meeting on materially separate items, so that shareholders can express their preferences separately in each case. This rule shall apply in particular to:

- a) The appointment or ratification of directors, with separate voting on each candidate;**

**b) Amendments to the Articles of Association, with votes taken separately on all articles or groups of articles that are materially different.**

Compliant

Partially compliant

Explain

6. Companies should allow split votes, so that financial intermediaries acting as nominees on behalf of different clients can vote according to their instructions.

Compliant

Explain

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, acting in the best interests of the company with the goal of maximising the company's economic value on a sustained basis.

It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time. It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant

Partially compliant

Explain

8. The Board should adopt, as core components of its mission, the approval of the company's strategy and authorisation of the organisational resources to carry it forward, and ensuring that management meets the established objectives while pursuing the company's interests and corporate purpose. Accordingly, the board in full should reserve the right to approve:

**a) The company's general policies and strategies, and in particular:**

**i) The strategic or business plan, management targets and annual budgets;**

**ii) Investment and financing policy;**

**iii) Design of the structure of the corporate group;**

**iv) Corporate governance policy;**

**v) Corporate social responsibility policy;**

**vi) Remuneration and evaluation of senior officers;**

**vii) Risk control and management, and the periodic monitoring of internal information and control systems.**

**viii) Dividend policy, as well as the policies and limits applying to treasury stock.**

See sections: C.1.14, C.1.16 and E.2

**b) The following decisions :**

i) On the proposal of the company's chief executive, the appointment and removal of senior executives, and their compensation clauses.

ii) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contractual conditions.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

v) The creation of, or the acquisition of holdings in, special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the group's transparency.

**c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other related persons ("related-party transactions").**

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
2. They are arranged at market rates, generally set by the person supplying the goods or services;
3. They amount to more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee with the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board debates and votes.

Ideally, the powers listed above should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant

Partially compliant

Explain

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2

Compliant

Explain

10. External directors, both proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the executive directors' ownership interest in the company.

See sections: A.3 and C.1.3.

Compliant

Partially compliant

Explain

11. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

**This proportional criterion can be relaxed so that the weighting of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:**

- 1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums invested.**
- 2. In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: A.2, A.3 and C.1.3

Compliant

Explain

12. Independent directors should represent at least one-third of all board members.

See section: C.1.3

Compliant

Explain

13. The category of each director should be disclosed by the board to the General Meeting of Shareholders, which will make or ratify his or her appointment. That category should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Appointments Committee. That report should also disclose the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of capital; and give the reasons for any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others that have applied successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8

Compliant

Partially compliant

Explain

14. Where there are few or no female directors, the Appointments Committee should ensure that, when filling new vacancies:

- a) The process of filling board vacancies has no implicit bias against female candidates;**
- b) The company makes a conscious effort to include women with the target profile among the candidates for directorships.**

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant  Partially compliant  Explain  Not applicable.

15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate, with the chairmen of the relevant board committees, regular evaluations of the board and, where appropriate, the company's managing director or chief executive.

See sections: C.1.19 and C.1.41

Compliant  Partially compliant  Explain

16. When the Chairman of the board is also the company's chief executive, an independent director should be empowered to request that a meeting of the board be convened or that new business be included on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See section: C.1.22

Compliant  Partially compliant  Explain  Not applicable.

17. The Secretary of the Board should take particular care to ensure that the Board's actions:

**a) Adhere to the spirit and letter of the law and any implementing regulations, including those issued by regulatory agencies;**

**b) Comply with the company's Articles of Association and the regulations of the Shareholders' Meeting, the Board of Directors and others;**

**c) Are informed by the good governance recommendations of this Unified Code that the company has subscribed to.**

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, the Appointments Committee should be consulted with regard to his or her appointment and removal, which should be approved by a full board meeting; the relevant appointment and removal procedures should be detailed in the board's regulations.

See section: C.1.34

Compliant  Partially compliant  Explain

18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: C.1.29

Compliant  Partially compliant  Explain

19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.



See sections: C.1.28, C.1.29 and C.1.30

Compliant

Partially compliant

Explain

20. When directors or the Secretary express concerns about a proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be entered in the minutes.

Compliant

Partially compliant

Explain

Not applicable.

21. The board in full should evaluate the following points on a yearly basis:

**a) The quality and efficiency of the board's performance;**

**b) Starting from a report submitted by the Appointments Committee, the performance of their duties by the Chairman and chief executive;**

**c) The board sub-committees' performance, on the basis of the reports furnished by them.**

See sections: C.1.19 and C.1.20

Compliant

Partially compliant

Explain

22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the Articles or the Board Regulation indicates otherwise, such requests should be addressed to the Chairman or Secretary of the Board.

See section: C.1.41

Compliant

Explain

23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: C.1.40

Compliant

Explain

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Compliant

Partially compliant

Explain

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

**a) Directors should inform the Appointments Committee of any other professional obligations that might detract from the necessary dedication;**

**b) Companies should lay down rules about the number of directorships their board members can hold.**

See sections: C.1.12, C.1.13 and C.1.17

Compliant

Partially compliant

Explain

Due to the small number of directors, the Chairman is up to date with their activities. Consequently, the Board has not established a rule regarding the minimum dedication to the company.

26. The proposal for the appointment or renewal of directors which the board submits to the General Meeting, as well as provisional appointments by the method of co-optation, should be approved by the board:

**a) Based on a proposal by the Appointments Committee, in the case of independent directors.**

**b) Subject to a report from the Appointments Committee, in all other cases.**

See section: C.1.3

Compliant

Partially compliant

Explain

27. Companies should post the following director particulars on their websites, and keep them permanently updated:

**a) Background and professional experience;**

**b) Directorships held in other companies, listed or otherwise;**

**c) An indication of the director's classification; in the case of proprietary directors, stating the shareholder they represent or have links with.**

**d) The date of their first and subsequent appointments as a company director, and;**

**e) Shares held in the company and any options on same.**

Compliant

Partially compliant

Explain

28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some

of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

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

Compliant

Partially compliant

Explain

The Articles and the Board Regulation do not establish any maximum period for directorships. Nevertheless, although the case has never arisen, it is logical that the Board would propose the removal of a proprietary shareholder in the event of a significant decline in the related shareholding.

29. The Board of Directors should not propose the removal of independent directors before the end of their term as mandated by the Articles, except where just cause is found by the Board, based on a proposal from the Appointments Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or where circumstances result in him/her no longer qualifying as an independent director, in accordance with the provisions of Order ECC/461/2013.

**The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.**

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant

Explain

30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

**The moment a director is indicted or tried for any of the crimes stated in article 213 of the Capital Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.**

See sections: C.1.42, C.1.43

Compliant

Partially compliant

Explain

31. All directors should express clear opposition when they feel that a proposal submitted for the board's approval might be detrimental to the company's interests. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that may be detrimental to the interests of shareholders lacking board representation.

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.**

**The terms of this Recommendation should also apply to the Secretary of the board, whether or not he/she is a director.**

Compliant

Partially compliant

Explain

Not applicable.

32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is reported in a regulatory disclosure, the motive for the same must be disclosed in the Annual Corporate Governance Report.

See section: C.1.9

Compliant  Partially compliant  Explain  Not applicable.

33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

**The delivery of shares is excluded from this limitation where the directors are obliged to retain them until the end of their tenure.**

Compliant  Partially compliant  Explain  Not applicable.

34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Compliant  Explain  Not applicable.

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications in the external auditor's report.

Compliant  Explain  Not applicable.

36. In the case of variable remuneration, remuneration policies should include limits and technical safeguards to ensure that they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or other circumstances of this kind.

Compliant  Explain  Not applicable.

37. Where the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the Executive Committee.

See sections: C.2.1 and C.2.6

Compliant  Partially compliant  Explain  Not applicable.

38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Compliant  Explain  Not applicable.

39. In addition to the Audit Committee required by the Securities Market Act, the Board of Directors should establish an Appointments and Remuneration Committee or separate Appointments and Remuneration Committees.

**The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration committee(s) should be set out in the board regulations, and include the following:**

- a) **The Board of Directors should appoint the members of such committees having regard to the directors' knowledge, aptitudes and experience and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first plenary meeting of the board following each such meeting;**
- b) **These committees should be formed exclusively of non-executive directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' express invitation.**
- c) **Committees should be chaired by an independent director.**
- d) **They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e) **Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: C.2.1 and C.2.4

Compliant  Partially compliant  Explain

All subsections are complied with except for subsection b), which is partly complied with. Both committees are composed of two non-executive directors and one executive director, whose appointment is due to the fact that the Board of Directors understood that the latter person ought to be a member of both committees because of their extensive knowledge of the Company, which it important that they belong to both committees.

40. Supervision of compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Appointments Committee or, as the case may be, separate Compliance or Corporate Governance committees.

See sections: C.2.3 and C.2.4

Compliant  Explain

41. Members of the Audit Committee, particularly its chairman, should be appointed on the basis of their knowledge and background in accounting, auditing and risk management matters.

Compliant  Explain

42. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

See section: C.2.3

Compliant

Explain

The size of the Company has made it advisable to create and maintain a Controller's Office, reporting directly to the Board of Directors; the Audit Committee liaises constantly with that Office.

43. The head of the internal audit function should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant

Partially compliant

Explain

The Company does not have an internal audit body, but it does have a Controller's Office.

44. Control and risk management policy should specify at least:

- a) The various types of risk (operational, technological, financial, legal, reputational ...) that the company is exposed to, with contingent liabilities and other off-balance-sheet risks being included under financial or economic risks;
- b) The determination of the risk level that company considers to be acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: E

Compliant

Partially compliant

Explain

45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

- a) Ensuring that the main risks identified as a result of oversight of the efficacy of the company's internal control and internal audit, as the case may be, are managed and disclosed appropriately.
- b) Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; receiving regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports.
- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

**a) Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.**

**b) Monitoring the independence of the external auditor, to which end:**

**i) The company should notify any change of auditor to the CNMV as a regulatory disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for same.**

**iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.**

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant

Partially compliant

Explain

In connection with information systems and internal control, recommendations a) and c) are complied with; as regards recommendation b), there is no Internal Audit body as such, although there is a Controller's Office, as indicated in section G42. Both recommendations regarding the internal auditor are complied with.

**46. The Audit Committee should be empowered to summon any company employee or manager, and even interview them without the presence of another senior officer.**

Compliant

Explain

**47. The Audit Committee should advise the Board on the following points related to Recommendation 8 prior to any decision-making in this connection:**

**a) The financial information that all listed companies must disclose periodically. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**

**b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the group's transparency.**

**c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See sections: C.2.3 and C.2.4

Compliant

Partially compliant

Explain

**48. The Board of Directors should seek to present the annual accounts to the Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.38

Compliant

Partially compliant

Explain

49. The majority of members of the Appointments Committee, or Appointments and Remuneration Committee, if there is one such committee, should be independent directors.

See section: C.2.1

Compliant

Explain

Not applicable.

Only one of the three members of the committees is an independent director. The board understood that the other two members should belong to the committee because of their extensive knowledge of the Company.

50. The Appointments Committee should have the following functions in addition to those stated in earlier recommendations:

a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

b) Examine or organise, in an appropriate form, the succession of the chairman and chief executive, making recommendations to the board so that the handover proceeds in a planned and orderly manner.

c) Advise on the senior officer appointments and removals which the chief executive proposes to the board.

d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4

Compliant

Partially compliant

Explain

Not applicable.

51. The Appointments Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

**Any board member may suggest directorship candidates to the Appointments Committee for consideration.**

Compliant

Partially compliant

Explain

Not applicable.

52. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the Board of Directors regarding:

i) The remuneration policy for directors and senior executives;

ii) The individual remuneration and other contractual conditions of executive directors.



iii) The standard conditions for senior executive employment contracts.

**b) Oversee compliance with the remuneration policy set by the company.**

See sections: C.2.4

Compliant  Partially compliant  Explain  Not applicable.

53. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant  Explain  Not applicable.

## **H OTHER INFORMATION OF INTEREST**

1. If you consider that there is any significant principle or aspect of the corporate governance practices of the company or its subsidiaries that is not covered by other sections of this report but which should be included to provide more comprehensive and detailed information on the structure and practices of governance in the undertaking or its group, detail them briefly.
2. This section may be used to provide further information, clarifications or reservations in relation to the preceding sections of this report, which should be significant and not repetitive.  
  
Specifically, indications should be given if the company is subject to legislation other than Spanish legislation in corporate governance matters and, where applicable, include any information that the company is obliged to provide that is different to that required in this report.
3. The company may also indicate whether it has voluntarily adopted any other codes of ethics or good practices, whether international, industry-wide or otherwise. Identify any such code and the date on which it was adopted.

In connection with items C.1.3 and the list of executive directors and external proprietary directors, the Appointments and Remuneration Committee recommended the re-appointment of both directors but did not express an opinion on their original appointment since the Committee had not yet been created at that time.

With respect to item C.2.1, the position of Chairman of the Appointments and Remuneration Committee was vacant as of 31 December 2013 due to the death of its former chairman, Mr Andrés M<sup>a</sup> Pérez Prim.

This annual corporate governance report was approved by the company's Board of Directors on 31 March 2014.

Indicate any directors who voted against, or abstained from approving, this report.

Yes  No