

Publications

for **Directors** and
Boards to improve
their performance

**PRINCIPLES OF GOOD
CORPORATE GOVERNANCE
Spain**

**CODE OF GOOD
PRACTICE**

FOR DIRECTORS

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Code of Good Practice for Boards and Directors

First edition - June 2004
- August 2004
- September 2004
- December 2004 (English version)

Second edition - October 2005
- November 2005 (English version)

INSTITUTO DE CONSEJEROS-ADMINISTRADORES

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Published by:

Instituto de Consejeros-Administradores (Institute of Directors-Administrators)
C/ Dr. Fleming, 3 - 9ª planta
28036 Madrid
Spain

FOREWORD

This second edition of Principles of Good Corporate Governance has been prepared by the Instituto de Consejeros-Administradores through its Professional Standards Committee.

The purpose of this document is to provide Spanish Company Boards and Directors with a set of principles which relate to international best practices for good corporate governance. When drafting this work, we sought practical, widely accepted proposals that correlate with the "comply or explain" principle.

The IC-A upholds the need of a reasonable balance between regulation, mandatory rules, and self-regulation, rules which are not obligatory and may be followed by all those who wish to spearhead corporate governance and which, if not observed, require an explanation for non-compliance with said rules.

Considering that it now seems the Spanish Public Administration intends to consolidate the principles and rules included in the Aldama and Olivencia reports in one single code, the Instituto de Consejeros-Administradores has requested the Spanish Government to include in the aforementioned code other existing good corporate governance practices that are already being implemented in other countries of our economic area in order to ensure that the new combined code does not become obsolete even before it comes into force.

Therefore, the recommendations included in these Principles of Good Corporate Governance of the IC-A, which take into account the practices of good corporate governance applied in other Western countries that play a leading role in the field of good corporate governance, may act as a reference or yardstick during the draft stage of this combined code allowing for the mainstreaming of best international practices of corporate governance into its framework.

The principles of good corporate governance included in this document aim at becoming a reference point in Spain for listed companies. Likewise, with the necessary adjustments, these principles may also be followed by non-listed companies which may, eventually, consider their future listing on the stockmarket.

In addition, the principles included hereunder should be regarded as a benchmark to be followed by directors of such companies if they wish to apply

FOREWORD

the best international practices of corporate governance. New updates will be incorporated in future editions.

In this second edition recommending rules for Boards and Directors, the following members of the Professional Standards Committee played a lead role in the preparation of this document: Messrs. Jesús M. Caínzos Fernández, Jaime Carvajal Urquijo, Alfredo Cabañes Morelló, Antonio Abril Abadín and Fernando de las Cuevas Castresana.

The Council and the Board of the Institute, represented by Messrs. Fernando Igartua Arregui, Francisco J. Muñoz Neira, Juan Álvarez-Vijande García, Jesús Peregrina Barranquero, Luis Sancho Martínez-Pardo, Alejandro Plaza Ferrer and Enrique Sánchez de León have actively contributed to the work carried out by the Professional Standards Committee, ensuring that this document may come to be recognised as a benchmark for good corporate governance for companies which are currently listed or may wish to become listed in the future.

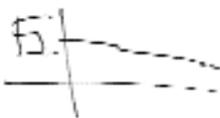
When preparing the principles of good corporate governance included in this second edition, we have taken into account not only the reports and applicable Spanish legislation, but also the best generally accepted international practices of good corporate governance and the most recent proposals, recommendations and/or consultations from the OECD and the EU.

The principles of good corporate governance included in this paper set out the rules recommended by the IC-A to be applied by Boards and Directors.

In addition to the above, in particular, we wish to gratefully acknowledge the members of the Institute who have either directly or indirectly submitted their concerns and views to us and thus contributed to the creation of these recommended practices.

June 2004

INSTITUTO DE CONSEJEROS-ADMINISTRADORES



Fernando Igartua Arregui
Presidente



Juan Álvarez-Vijande García
Director Ejecutivo

Code of Good Practice for Boards and Directors

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Subsequently, mention should be made of the recommendations of the Aldama Commission, the Spanish Transparency Act (Ley de Transparencia), Order ECO/3722/2003, as well as the Spanish Securities and Exchange Commission (CNMV) Circular 1/2004 issued in March 2004 on the Annual Corporate Governance Report, as the most relevant milestones to date. There is still a long way to go in pursuit of the goal to attain full implementation of good corporate governance in companies.

The Instituto de Consejeros-Administradores of Spain, made up on an individual basis by directors of companies or institutions, is a clear reference point for good corporate governance in Spain. Therefore, in April 2004, it decided to create a Professional Standards Committee which on a regular basis and providing specific support to the Council and Board of the Institute, proposes and updates rules to be observed by company Boards and Directors in order to ensure the broadcasting and updating of best international practices.

At present, the members of this Professional Standards Committee boast, in aggregate, more than 100 years of experience as Non-Executive/external directors (shareholding directors, independent directors or otherwise), as Executive/internal directors, Board secretaries, on Advisory Boards as well as having proven experience with a number of international Codes of Good Corporate Governance.

When drafting these professional standards, the following reports, statutes and legal provisions have been considered:

- Informe de la Comisión Olivencia [Olivencia Commission Report] (Spain, February 1998);
- Winter Report [Informe Winter](EU 2002);
- Report by the Special Commission for the Furtherance of Transparency and Security in Listed Markets and Companies. Aldama Report. [Informe Aldama] (Spain, January 2003);

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- Review of the Role and Effectiveness of Non-Executive Directors, also known as the Higgs Report (United Kingdom, January 2003);
- Audit Committees. Combined Code Guidance, also known as the Smith Report (United Kingdom, January 2003);
- The Combined Code on Corporate Governance (United Kingdom, July 2003);
- The Corporate Governance of Listed Corporations (France, October 2003);
- Final NYSE Corporate Governance Rules (U.S.A., November 2003);
- The Dutch Corporate Governance Code: Tabaksblat Committee (The Netherlands, December 2003);
- Order ECO /3722/2003 (Spain, January 2003);
- IC-A: Comentarios sobre el Proyecto de Circular de la CNMV [Comments on the Draft Circular of the CNMV] (Spain, February 2004);
- CNMV Circular 1/2004: Informe Anual de Gobierno Corporativo [Annual Corporate Governance Report] (Spain, March 2004);
- OECD Principles of Corporate Governance (April 2004);
- Recommendations on the Role of (Independent) Non-Executive or Supervisory Directors (European Commission, Directorate General for the Internal Market, Brussels, May 2004).

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I. THE BOARD OF DIRECTORS

The Board of Directors must be active, informed and independent.

1. - FUNCTION, REGULATIONS AND STRUCTURE

- The Board of Directors is the supreme governing body of the company, except for those matters which by law or as provided by the Articles of Incorporation must be decided by the General Shareholders Meeting. The effective supervision of all corporate activities is vested in the Board. The Board will exercise its functions in the best interests of the company, in terms of viability and maximizing the long-term value of the company in legitimate interests involved, either of a public or private nature, and in particular taking into account other interest groups of the company: employees, customers, business partners and society in general.
- A set of Board Regulations must exist which provide a specific definition of the purpose, functions, obligations and priorities of this body and the way it operates. The contents of these Regulations shall be public.
- The Board Regulations must set out, inter alia, the internal structure of the company based on Committees, determining their nature, scope and functions and the requirements for a Director to belong to each of them. Committees are therefore internal bodies within the Board and report to the latter about their activities on a regular basis. Nominations, Remunerations and Audit Committees should, at least, be established.

2. - THE CHAIRMAN AND THE MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

- In the effective governance and management of the Company no individual should have unrestricted decision-making powers. Moreover, the exercise of such powers should be subject to control. In addition, the positions of Chairman and Managing Director/Chief Executive Officer should be held by different persons.
- The position of Chairman should not be of an executive nature.
- A clear, express, written and approved separation should exist between the functions, tasks and responsibilities of the Board's Non-Executive Chairman and those of the Managing Director/Chief Executive Officer as the company's top executive. The Board must approve the written rules which vouchsafe such separation.
- The Non-Executive Chairman is responsible for convening and preparing the agenda of the Board meetings, he/she will preside the meetings of this body and co-ordinate its functioning; likewise he/she will

liaise with the Committee Chairmen and shall organise the evaluations of the Board and the Managing Director/Chief Executive Officer, informing the latter about the results. The Non-Executive Chairman shall also have additional functions as the Board and its Regulations may confer on him/her.

- In the event that the functions of Chairman and Managing Director are performed by the same person, or in the case of an Executive Chairman, a Senior Independent Director/Lead Director must be appointed from amongst the independent external Directors who will liaise between the Board and its Chairman and shall keep the Chairman informed. The latter will consult the Chairman when drafting the agenda for the meetings and shall conduct the evaluation process of the Chairman, chair the Nominations Committee and the external/Non-Executive Directors Meetings, co-ordinate the external/independent Directors and stand in for the Chairman of the Board in the latter's absence.

3. - COMPOSITION OF THE BOARD

- The Board shall be made up of Directors which, as a collective body, have the necessary knowledge, judgment and experience to perform their tasks adequately.
- The Board must be made up of internal/Executive Directors and external/ Non-Executive Directors. In the case of those companies in which there is no majority shareholder or a controlling group holding a majority interest, there must be a majority of independent Directors amongst the external/Non-Executive Directors. In any event, the number of independent Directors should not fall below one third of the total Board members.
- Non-Executive Directors should meet at least once a year without the Chairman and the Executive Directors. The Annual Corporate Governance Report will record the meetings held by the Non-Executive Directors during the year.
- Each Director must devote the necessary time and care to the tasks entrusted to him/her and must agree to limit his/her involvement in other Boards if this may hinder the adequate discharge of his/her duties as a Director. At the time of his/her appointment, he/she must notify his/her significant commitments as a Director. Any change of such situation must be notified to the Board of Directors.
- The Directors must have access to the senior officers of the company. When there is a Senior Independent Director/Lead Director, such access may be channelled through him/her. The Senior Independent Director/Lead Director ask senior officers to provide information for the Board meetings.

4. - INDEPENDENT DIRECTORS: INDEPENDENCE CRITERIA

The independence criteria to be fulfilled by the external independent Directors must be set out in the Directors Code Provisions (which must be incorporated in the Board Regulations) and shall contemplate at least the following issues:

- Their Appointment, re-election or removal will take place through the Nominations Committee.
- Quality and Professional Reputation which involves:
 - contributing knowledge and experience relevant to the Company, which complements the skills of other members of the Board and is appropriate to the requirements of the Board Regulations;
 - adding prestige to the Board and generating shareholder confidence on the basis of their professional qualifications.
- Proven independence.
- Character and Personality:
 - Quality as such is not sufficient for independence. Directors are also required to have their own judgment and the capacity to defend their views.
- Informed judgment:

In order to maintain this requirement, the Director must at all times:

- Demand an initial, comprehensive, adequate and scheduled training scheme (induction programme) and continuous development (regular training) and updating of skills;
 - possess sufficient knowledge about the Company and its environment (sector) and adequate knowledge of major business issues; and
 - demand, in each case, sufficient, accurate, clear information which must be provided sufficiently in advance to formulate an opinion and have an informed judgment.
- Availability in terms of time and required dedication to ensure the successful performance of the functions and duties attached to his/her position.
 - Receive a fair and balanced remuneration:
 - if the remuneration is too low, it may reduce the possibility of attracting qualified and experienced individuals willing to accept such responsibility and devote the necessary time to that position;

- if the remuneration is too high it may place his/her independence at risk, out of fear of losing his/her position;
- it should not include pension plans or share option benefits.
- No professional, business or family ties with the Company, its majority shareholder or relevant shareholders, or with a group of companies controlled by the company. It is deemed that such requirement concurs at least in the following cases:
 - he/she has not been an officer or an employee of the Company, its majority shareholder or any major shareholder of the company during the last five years;
 - he/she has not conducted business, or provided external services to the Company, to its majority shareholder or any major shareholder during the last three years, other than in exceptional cases which have been specifically approved by the Board and recorded in the Annual Corporate Governance Report;
 - he/she has not been an external auditor for the company, its majority shareholder or any major shareholder, or a significant partner or officer of the Company's external auditor during the last three years.
 - he/she has not been an employee of a company which pays or receives from the Company, its majority shareholder or any major shareholder, monies for goods and services exceeding 1 million euros or more than 2% of the Company's gross income in the last financial year;
 - he/she does not have any close family ties¹ or significant financial relationship with Directors, Senior Officers or Advisors of the Company, with the majority shareholder or any major shareholders. A significant financial relationship is deemed to exist when it refers to transactions on goods and services exceeding 1 million euros or more than 20% of the gross income of that related party in question in the last financial year.
- Other independence criteria:
 - not exceed a ten-year period as an Independent Director of the Company;
 - refrain from acting as a representative of any of the Company's major shareholders;
 - refrain from acting as a Director or hold significant ties with another company which has the right to appoint shareholding Directors to the Board of the Company;

¹ Close relatives of the Director are deemed to be: his/her parents, brothers and sisters, spouse, the parents, brothers and sisters of his/her spouse, his/her descendants and the spouses of his/her descendants.

- refrain from acting as an executive in other companies belonging to the same Corporate Group as the Company.
- The independence criteria described above must be verified on an annual basis prior to drafting the Annual Corporate Governance Report.

5. - INFORMATION FOR THE DIRECTOR

- With regard to voting practices, the basic principle is that a Director should "not approve any matter which he does not understand or is not aware of, or with which he does not fully agree".
- The role of the Chairman is to foster debate and determine with the Board Secretary's support what information must be provided in order to ensure that Directors may have an opinion and sound judgment on the matters of their competence. Non-Executive Directors must at all times decide whether the information received is appropriate, of sufficient quality and if it has been submitted to them sufficiently in advance in order to be able to form an opinion and have sound judgment on the matter and must request any additional information or clarifications they consider necessary. Whenever necessary, the Director may request external advice the cost of which shall be borne by the Company.
- A "Induction Programme" must be in place in order to ensure that each Director becomes acquainted with the Company in a sufficient and rapid manner.
- The Director must be familiar with, or be trained in, the key issues and in the best understanding of the Company, attending external or internal training programmes as required. The continuous training of Directors falls under the Chairman's responsibility who must also ensure that such programmes are available for Directors and that they are conducted in an adequate manner.

6. - ANNUAL PERFORMANCE EVALUATION

- The Board must conduct an annual Performance evaluation of its own actions as a collegiate body, in a formal and exacting manner and also of its Committees and its Directors, wherefore it should have the freedom to hire external advice from independent experts when deemed necessary.
- The annual Performance evaluation must take into account the capabilities and experience of each Director and indicate what training or updating programmes are necessary.
- The Board will conduct an annual Performance evaluation of its Chief Executive Officer. This Performance evaluation will be co-ordinated by the Non-Executive Chairman (or by the Senior Independent Director/Lead Director in the case of an Executive Chairman), who shall present the results thereof to the Chief Executive Officer.

7. - PROPOSAL, APPOINTMENT, REELECTION AND REMOVAL OF DIRECTORS

- The profile of Directors must be suited to the requirements and demands set out in the Board Regulations.
- A formal and transparent procedure must exist for the proposal, appointment, re-election and removal of Directors. Such procedure must be included in the Board Regulations and in the Annual Corporate Governance Report.

8. - NOMINATIONS COMMITTEE

- There must be a Nominations Committee made up solely of external Directors and with a majority of independent external Directors. The Non-Executive Chairman may be a member of the Committee but he/she should not chair its meetings. Should there be a Senior Independent Director/Lead Director, it is advisable that he/she should chair this Committee.
- The Committee must have a written regulation approved by the Board and published, in which reference must be made to the powers vested in such Committee by the Board, its functions, duties and responsibilities, as well as its procedures and rules of procedure.
- The Committee is responsible for evaluating if the required knowledge and experience concurs in the Board, and of making use of such evaluation in order to designate new Directors.
- The Committee will submit its proposals concerning the appointment, reelection and removal of Directors to the Board for examination, approval and where applicable, submission to the General Meeting for final approval and/or endorsement.
- All proposals regarding candidates to the Board must be addressed to this Committee which shall be responsible for their evaluation pursuant to the procedure approved by the Board. The Committee is authorised to hire external consultancy services as it deems necessary in order to seek candidates or to evaluate them.
- All Directors should be subject to reelection at regular periods of time subject to the satisfactory discharge of their duties. The Board must ensure that its composition is renewed in an orderly and gradual manner.
- The procedure and criteria followed for the drafting of proposals relating to the appointment and re-election of Directors must be formal, accurate, transparent and objective and furthermore recorded in the Annual Corporate Governance Report.

- Should a Director fail to be re-elected or be removed, such decision must be examined and submitted by the Nominations Committee and should be based on objective reasons which must be explained and presented to the Board for their discussion and decision. As regards Independent Directors, their removal or non-reelection must be based on the lack of objective circumstances of independence or following a negative evaluation of their performance determined in a verifiable and objective manner.
- The Board is responsible for the succession plan of Directors (including the Chairman and the First Executive). The Nominations Committee shall be responsible for the development and continuous updating of the succession plan, wherefore it may request external advice on this matter if deemed necessary.
- The Nominations Committee must be informed of all circumstances or situations which may lead to a change of control in the Company, in particular in the case of a merger or takeover. The Nominations Committee shall analyse the organisational changes which affect the members of the Board or the Company's Senior Management and shall submit its proposals to the Board prior to approving the relevant transaction.
- The Committee must at least be familiar with the evaluation and succession plan for the Company's Senior Management and of any changes made in such plan, including any appointment or resignation, as well as the grounds on which it is based. Any incorporations to the Senior Management reporting to the Chief Executive Officer/Managing Director require the approval of the Board following a favourable report prepared by the Nominations Committee.

9. - REMUNERATIONS COMMITTEE

- A Remunerations Committee must be created which will not include the Executive Directors. This Committee will propose to the Board, and the Board shall submit to the General Meeting's approval, the remuneration policies (including without limitation, pension schemes, payments in cash and in kind, and share options) for Executive Directors and other Directors and the individual remuneration package of each Director.
- Likewise the Remunerations Committee must make proposals on pension schemes, payments in cash and in kind, share option schemes, and pluria-annual remuneration plans for Senior Management officers, inter alia, prior to submitting them to the Board and must be informed of the remuneration policies and the individual remuneration regarding Senior Management officers, as well as the general remuneration policies of the Company.
- The Committee will have a regulation approved by the Board and published, in which reference must be made to the powers vested in such Committee by the Board, its functions, duties and responsibilities, as well as to its proceedings and rules of procedure.

- The Remunerations Committee must be informed of all circumstances or situations which may lead to a change of control in the Company, in particular in the case of a merger or takeover, insofar as certain covenants or agreements may modify the remuneration or contractual terms of any member of the Board or the Company's Senior Management. The Remuneration Committee shall examine those covenants and agreements and inform the Board on these prior to the approval of the relevant transaction so that it may reach the most appropriate decision.

10. - REMUNERATION OF DIRECTORS

- The remuneration package for Directors must be sufficient to compensate their dedication and responsibility and to attract, retain and motivate adequately qualified Directors, avoiding paying more than is necessary to meet this objective, ensuring that their independence is not compromised.
- A formal and transparent procedure must exist for the implementation of remuneration policies and in order to determine a specific remuneration, in particular with regard to Executive Directors. No Director will take part in the decision-making process concerning his/her own remuneration.
- The Annual Corporate Governance Report must reflect the remuneration policy adopted and shall set out the individual remuneration paid to each Director.

11. - AUDIT COMMITTEE

- An Audit Committee must be created and Executive Directors may not attend or be appointed members of same. The Audit Committee, when so required, may request the attendance of Executive Directors, the Chief Executive Officer or any key employee of the Company. The Committee shall consist of a majority of independent Directors and shall be chaired by one such Director. Chairmanship of this Committee must be renewed (or reelected) regularly and at least every four years.
- Members belonging to this Committee must be singularly/particularly qualified, especially the Chairman, and they should abide by the rule "not to approve what you do not understand and what you are unable to explain to other Directors". The Chairman must also be an expert in financial matters.
- The Committee will have a Charter approved by the Board and published, in which reference must be made to the powers vested in such Committee by the Board, its functions, duties and responsibilities, as well as its procedures and rules of procedure.

- The Committee will issue an annual report which shall be made available to the shareholders prior to the General Meeting. Said annual report must be previously approved by the Board.
- The minimum competencies of the Audit Committee will be:
 - supervise the accuracy of the financial statements and annual accounts and ensure that the accounting principles applied are relevant and have been applied consistently;
 - propose to the Board which will submit it to the General Meeting, the appointment, renewal and revocation of an external auditor and recommend the contractual terms under which it shall provide its services to the Board;
 - preserve the independence of the external auditor, approve its annual work plan, supervise its qualifications, independence and effectiveness, and develop and implement policies aimed at the non-contracting of services with the external auditors, if these are different from the audit as such and may adversely affect their independence.
 - supervise the carrying out of the internal audit, receive and evaluate their work plan and any reports deemed relevant or significant for the Company. Formulate an opinion and report on their organisation and ensure that they have the necessary resources.
- The Audit Committee must be informed of all circumstances or situations which may lead to a change of control in the Company, in particular in the case of a merger or takeover, in order to examine these and prior to the approval of the relevant transaction, inform the Board on the financial terms of the transaction, in particular the share exchange ratio in order to ensure that the Board adopts an informed decision after having heard the opinion of the Committee.
- In the case of Companies which do not have a Risks Committee, the Audit Committee will be responsible for reviewing risk management schemes, establishing the risk evaluation and management policy, evaluating and making adequate allowances for significant risks, as well as determining action plans for their control and mitigation. Furthermore, it must revise any significant risks and liabilities not included in the Balance Sheet with the internal auditor.
- The Audit Committee shall be responsible for supervising and revising all relevant financial information, including that of a public nature, the information made available to Shareholders and the information handed out to analysts. Likewise, it will supervise and review all Significant Events and the own stock portfolio.
- The Committee will meet regularly and separately with the External Auditors, the Internal Auditors and the Company's Management, providing regular information to the Board on its activities, plans and views.
- The Committee must revise the nature and scope of the services other than audit services provided by the external auditor or by companies or individuals

linked to the latter in order to avoid any conflict of interests. The Committee must also establish and apply a set of standards which specify services other than audit services (a) excluded, (b) allowed after having obtained an authorisation from the Committee and (c) allowed without having to secure such authorisation.

12. - CONTROL AND MANAGEMENT SYSTEMS

- The Board must approve the Company's corporate strategy and become familiar with the business strategies. The Board must approve any major change involving the Company's main business-units.
- The Board must ensure that adequate risk management and internal control systems are in place which guarantee the financial soundness of corporate assets.
- The Board must maintain a direct communication channel with the internal and external Auditors, without the presence of the Company executives.

13. - THE SECRETARY TO THE BOARD

- The Secretary to the Board plays a key role in guaranteeing that the Board's rules of procedure are complied with and are regularly reviewed.
- The Chairman of the Board and other Directors must seek counsel from the Secretary to the Board and when the latter is not a lawyer, from the Legal Counsel, on the extent of their responsibility under current legislation, the Articles of Incorporation and Board Regulations.
- The Secretary to the Board will help the Chairman to identify the information which must be made available to the Directors.
- The Secretary to the Board shall always act in an objective and impartial manner, providing advice to the Directors and support to the Chairman in matters related to the Board.
- In order to safeguard the independence and impartiality of this role, the appointment and removal of the Secretary of the Board must be proposed by the Nominations Committee and approved by a plenary session of the Board. The appointment and removal procedure must be laid down in the Board Regulations.
- The Secretary to the Board will report to the Board and shall be held liable before it through the Chairman in all matters of corporate governance. The Secretary shall ensure that the Company's Articles of Incorporation and Regulations of the Company are observed, and shall be in charge of the custody and safekeeping of corporate documents and of issuing certificates.

14. - RELATED-PARTY TRANSACTIONS, TRANSPARENCY AND CONFLICTS OF INTEREST

- Companies must comply with the principle of transparency, conceived not only as a formal concept of the existence and publication of Corporate Governance rules, but from a qualitative point of view of conveying to the market in a full, true, equitable, symmetrical and timely manner all the information reflecting the management, organisation, activities, figures and results, taking specially into consideration related-party transactions and conflicts of interest.
- The Company must disclose the operations which involve the transfer of resources or obligations between the Company and its significant Shareholders, Directors or Officers. Such operations must have previously received a favourable report by the Audit Committee or where applicable by the Nominations and Remuneration Committees and must be approved by the Board of Directors, at least when the foregoing Committees qualify such transactions as significant in terms of content or amount, or if they are not conducted at arm's length or are beyond the Companies' usual business scope. Within the Board of Directors the decision will be taken by Directors not affected by such conflict of interest. They may seek external advice at the cost of the Company.
- Any situation of conflict of interest between the Company and its significant Shareholders, Directors or Officers must be reviewed by the Audit Committee, or where applicable, by the Nominations and Remunerations Committees and the provisions of the previous para graph shall apply when it may lead to a related-party transaction.
- The Company must establish a procedure for the control and resolution of any conflict of interest which may arise.

II. THE GENERAL MEETING

The General Meeting must be a key forum for information and decision-making fostering active participation by the majority of shareholders.

1. - SHAREHOLDERS' RIGHT OF INFORMATION

- The Shareholders' right of information is an essential principle underlying the philosophy of Corporate Governance and the Board as a whole is responsible for ensuring its adequate operation and the establishment of a successful dialogue with shareholders. Stable, adequate and regular information channels between the Company and investors must be in place.
- The Board is responsible for submitting complete and comprehensive financial and management information in order to facilitate a balanced view of the current situation and the Company's foreseeable future.
- The Board must ensure that a dialogue with institutional investors exists so that these may become familiar with and participate in corporate plans, objectives and achievements. The Board must be aware of such information and ensure that it is accurate and reliable.

2. - GENERAL MEETING PROCEDURES

The Board must ensure that the General Meeting is properly used as an adequate channel to communicate with shareholders and foster their participation. Therefore, with regard to the General Meeting, the following minimum standards are recommended:

- Approval of the General Meeting Charter by said body, which must be previously examined by the Board ensuring that such document is disclosed to the public.
- Convene the General Meeting with sufficient notice to ensure that the shareholders may benefit from the information in time to exercise their rights prior to the Meeting and decide whether to take part and how they are going to vote. In this sense, a longer period than the current statutory fifteen day term should be granted.
- Ensure that the complete text of the resolutions to be voted is made public providing the same notice period as above.
- Serve notice of the Meeting individually to each shareholder when the latter has established his/her shareholder condition as such and has expressly so requested.

- Provide shareholders with reports which justify each proposal to voted on and in the case of Directors' appointments, provide information on his/her professional record and qualifications in support of such proposal indicating the procedure followed in its preparation.
- Vote as a separate item on the agenda the amendments to the Articles of Incorporation, specifying each Article which is to be amended.
- Vote on an individual basis the nomination and removal of Directors as an individual item on the agenda.
- Approve the remuneration and the remuneration policies of the Board as an individual item on the agenda.
- Acknowledge that a qualified number of shareholders may be entitled to submit items for the agenda of the Meeting and facilitate the exercise of such right within a reasonable period of time.
- Ensure that the agenda provides that the Chairman's report is mandatory. Chairmen of the Board Committees must be present in order to reply to any questions raised by shareholders within their specific areas of competence.
- Ensure that among the documents provided to the shareholders, the Audit Committee's Annual Report is included.
- Protect the right of shareholders present at the Meeting to request a record of their use of the floor and votes in the minutes.
- Set up procedures which make e-voting possible and encourage the use of this system.

3. - INSTITUTIONAL INVESTORS

Institutional investors are responsible for making use of their votes in a responsible manner and in the event of voting against a resolution they should notify such circumstance in advance and publicly state the grounds for such decision.

SPAIN: USEFUL ADDITIONAL INFORMATION

Information on Corporate Governance:

- <http://www.cnmv.es/index.htm>
- <http://www.iconsejeros.com/funciones/normas.html>

Annual Corporate Governance Report:

- <http://www.iconsejeros.com/funciones/normas.html>

Major International Corporate Governance Codes:

- <http://www.iconsejeros.com/funciones/normas.html>

Most recent laws and reports:

- OCDE Countries: New Corporate Governance Principles (April 2004)
- Informe Winter (EU 2002)
- Sarbanes-Oxley (EEUU 2002)
- Combined Code on Corporate Governance (UK, July 2003)
- Higgs Review (UK, January 2003)
- Informe Anual Gobierno Corporativo: Circular CNMV 1/2004 (Spain, March 2004)
- Orden ECO/3722/2003 (España, January 2004) (Spain, January 2004)
- Ley de Transparencia (Spain, July 2003)
- Informe Aldama (Spain, January 2003)

Other general information:

- Comisión Nacional del Mercado de Valores (Spanish Securities and Exchange Commission) www.cnmv.es
- Banco de España (Spanish Central bank) www.bde.es
- Dirección General de Seguros y Fondos de Pensiones (Directorate General of Insurance and Pension Funds) www.dgsfp.mineco.es

- Gobierno Español (Spanish Government) www.la-moncloa.es
- Bolsas y Mercados Españoles (Spain Stock Exchange & Markets) www.bolsasymercados.es
- Bolsa de Valores de Madrid (Madrid Stock Exchange) www.bolsamadrid.es
- Mercado Español de Futuros Financieros (Spanish Futures Market) www.meff.es
- Mercado Español de Renta Fija (Spanish Fixed-Income Market) www.aiafecn.com
- Ministerio de Economía y Hacienda (Spanish Ministry of Finance) www.minhac.es y <http://portal.minhac.es/Minhac/Home.htm>
- Instituto Nacional de Estadística (National Bureau of Statistics) www.ine.es
- Instituto de Consejeros-Administradores (Spain Institute of Board Directors and Administrators) www.iconsejeros.com

INSTITUTO DE CONSEJEROS-ADMINISTRADORES

The Instituto de Consejeros-Administradores (IC-A)

The Institute is an independent, non-political organisation, made up of company Directors who acquire membership on an **individual** basis.

Its objectives are to foster, promote, broadcast and implement state-of-the-art Corporate Governance models, the highest standards for professional codes and the most demanding ethical practices for corporate governance and to promote training programmes for Directors and other key players of Corporate Governance based on consolidated models, in order to ensure the development and professionalisation of their professional role.

It also issues opinions on rules, regulations and guidelines which refer to Corporate Governance before and after they have been enacted, and assu and defence of Directors' interests before Public Administrations and the Civil Society.

Services for members:

- **Representation and Opinion**
 - Opinion-creating representation of its members before the Public Administration and the Civil Society.
- **Professional Standards, Corporate Governance, Professionalisation**
 - Best Practices and vision / International co-operation.
 - Good Corporate Governance Codes.
 - Compilation and definition of key functions in the Board.
- **Professional Development of Directors**
 - Courses, workshops, conferences, publications, newsletters, books.
 - Fora and meetings of members with other Directors and relevant personalities.
- **Information and Advisory Services**
 - Legal Consultancy; Insurance; Remuneration; Recruitment; Evaluation, Design and Structure of corporate bodies.
- **Preferential Services with Third Parties**

For further information, please, contact us:

Instituto de Consejeros-Administradores
C/ Dr. Fleming, 3 - 9ª planta
28036 Madrid

Phone.: (+34) 807 30 70 20 (public)
(+34) 902 014 988 (members only)

email: incorporacion@iconsejeros.com

Web: www.iconsejeros.com

Principles of Good Corporate Governance

The *Instituto de Consejeros-Administradores* upholds the need for a reasonable balance between regulation, mandatory rules, and self-regulation, rules which are not obligatory and may be followed by all those who wish to spearhead corporate governance and which, if not observed, require an explanation for non-compliance with said rules.

When preparing the principles of good corporate governance included in this second edition, we have taken into account not only the reports and the applicable Spanish legislation but also the best generally accepted international practices of good corporate governance, and the most recent proposals, recommendations and/or consultations from the OECD and the EU.

The principles of good corporate governance included in this paper set out the rules recommended by the IC-A to be applied by Boards and Directors.



For further information, please, contact us:

INSTITUTO DE CONSEJEROS-ADMINISTRADORES

WEB: www.iconsejeros.com

email: normativa@iconsejeros.com

Phone: (+34) 807 307 020 (public)

(+34) 902 014 988 (members only)

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