

# Report

## on the evaluation of the performance of the Board of Directors and its Committees

<b>Prepared by</b>	Internal Audit Department
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<b>Scope of study</b>	Neinor Homes, S.A. and dependent companies
<b>Nature of the Report</b>	Confidential
<b>Recipient</b>	BOARD OF DIRECTORS
<b>Executive Summary</b>	<i>This report is based on the results of the first internal evaluation of the quality and efficiency of the operation and performance of the Board of Directors and its Committees of Neinor Homes prepared by the Internal Audit Department.</i>

*Our conclusion is that, in general terms, the efficiency and operation of the Administrative Bodies can be qualified as **adequate and in line with best practices in listed companies**.*

*In this regard, among the aspects worth highlighting is the level of detail of the information and documentation provided prior to the meetings and the involvement of the members of the Board of Directors and Senior Management, particularly in regard to their availability and the thorough preparation of their appearances. Moreover, during the performance of the assessment **certain areas for improvement were detected**, such as the encouragement of increased female presence within the Administrative Bodies, as well as greater visibility to be given to certain specific Social Corporate Responsibility practices.*

*Following on from the analysis and review performed, the report includes the recommendations and action plans proposed for the continuous improvement of the performance of the Board and its respective Committees.*

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## 1 INTRODUCTION

According to article 529(ix) of Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Limited Companies Act: *“the Board of Directors shall perform an annual evaluation of its performance and that of its Committees and propose, based on the results thereof, an action plan designed to correct any weaknesses detected”*.

In addition, recommendation 36 of the Good Governance Code of Listed Companies approved by the Spanish National Securities Market Commission in February 2015 (CUBG) establishes: *“that the Board of Directors in full should be evaluated once a year and, as the case may be, an action plan should be adopted to correct any weaknesses detected with respect to:*

- a) The quality and efficiency of the performance of the Board of Directors.*
- b) The performance and membership of its Committees.*
- c) The diversity of the membership and competencies of the Board of Directors.*
- d) The performance of the Chairman of the Board of Directors and of the Chief Executive Officer of the company.*
- e) The performance and contribution of each director, paying special attention to the heads of the various Board Committees.*

*Every three years, the Board of Directors shall be assisted in the performance of the evaluation by an external consultant whose independence shall be verified by the Appointments Committee”*.

In this regard, for the purpose of **compliance with the aforementioned Spanish Limited Companies Act and the Good Governance Code and upon completion of a full cycle since it was first listed** in March 2017, the **Board of Directors** (BoD) Neinor Homes S.A. (hereinafter, “Neinor Homes” or the “Company”) has decided to perform, **an in-house first evaluation of the quality and efficiency of its operation and that of its three Committees**: the Audit and Control Committee (ACC), the Appointments and Remuneration Committee (ARC) and the Land Investment Committee (LIC).

The scope of the **evaluation period** was from **March 2017 to March 2018**, thus providing greater visibility and objectivity of the actions performed by the Administrative Bodies as well as enabling evaluation of all of the meetings held during the financial year with the presence of all new Company directors.

The methodological approach used is described in Annex 1 hereto.

This report, together with the consolidated evaluation prepared by the Internal Audit Management Department, has been presented to the Board of Directors for assessment and discussion.

## 2 RESULTS OF THE EVALUATION PROCESS

Following the analysis of the results of the evaluation process performed on the basis of directors’ interviews, completed questionnaires and the analysis of the documentation requested as listed in Annex I, the general conclusions reached are that the **efficiency and performance of their duties by** the Board of Directors of Neinor Homes, its chairman, its CEO, its Secretary and its three Committees, can be qualified as **adequate**.

In this regard, the **most significant aspects** are the following:

- The **quality and level of detail** of the **information and documentation provided to the directors** for analysis and decision-making in the discharge of their duties.
- The **interaction and dialogue between the Board of Directors and Senior Management**, particularly in terms of the availability of company executives, their predisposition and the thorough preparation of their appearances, as well as the leadership of the management team, which helps to ensure the good performance of the organization.
- The internal operation of the Board of Directors in regard to the **frequency of the meetings, the advance notice of the meetings summons** and the **level of attendance of the directors**.

On the other hand, certain **areas for improvement** have also been detected, which Neinor Homes should henceforth address:

- An **increase in gender diversity**, via the inclusion of a greater number of women directors. This would help comply with the Spanish Limited Companies Act<sup>1</sup> and the CNMV Good Governance Code,<sup>2</sup> which set the target for the number of female directors to be at least 30% of the total number of directors on the Board by 2020.
- The **encouragement of action plans and specific initiatives in matters of Corporate Social Responsibility (CSR)** designed to foster compliance with the Master Plan, as well as the **increased visibility of such practices**.
- **Greater specificity regarding director succession plans**, both executive and non-executive, particularly the positions of Chairman and Chief Executive Officer, to ensure that the process is carried out in an orderly and planned manner should the case arise.
- The **definition of a corporate governance policy** that sets forth the basic action principles, guidelines and commitments assumed and aligned with best practices and recommendations in this regard.
- The holding of an **annual meeting**, in addition to the Shareholders General Meeting, of the Administrative Bodies of Neinor Homes with **institutional investors and shareholders**, in order to **ascertain their concerns**, and draw up a **regular report on the perceptions and issues considered**.
- The **annual organization of an Investor Day** with the participation of both majority and minority shareholders.
- The **possibility of sending the documentation on** the matters to be discussed in the meetings **to the directors** for analysis **an additional day in advance of the date of the meetings**.

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<sup>1</sup> The legislation referred to is that of article 529(ii) on “The necessary nature of the board of directors” of Spanish Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Limited Companies Act.

<sup>2</sup> See recommendation 14 of the Good Governance Code approved by the National Securities Market Commission (CNMV) in February 2015.

### 3 ACTION PLANS

On the basis of the results of the process of evaluation of the Board of Directors and its Committees, the implementation of the following action plans is proposed:

- **Prioritization of female profiles** over equal merit of potential candidates in processes for the **replacement and addition of new directors** .
- **Regular monitoring** by the Board of the **specific CSR actions** and of the **performance of the Master Plan** on the subject.
- **Preparation of a succession plan** for the Board that also includes replacement possibilities of Senior Management positions and key executive positions (i.e. Head of Procurement, Head of Internal Audit, Head of IT, etc.).
- **Definition of a corporate governance policy** setting out the basic action principles, guidelines and commitments.
- Active listening to investor opinions:
  - **Regular reporting** by the Investor Relations Department on the **perceptions** and concerns of the **significant shareholders**.
  - Holding of an **annual meeting with significant shareholders to gain a detailed insight into their concerns and opinions**.
  - **Annual Investor Day** (scheduled for 4 days in September 2018).
- An effort to be made by Senior Management and the Board Secretary to **send the documentation to the directors to prepare the meetings** one or two more days in advance.

4 ANNEX 1: METHODOLOGY

The evaluation of the Administrative Bodies of the Company performed by the Internal Audit Department has been carried out during the months of April and May 2018 in accordance with the following methodology [See translation attached at the end of this document.]:



This working approach has been based on three main areas:

- Evaluation:** review of the documentation and internal operation, as well as the measurement of the level of dedication, commitment, involvement and knowledge of the directors and analysis of compliance with their responsibilities.

Below is the list of the information reviewed:

Code	Document
1	Annual Corporate Governance Report 2017.
2	Annual Directors Remunerations Report 2017.
3	Corporate Social Responsibility Report 2017.
4	Individual and consolidated financial statements 2017.
5	Company Bylaws.
6	Internal regulations: Shareholders General Meeting, Board of Directors, Audit and Control Committee, Appointment and Remuneration Committee and Real Estate Investments Committee.
7	Internal Conduct Regulations in the Securities Markets (RIC), procedure for conflict of interest and related transactions and control and operation models.
8	Director profiles and CVs.
9	Dates of appointment of directors and vacancies
10	Information sent to directors prior to meetings and emails exchanged with requests for information and/or clarification.
11	Presentation of results 2017 to investors and shareholders.

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Code	Document
12	Documentation regarding Investor Day 2017.
13	Investor perception study 2017.
14	Documentation of 2017 Shareholders Meeting; quorum, voting of agreements, right of attendance and information, proxy voting, etc.
15	Report on activities 2017 of the Board and its Committees.
16	Schedule of meetings of the Board and its Committees in 2017 and agenda of each of the meetings.
17	Minutes of the meetings of the Board and its Committees held in 2017.
18	Director selection policy.
19	Director succession plan.
20	Corporate governance policy.
21	Diagnosis on compliance with Good Governance practices (i.e. Unified Good Governance Code or "CUBG", Technical Guide 3/2017 of the CNMV on Public Interest Entities Audit Committees, etc.).
22	Internal or external reports evaluating Corporate Governance practices (i.e. Quality or Social Corporate Responsibility reviews, etc.).
23	Policy of communication and contact with shareholders, institutional investors and voting advisers and rules of operation of the Shareholder Electronic Forum.
24	Other internal policies: ethics code, real estate brokering good practice code, policy of provision of services other than auditing by the auditor, employment of former auditors, on dividends, treasury shares, etc.
25	Training provided to the Board and its Committees.
26	Information on the meetings of the Board and its Committees held with external areas and/or auditors without the presence of the CEO.
27	Benchmarking on director remuneration performed by external experts.
28	Publication of information on matters of Corporate Governance on the website.

- **Self-assessment:** evaluation and perception of the efficacy of the performance and operation by the directors themselves, via questionnaires and personal interviews, at all times respecting anonymity in the replies.

All of the Directors of the Company (7) as well as the Secretary of the Board and of the Committees, have taken part in this process.

Name	Category	Office in the Board	Office in the Committees		
Ricardo Martí Fluxá	Independent Director	Chairman	Member of ACC	Chairman ARC	Member LIC
Juan Velayos Lluís	Executive Director	CEO			Member LIC
Anna M. Birulés Bertran	Independent Director	Director	Chairperson ACC		
Alfonso Rodés Vilà	Independent Director	Director		Member ARC	
Juan José Pepa	External Director	Director		Member ARC	Chairman LIC
Felipe Morenés Botín-Sanz de Sautola	External Director	Director	Member of ACC		Member LIC
Alberto Prieto Ruíz	Independent Director	Director			Member LIC
Silvia López Jiménez	Secretary of Board and Committees	Secretary of the Board	Secretary of ACC	Secretary ARC	Secretary LIC

Every questionnaire sent to the directors was divided into the following areas of questions (although each director has only replied to those of application to him/her):

- A. Structure and composition of the Board of Directors (6 questions).
- B. Internal operation of the Board of Directors (6 questions).
- C. Effectiveness of the Board of Directors (6 questions).
- D. Connection with Senior Management (5 questions).
- E. Performance of the functions of the Governance Bodies:
  - a. Board of Directors (2 questions).
  - b. Chairman (3 questions).
  - c. Chief Executive Officer (2 questions).
  - d. Board Secretary (3 questions).
  - e. Audit and Control Committee (7 questions).
  - f. Appointment and Remuneration Committee (5 questions).
  - g. Land Investments Committee (5 questions).
- F. Evaluation of the role of shareholders and investors and of "Proxy Advisors" (2 questions).
- G. Publication of information and management of the General Shareholders Meeting (GSM) (2 questions).
- H. Social Corporate Responsibility (2 questions).
- I. Other issues (3 questions).

- **Benchmarking:** comparative analysis of the Corporate Governance practices at Neinor Homes with regard to the actions of comparable companies and the industry and other companies considered national benchmarks in terms of good practice in this regard.

The following information sources were used:

- A. Annual Corporate Governance Reports (ACGR).
- B. Annual Reports on Remunerations (ARR).
- C. Information published in corporate websites, particularly in the sections on "Shareholders and Investors" and "Corporate Governance".
- D. Annual Reports.
- E. Social Corporate Responsibility Reports.
- F. Corporate Governance trends.
- G. Own experience and know-how of the Internal Audit Department.



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<b>Phases</b>	<b>1 Planning and commencement of the evaluation process</b>	<b>2 Performance of the work</b>	<b>3 Presentation of results</b>
<b>Activities</b>	<ul style="list-style-type: none"> <li>• Identification and obtention and/or relevant information</li> <li>• Presentation of questions to be posed to the directors</li> <li>• Presentation of the kickoff to the board for validation of the methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Review and analysis of the documentation requested, considering the items and scopes proposed (see previous slide)</li> <li>• Presentation of questionnaires to the directors</li> <li>• Analysis of the proposals received</li> <li>• Holding of meetings and interviews with selected directors to discuss the replies to the questionnaires and areas for improvement/weaknesses detected</li> <li>• Performance of benchmarking with selected companies</li> <li>• Discussion of first results with Board Secretary and CEO</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidation of data and information compiled</li> <li>• Preparation of report on results, including evaluation, director self-assessments and comparative analysis</li> <li>• Presentation of the report for Board validation and approval</li> </ul>
<b>Results</b>	<ul style="list-style-type: none"> <li>✓ List of documents to be requested</li> <li>✓ List of directors to be interviewed</li> <li>✓ Evaluation questionnaire model</li> <li>✓ Kickoff presentation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Meetings held with Board members</li> <li>✓ Preliminary diagnosis of degree of compliance of the Board and its committees and discussion with Board Secretary and CEO</li> <li>✓ Corporate Governance comparative analysis</li> </ul>	<ul style="list-style-type: none"> <li>✓ Report on the evaluation of the Board and its Committees for FY 2017 including executive summary, methodology, results by area and improvement plans identified</li> </ul>