CNMV
COMISIÓN NACIONAL DEL MERCADO DE VALORES

Corporate Governance Report of Entities with Securities Admitted to Trading on Official Secondary Markets 2005

Corporate Governance Report of Entities with Securities Admitted to Trading on Official Secondary Markets 2005

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1.1 Introduction

Corporate governance rules have remained at the heart of the debate on current issues in company law and securities markets. The latest studies on developments in corporate governance underscore that, though much has been achieved in recent years, even the most advanced companies still have a long way to go to perfect their systems.

International organisations have produced a number of initiatives in the last year dealing with corporate governance best practices. Among them:

— In April 2004, the OECD published a revised version of its Principles of Corporate Governance. The relevant OECD Steering Group is working on a new methodology to analyse implementation of these principles in each member country.

— In March 2005, IOSCO published a report titled "Strengthening Capital Markets Against Financial Fraud" which highlighted the key contribution of good governance rules to the efficient management of companies and proper operation of securities markets.

Following on from this report, in October 2005, IOSCO's Technical Committee set up a joint "Task Force on Corporate Governance of Listed Companies" with the OECD, to look specifically at rules governing the independence of listed company Boards of Directors.

Taking its cue from the OECD's Principle VI of corporate governance – "The board should be able to exercise objective independent judgement on corporate affairs" – the Task Force has drafted a report describing the rules on board independence applicable in the security markets of member countries, without entering into what it sees as the best practices or formulating recommendations to fill out Principle VI.

IOSCO has sent this document out to public consultation until 10 January 2007, and a final version is likely to be approved at the Technical Committee's February meeting in Madrid.

1.2 Action Plan to modernise company law in Europe

In May 2003, the European Commission published its Action Plan to modernise company law and enhance corporate governance in European companies. This initiative exemplifies the active role EU institutions must play in developing and harmonising good governance practices in Europe.

The Action Plan has already given rise to a series of Directives and Recommendations:

— Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending accounting directives IV and VII. The main novelties of this text, with a transposition deadline of 5 September 2008, are as follows:

  (i) Members of the board of directors to be collectively responsible for financial statements and management reports.

  (ii) Tighter disclosure requirements for related-party transactions and publication of an annual corporate governance statement as a section of the management report.

  (iii) Facilitate comparison of financial information inside the EU and greater transparency in off-balance-sheet transactions.

— Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts (transposition deadline for Member States, 29 June 2008).

— Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies. The transposition deadline is in this case 15 December 2007.

— Directive 2006/68/EC of the European Parliament and of the Council of 6 September 2006 amending Council Directive 77/91/EEC as regards the formation of public liability companies and the maintenance and alteration of their capital. The deadline for transposition has been set at 15 April 2008.

— Recommendation 2004/913/EC on fostering an appropriate regime for the remuneration of directors of listed companies. Member States are called on to implement its terms by 30 June 2006.

— Recommendation 2005/162/EC on the role of non executive or supervisory directors of listed companies and the committees of the (supervisory) board. Member States are called on to implement its terms by 30 June 2006.

Also, on 5 January 2006 the European Commission launched its Proposed Directive on the cross-border exercise of voting rights by non resident shareholders, so they can intervene in General Meetings with the same facility as shareholders resident in the Member State where the company is headquartered.

Finally, the European Commission has called a public consultation round to canvas opinions on Action Plan priorities for the medium and long term. This process, which ended in March 2006, stressed the need to assimilate recent legislative changes before going on to fresh reforms, to simplify regulations, promote the transparency of institutional investors' voting policy and encourage minority shareholders to get more involved in General Meetings.

1.3 Update of Good Governance Codes in Europe

The recommendations of national codes have aligned more closely in the past few years due to the publication of the OECD's Principles of Corporate Governance and the rollout of the Action Plan to modernise company law in Europe.

Still developments in corporate governance practices mean the relevant recommendations need to be reviewed on a regular basis. In the last few months, a significant number of countries have updated their Good Governance Codes:

Country	Good Governance Code	Last reviewed
United Kingdom	The Combined Code on Corporate Governance	2006
Germany	Amendment to the German Code	2006
Italy	Corporate Governance Code	2006
Austria	Austrian Code of Corporate Governance	2006
Luxembourg	The ten principles of Corporate Governance of the Luxembourg Stock Exchange	2006
Norway	The Norwegian Code of Practice for Corporate Governance	2005
Portugal	White Book on Corporate Governance in Portugal	2006
Denmark	Revised Recommendations for Corporate Governance in Denmark	2005

The procedures for updating good governance codes vary from one country to the next. In some countries, like the United Kingdom, watchdog bodies oversee the implementation of good governance rules and advise when updates are warranted. Other countries, like Italy and Spain, have opted to establish Special Working Groups. In Denmark, the good governance recommendations first proposed by a working group were later written into securities market legislation. In Austria, the good governance code is reviewed each year, etc.

The changes introduced have the following main purposes:

— Foster the use of electronic systems in issuers' dealings with their shareholders and enhance the transparency of proxy voting at General Shareholders' Meetings.

— Review codes in the light of national legislative changes.

— Adapt to European Commission recommendations.

— Strengthen the comply or explain principle.

— Encourage transparency in good governance practices through the requirement to publish a dedicated annual report .

1. Information obtained from the website of the "European Corporate Governance Institute" (www.ecgi.org)

2 The Unified Good Governance Code

2.1 Introduction

The recommendations currently applying to corporate governance matters are set out in the Olivencia Code (1998) and the Aldama Report (2003). The existence of two codes, however well they complement each other, is not a standard practice among our neighbour countries. For this reason, Ministerial Order ECO/3722/2003 of 26 December on the Annual Corporate Governance Report called on the CNMV to draft a single document on good corporate governance practices that would consolidate the contents of both.

The Council of Ministers accordingly agreed at its meeting of 29 July 2005 to set up a Special Working Group to advise the CNMV. In the wording of the resolution it stressed that the Special Working Group need not confine its remit to merging the two previous texts, but should also take account of the latest international advances in the field.

The Working Group began its assignment in September 2005 and concluded in May 2006. Throughout the making of the Unified Code, the Group was able to draw on the advice of experts in corporate governance and the numerous comments and suggestions submitted during the public consultation beginning January 2006, which did much to improve the final version.

Following the Code's approval by the Governing Council of the CNMV, listed companies will take its recommendations as their benchmark in their Annual Corporate Governance Reports for the year 2007, to be filed in the first quarter of 2008.

2.2 Main Unified Code Recommendations

Spanish legislation starts from the principle that all listed companies are free to decide whether or not they follow corporate governance recommendations, but, true to the "comply or explain" principle, requires them to justify their reasons for failing to do so, in order that shareholders, investors and the markets in general can reach their own judgements.

The Unified Code insists that when stating their compliance or otherwise with its recommendations, companies must respect the meaning it explicitly assigns to each concept. It is up to the market to evaluate the corporate governance practices of listed companies. In other words, the extent of compliance or the quality of explanations will not give rise to any actions by the CNMV. Finally, the Code addresses all listed companies of whatever size and capitalisation, while acknowledging that some recommendations may be excessively cumbersome for smaller-sized firms.

The 58 recommendations of the Unified Code span matters relative to company bylaws, the General Shareholders' Meeting, the structure and operation of the Board of Directors and the remuneration of directors and senior officers:

— The Unified Code recommends that companies' bylaws should not impose restrictions on their being taken over via the market acquisition of their shares. Likewise when a dominant and subsidiary company are listed on the stock exchange, the advice is that intragroup business dealings and mechanisms in place to resolve conflicts of interest should be publicly disclosed.

  The General Shareholders' Meeting should have the power of decision on transactions giving rise to fundamental changes in the company, although the Public Limited Companies Act imposes no such requirement. To favour shareholders' participation and the transparency of proceedings, companies are urged to provide advance information on proposed resolutions and to authorise separate voting and split votes.

— The Board of Directors' core mission should be to approve the company's policies and general strategies, related-party transactions, major investments or transactions and other matters of importance for the progress of corporate affairs.

  As to its composition, the Code urges that an ample majority of members should be external directors, with independents making up at least a third of the total. A greater gender diversity should also be actively pursued. It also recommends procedures to be followed for the appointment, renewal, resignation or removal of individual directors, and discusses in detail the role of the Chairman and Secretary and the advance arrangements for board meetings.

— Board committees are seen as providing vital support for the board's supervisory and control functions. For this reason, it is recommended that the membership mix of the Executive Committee should replicate that of the board, and that Audit, Nomination and Remuneration committees be formed exclusively of external directors and chaired by an independent.

  The remit of the Audit Committee, which is mandatory under current legislation, is to ensure the integrity of the company's financial information, supervise the internal audit function and take responsibility for risk management. The Code advises that members should have a solid background in accounting, finance, auditing or risk management. One novelty is the recommendation that companies should facilitate internal channels for employees to report suspected misconduct ("whistleblowing").

  The Nomination Committee numbers among its functions to propose appointees to directorship and secretary posts, and to organise the succession of the Chairman or chief executive. The Remuneration Committee, which may be coupled with the former, has the job of proposing remuneration policies to the board for directors and senior officers, along with the conditions of their contracts.

— The Code considers a transparent remuneration policy to be of paramount importance. Specifically, it recommends that a report on directors' remuneration policy be submitted to the advisory vote of the General Meeting, and that the notes to the accounts should state the compensation paid to each. It also suggests that share-based payments are best confined to executive directors, unless external directors agree to hold their shares until they leave the board.

The Code concludes with a series of binding definitions (for instance, the conditions an independent director must meet to be classed as such) and some supplementary recommendations directed at the Government, the CNMV and financial institutions.

II Annual Corporate Governance Report of listed companies

1 Introduction

The Transparency Law requires that all public listed companies publish an Annual Corporate Governance Report (hereafter ACGR) which should be filed with the CNMV and published as a significant event. Order ECO/3722/2003 of 26 December specified the informational content to be provided in each of the areas defined in its text.

The ACGR is intended to provide complete and reasoned information on listed companies' corporate governance structures and practices, enabling investors and other users to make a founded judgement on the same.

The CNMV is responsible for ensuring issuers comply with the ACGR requirement, checking that the report contains the right data and adheres to all current legal provisions. It is also empowered to request any information it deems necessary to monitor the implementation of corporate governance rules:

— Generally speaking, no problems have arisen with the electronic transmission and reception of the ACGR, though notices were sent to 25 companies for filing after deadline.

— A total of 37 firms had to amend the ACGR initially filed due to errors detected and subsequently corrected by the issuer.

— All ACGRs were unanimously approved by the members of their respective Boards of Directors, except for one case in which two directors were absent from the board meeting approving the report.

— A number of infringements were detected during the review of ACGRs. These were subsequently analysed, leading to notices being sent out and, in a few cases, the commencement of administrative proceedings.

This report sets out the main characteristics of the corporate governance structure and practices of 176 listed companies (182 companies in 2004) in aggregate terms and on a breakdown by market capitalisation.

The information in this chapter is supplemented by a series of statistical tables, appended as Annex I, referring to the main sections of the ACGRs filed by public

2. The difference of 6 firms with respect to the numbers included in the 2004 report owes to the following circumstances: (i) one new company is included whose share began trading in 2005, as are four others which, for diverse reasons, did not figure in the 2004 report; (ii) conversely, 11 companies included in the 2004 Report withdrew from trading in 2005.

listed companies. These facilitate aggregate data by sector of activity and size of market capitalisation. Finally, Annex II provides a series of indicators representative of the corporate governance systems of all the public limited companies included in this report.

2 Developments in corporate governance practices

The review of listed company corporate governance practices conducted throughout this report refers to the recommendations of the Olivencia Code and the Aldama Report. Only for informative purposes, the different sections of this report are accompanied by text boxes in which Olivencia Code and Aldama Report recommendations are accompanied by those of the new Unified Good Governance Code.

The companies analysed did not make substantial changes in their corporate governance structure and practices, though some progress is apparent with respect to 2004. The main developments emerging from an inter-year comparison are shown below:

— 80% of listed companies comply with the rule that advises a board size of between 5 and 15 members. Two firms below this threshold in 2004 have since increased the number of board members and are now compliant.

  Average board size is slightly smaller: 9.6 members across all the companies analysed (9.7 in 2004) and 14.5 for the IBEX group (15 in 2004).

— The average of external directors stands at 80.2% against 79.5% in 2004. Eighteen companies (19 in 2004) did not meet the recommendation that external directors should be in a majority.

— 71.6% of listed companies (62.9% in 2004) reported a proportional relationship between the number of proprietary and independent directors and the percentages of capital with and without board representation. In fact, some companies have more independents than are strictly needed to fulfil this recommendation.

— The distribution of board members by type is similar to the previous year. The relative weight of proprietary directors (45.2%) is slightly higher than in 2004 (43.6%), while the percentage of independents (31.1%) has barely varied (31.7%).

— 52.3% of listed companies (50.5% in 2004) reported that independent members occupied less than 1/3 of board places. 31 of the companies failing to meet this recommendation (3 IBEX) have a controlling shareholder.

— The average tenure of directors (7.6 years) is slightly higher than the year before (7.4 years). Among the IBEX companies this same average is 6.6 years (6.4 years in 2004). In 43 companies, a majority of independent directors have held their board place for more than 12 years.

— 8% of the companies analysed (11% in 2004) state in their ACGR that they have not developed specific procedures to ensure that directors receive meeting material sufficiently ahead of time. Five companies introduced procedural rules in this respect in 2005.

— In general, Audit Committees have a large majority of external directors among their members. However, in 47 companies (58 in 2004) this Committee includes no independent directors. A further 18 firms (7 IBEX) report Audit Committees comprising exclusively independent members, compared to 14 in 2004.

— A total of 71 companies (74 in 2004) have not set up a Nomination and Remuneration Committee. In general, these committees have an ample majority of external directors, although 34 firms (6 IBEX) fall short of the recommendation that all members be external directors, compared to 29 in 2004.

— 58.6% of new directors (63% in 2004) were appointed on the proposal of the Nomination Committee. Among the IBEX contingent, the percentage climbs to 86.7% (67% in 2004) and all independent director appointments were proposed by this Committee. In remaining companies, the proportion was a lowlier 60%.

— Average board remuneration including all payments was 1.96 million euros, very close to the level of 2004. Each director received an average amount of 203,000 euros, 4.1% more than the previous year, with a continuing gap between IBEX companies and other listed issuers.

— In aggregate terms, senior officers earned an average 346,200 euros against 262,900 euros in 2004. This increase traces to the higher payments received by managers at firms with market capitalisation exceeding 1,000 million euros. Among the IBEX group, average senior officer remuneration was 3.7% higher than in 2004.

— 54.5% of companies analysed reported related-party transactions with their significant shareholders involving a total sum of 61,614 million euros (33,839 million in 2004). Most transactions corresponded to normal business flows and were financial in nature (loans, sureties, hedge derivatives, etc.)

— On average, 71.3% of share capital participated in 2005 General Meetings (71.6% in 2004). In the IBEX group, participation was a lower 63.2% (65.2% in 2004).

— The bylaws of 23 companies continue to impose restrictions on voting rights. Only one firm removed such restrictions in 2005.

Likewise, 106 listed companies impose a minimum ownership threshold for attendance at General Meetings. One company lifted this requirement in 2005 and a further two have relaxed their conditions.

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3 Ownership structure

3.1 Share capital

The share capital of the 176 listed companies analysed was 38,941 million euros at end 2005. This was 2.6% less than in the previous year due to a decrease in the number of companies reporting (182 companies in 2004).

39 companies (7 IBEX) increased their capital in the year and 15 companies (5 IBEX) reduced theirs. In most cases, the variations were of little significance. The following table sets out the aggregate amount of companies' share capital and market capitalisation at end 2005, and their percentage change versus one year before:

	Number of companies			Share capital			Market capitalisation		
(million euros)	**2005**	**2004**	**Change**	**2005**	**2004**	**%**	**2005**	**2004**	**%**
Sector									
Non financial	145	150	-5	32,384	33,234	-2.6%	403,375	347,090	16.2%
Financial	31	32	-1	6,557	6,757	-3.0%	168,984	140,474	20.3%
TOTAL	176	182	-6	38,941	39,991	-2.6%	572,359	487,564	17.4%
Market capitalisation									
IBEX	35	35	0	32,784	33,298	-1.5%	478,077	415,415	15.1%
Over €1,000 million	26	22	4	3,303	3,681	-10.3%	70,753	48,303	46.5%
Under €1.000 million	115	125	-10	2,854	3,012	-5.3%	23,528	23,846	-1.3%

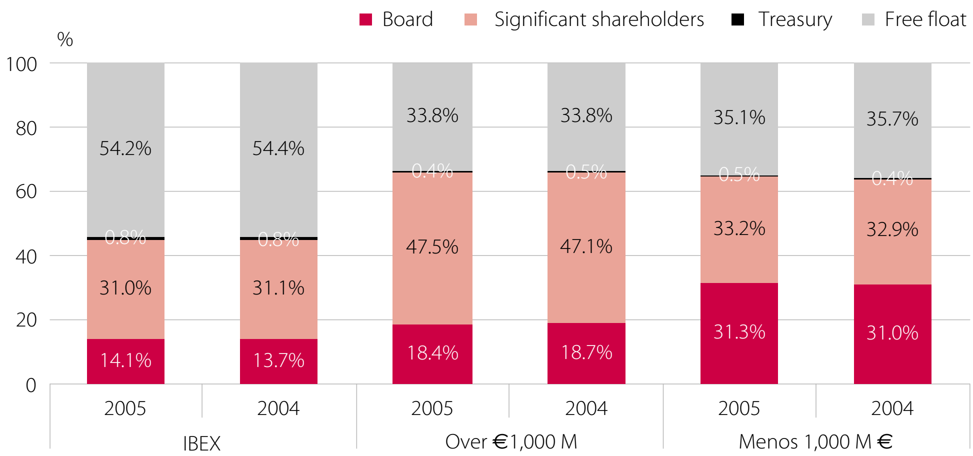
Market capitalisation was up by 17.4% with respect to 2004 to 572,359 million euros. Of this aggregate total, 83.5% (85.2% in 2004) corresponded to IBEX companies. The highest capitalised sector was banking with 28.5% (27.9% in 2004), followed by transport and communications with 21.1% (25.7% in 2004) and energy and water with 20.2% (18.5% in 2004).

3.2 Distribution of capital

Capital distribution has undergone no major changes since 2004. At aggregate level, 26.0% of capital (26.2% in 2004) is in the power of Boards of Directors, with non director significant shareholders accounting for a further 34.8% (34.3% in 2004) and free floating capital at 38.7% on average (39.0% in 2004). Treasury stock again came in at around 0.5% of capital.

The graph below shows the percentage distribution in comparison with 2004[3]:

Percentage distribution of capital



— In 57 companies – 32.4% of the total (30.2% in 2004) – some natural or legal person owned the majority of capital or was in a position of control. Of the IBEX group, 9 companies were so controlled compared to 10 in 2004.

— In a further 66 companies (61 in 2004), the sum of the significant shareholdings reported, including the interests held by the Board of Directors, exceeded 50% of capital stock without any single shareholder being in a position of control.

3.2.1 Board shareholdings[4]

The average Board of Directors shareholding in the companies analysed was 26.0% (26.2% in 2004), though in the case of IBEX companies this drops to 14.1% (13.7% in 2004). In 73 companies, the Board of Directors raised its ownership interest 1% on average, while 58 reported an average decrease of 1.4%.

By type of director, the above 26.0% holding breaks down 14% for proprietary directors, 11.6% for executive directors and the remainder for independents and other external directors:

— Most independent directors – 87.3% of the total – hold capital stakes of less than 0.1%. Of the remainder, 52 hold less than 1% while only 15 hold more, in 3 cases exceeding 3%.

— 92% of the independent directors of IBEX companies hold capital stakes below 0.1%. Of the remainder, 14 hold under 0.6% with only one exceptional case of a 1.3% interest.

3. Data representing the arithmetical average of the capital distribution of listed companies, based on the percentages reported by each company under each category. Percentages for non director significant shareholders are arrived at by deducting the shareholdings of board members.
4. Some significant shareholders do not sit on the Boards of Directors of investee companies but have nominated certain members as proprietary directors. However for the purposes of this analysis, the percentages held by such significant shareholders have not been included in with board holdings.

By reference to type of investor with board representation, average shareholdings break down as follows: 12.6% (13.9% in 2004) corresponds to resident natural persons, 12.4% to resident legal persons (12.1% in 2004) and 1% to non resident directors (0.2% in 2004).

Board of Director shareholdings are distributed as follows with a breakdown of companies by market cap:

(Number of companies)	Under 5%		Between 5% - 25%		Between 25% - 50%		Between 50% - 75%		Over 75%	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	21	21	6	7	3	2	5	5	–	–
Over €1,000 million	13	11	4	5	5	3	3	1	1	2
Under €1,000 million	36	40	27	27	16	20	22	25	14	13
TOTAL	**70**	**72**	**37**	**39**	**24**	**25**	**30**	**31**	**15**	**15**
%	**39.8%**	**39.6%**	**21.0%**	**21.4%**	**13.6%**	**13.7%**	**17.0%**	**17.0%**	**8.5%**	**8.2%**

3.2.2 Non director significant shareholders[5]

In the companies analysed, the average percentage of capital owned by non director significant shareholders moved up from 34.3% in 2004 to 34.8% in 2005. IBEX firms, meantime, reported a repeat score of 31%.

The above average presents the following breakdown by type of investor: 4.6% corresponding to resident natural persons (4.2% in 2004), 22.2% to resident legal persons (23.1% in 2004) and the remaining 8.1% to non resident investors (6.9% in 2004).

Grouping listed companies by market cap, the interests of non director significant shareholders were distributed as follows:

(Number of companies)	Under 5%		Between 5% - 25%		Between 25% - 50%		Between 50% - 75%		Over 75%	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	6	3	10	14	10	8	8	7	1	3
Over €1,000 million	3	3	4	3	4	2	11	11	4	3
Under €1,000 million	26	27	32	42	26	21	14	18	17	17
TOTAL	**35**	**33**	**46**	**59**	**40**	**31**	**33**	**36**	**22**	**23**
%	**19.9%**	**18.1%**	**26.1%**	**32.4%**	**22.7%**	**17%**	**18.8%**	**19.8%**	**12.5%**	**12.6%**

5. This group takes in the significant shareholdings of non director amounting directly or indirectly to 5% or more of share capital. Also included are reported shareholdings below this threshold that nonetheless confer a significant influence.
Arcelor is excluded from this calculation because it has provided board shareholdings in aggregate form.

Of the 35 listed companies whose non director significant shareholders have stakes of less than 5%, 60% (21 companies) are under the majority control of the Board of Directors. Of the 6 IBEX companies with percentages below 5%, three are board controlled.

The following table sets out the cross shareholdings of listed companies[6].

	Significant shareholders (SS)					
	IBEX		Over €1,000		Under €1,000	
	2005	2004	2005	2004	2005	2004
Investee companies (IC)						
IBEX	10(SS) -15(IC)	10(SS)-15(IC)	3(SS)-4(IC)	3(SS) -4(IC)	–	–
Over €1,000	6(SS)-7(IC)	9(SS)-8(IC)	1(SS)-1(IC)	–	1(SS)-1(IC)	1(SS)-1(IC)
Under €1,000	8(SS)-13(IC)	9(SS)-10(IC)	9(SS)-10(IC)	6(SS)-6(IC)	7(SS)-12(IC)	10(SS)-11(IC)
TOTAL	**24(SS)-35(IC)**	**28(SS)-33(IC)**	**13(SS)-15(AP)**	**9(SS)-10(AP)**	**8(SS)-13(IC)**	**11(SS)-12(IC)**

We can see that 45 listed companies (48 in 2004) are significant shareholders in another 63 (55 in 2004). The dominant actors were again the banks with significant shareholdings in 22 listed companies (23 in 2004).

Savings banks (Cajas de Ahorro) also again figured strongly among the shareholders of listed companies: in 2005, 31 savings banks (29 in 2004) reported 78 significant or relevant interests in the capital of 45 companies (46 in 2004). Furthermore, 17 savings banks (18 in 2004) held capital stakes above 5% in 11 IBEX companies (13 in 2004). The table that follows presents average savings bank holdings with a breakdown by market cap:

	Number of Cajas		No. of significant shareholdings		No. of investee companies		Average % holding	
	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	19	18	33	32	14	13	5.9%	5.7%
Over €1,000	13	8	15	8	9	6	10.8%	14.3%
Under €1,000	18	22	30	38	22	27	10.8%	10.4%
TOTAL			**78**	**78**	**45**	**46**	**8.8%**	**8.9%**

Finally, international custodian entities declared significant shareholdings in 14 companies against the 12 reported in 2004. Two custodians were invested in 14 companies and a third in three. Turning to the IBEX contingent, 4 custodians reported equity stakes exceeding 5% in 9 companies.

3.2.3 Treasury stock

At the 2005 close, a total of 73 listed companies (41.4%) reported treasury stock holdings averaging 1.3% of capital (80 companies in 2004, average 1.1%). Among

6. In analysing this table, remember that the first figure, followed by (SS), refers to the number of listed companies that are significant shareholders of other listed companies, and the second, followed by (IC), indicates the number of listed companies where the former hold shares.

the IBEX companies, average treasury stock holdings stood at 1.3% (0.8% in 2004).

Our next table shows the distribution of these reported holdings, with companies grouped by market capitalisation:

(Number of companies)	Under 1%		Between 1% - 2%		Between 2% - 3%		Between 3% - 4%		Between 4% - 5%	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	12	15	6	4	2	–	–	1	2	3
Over €1,000 million	9	6	3	5	1	–	–	–	–	–
Under €1,000 million	22	31	6	6	4	2	1	2	5	5
TOTAL	**43**	**52**	**15**	**15**	**7**	**2**	**1**	**3**	**7**	**8**
%	**58.9%**	**65.0%**	**20.5%**	**18.8%**	**9.6%**	**2.5%**	**1.4%**	**3.8%**	**9.6%**	**10.0%**

Regarding the proceeds from treasury stock transactions, 43 companies – 24.5% of the total – reported gains while 2 reported losses amounting to 11 million euros (30 million euros in 2004).

3.2.4 Free Float

The listed companies analysed presented an average free float of 38.7% (39.0% in 2004). The average for IBEX companies was 54.2% against the 34.4% of the remainder. In 26 companies, free float increased in the year by an average 11.1% of capital while another 42 reported a decrease of 12%.

Set out below is the distribution of the listed companies analysed by free-floating equity and level of market capitalisation:

Number of companies	Under 5%		Between 5% - 25%		Between 25% - 50%		Between 50% - 75%		Over 75%	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX-35	–	–	1	5	15	12	11	10	8	8
Over €1,000 million	1	2	7	4	15	13	3	3	–	–
Under €1,000 million	17	14	29	36	37	34	22	27	10	14
TOTAL	**18**	**16**	**37**	**45**	**67**	**59**	**36**	**40**	**18**	**22**
%	**10.2%**	**8.8%**	**21.0%**	**24.7%**	**38.1%**	**32.4%**	**20.5%**	**22.0%**	**10.2%**	**12.1%**

— 68.8% of listed companies (66.5% in 2004) have free float in excess of 25% with most reporting percentages in the 25%-50% interval. However 18 companies – 10.2% of the total – reported a free float of less than 5%.

— 23 IBEX companies (28 in 2004) reported free float above 40%. At the 2005 close, only 1 index member had free float of less than 1% (compared to 3 members in 2004).

3.3 Shareholder agreements and concerted actions

— Shareholder agreements are defined as those affecting the exercise of voting rights at General Meetings, or which restrict or constrain the free transfer of the shares and convertible or exchangeable bonds of listed companies.

A total of 22 agreements were reported involving 19 listed companies, after six had expired in 2005. The agreements disclosed extended, on average, to 46.5% of these companies' capital (43.4% in 2004), with five cases affecting below 20% and another five more than 70%. Meantime, 7 IBEX companies had 9 agreements in place affecting 51.7% of their capital on average.

By type, most corresponded to vote pooling (8), agreements on the composition of the Board of Directors or other governing bodies (8) and agreements to stabilise dividend policy or ensure the continuity of a stable shareholder core.

— Concerted actions are agreements where the parties attempt to influence the course of a company's management over time through the strategic exercise of their combined voting rights.

In 2005, four companies – 2.3% of the total – reported 5 concerted actions, extending to an average 41.6% of their capital against the 40.8% of 2004. Two companies disclosed new concerted actions in the year while a further three indicated their discontinuation, due to the expiry of the agreement or because the firm itself had withdrawn from stock market trading.

3.4 Option rights

Listed companies have to state in their ACGRs not just the shares held by their Board of Directors but also the option or other rights in their possession entitling them to acquire or subscribe for company shares by direct or indirect means.

A total of 18 companies (10.2%) indicated that some of their directors were in possession of share options (19 in 2004), while 13 IBEX companies (37.1% of the index) reported having option schemes in place (12 in 2004). No directors in the market cap group above 1,000 million euros held options on their company's shares.

The following table presents a breakdown of these 18 listed companies by market capitalisation along with the number of directors holding options and the average percentage of capital they represent:

	Companies		Directors		Average % of capital	
	2005	2004	2005	2004	2005	2004
IBEX	13	12	41	41	0.30%	0.41%
Over €1,000 million	–	3	–	5	–	0.20%
Under €1,000 million	5	4	19	11	1.05%	0.48%
TOTAL	**18**	**19**	**60**	**57**	**0.50%**	**0.39%**

Share-based remunerations systems (options, etc.) directed at the senior officers of public listed must be notified to the CNMV and published as a significant event. The ACGR should also relate, in aggregate form, the amount paid or accruing to senior officers under remuneration schemes based on the price of the company's share.

4 Board of Directors structure

4.1 Recommendations

The Board of Directors should assume the general supervisory function as its core mission, encompassing the definition of the company's general strategy, the control of its day-to-day management and communication with its shareholders.

The Unified Code concurs with the Olivencia and Aldama reports that all directors, of whatever provenance, should perform their duties with unity of purpose striving at all times to defend "the corporate interest", understood as the common interest of all shareholders. What this means in practice is pursuing a policy designed to maximise the company's economic value over time, while respecting the interests of other stakeholder groups and of the community in which it operates.

The box that follows includes some of the main good governance recommendations of the Olivencia Code and Aldama Report regarding the structure and composition of listed company Boards of Directors. Appearing further below are the new recommendations contained in the Unified Code:

Olivencia Code and Aldama Report

— *The Board of Directors should adjust its size to achieve more efficiency and participation, probably in the interval of 5 to 15 members. The Board should have a reasonable number of members to guarantee decision-making efficacy and ensure that all directors pull their weight.*

— *External directors (proprietary directors and independents) should be in an ample majority over executive directors, and the proportion between proprietary and independent directors should be based on the ratio in the company's capital of significant shareholdings and the rest. The Board of Directors should represent the widest possible percentage of capital.*

— *The Board of Directors should include a reasonable number of independent directors, bearing in mind the ownership structure and capital represented on the board. Candidates for independent directorships will be neither executive nor proprietary directors and will have the knowledge and experience to contribute to the company's corporate governance.*

— *Independent directors should be persons of acknowledged professional repute and have no relation to either the management team or controlling core of shareholders.*

- *The Board of Directors' part in selecting or reappointing its members should be governed by a formal, transparent process starting from a reasoned proposal from the Nomination and Remuneration Committee.*

Unified Code

- *The Board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward.*

- *The Board in full should reserve the right to approve: the company's general policies and strategies, the appointment and removal of senior officers, directors' remuneration, the financial information it must periodically disclose, large-sum investments and transactions, and transactions between the company and its directors, significant shareholders and other persons related thereto.*

- *In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.*

- *The proportional criterion applying to proprietary and independent directors can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the percentage of capital they represent in: a) large cap companies where few or no equity stakes attain the threshold of significant shareholdings, despite the considerable sums actually invested, b) companies with a plurality of shareholders represented on the board but not otherwise related.*

- *Criteria should be developed at national level to evaluate directors' independence.*

- *Independent directors should be appointed for a specified term, subject to individual re-election, within the maximum term to be defined at national level.*

- *The number of independent directors should equate to at least a third of all board members.*

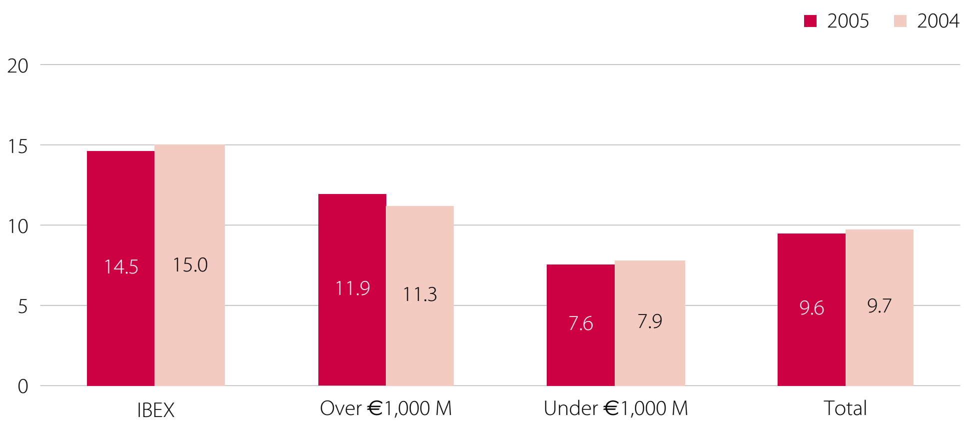
- *The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee.*

- *When women directors are few or non existent, the board should state the reasons for this situation and the measures taken to correct it.*

4.2 Size of the board

As out next figure shows, the average size of Boards of Directors has undergone no significant changes in any market cap category:

Average size of Board of Directors



— Listed companies have a total of 1,694 directors, of whom 508 correspond to IBEX members.

— The average size is 9.6 members, which is slightly fewer than in 2004 (9.7 members). IBEX companies report an average board size of 14.5 members (15 in 2004). The statistical mode works out at 12 members for the IBEX group (repeated in five companies) and falls to 6 members for all the rest (repeated in 19 companies).

The following table groups listed companies by Board of Directors size:

(Number of companies)	Under 5 members		Between 5 and 10 members		Between 10 and 15 members		Over 15 members	
	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	–	–	3	4	17	16	15	15
Over €1,000 million	–	–	6	9	17	11	3	2
Under €1,000 million	15	15	71	83	26	24	3	3
TOTAL	**15**	**15**	**80**	**96**	**60**	**51**	**21**	**20**
%	**8.5%**	**8.2%**	**45.5%**	**52.8%**	**34.1%**	**28.0%**	**11.9%**	**11.0%**

— None of the 15 IBEX companies not fulfilling this recommendation in 2004 have reduced their boards to below 15 members, although eight reported a slightly lower number. Another two of this group actually increased their board size with respect to the previous year.

— Nor is there much difference to report among other companies, expecting two who increased their number of board members in order to comply with this recommendation.

4.3 Types of director

The Unified Code maintains the distinction between internal (executive) and external (proprietary and independent) directors, but defines each category in closer detail and stresses that when an external director cannot be classed as either proprietary or independent, the company should explain the circumstances. It also calls on companies to explain to their Shareholders' Meetings which class each director belongs to.

The table below gives the average percentage of each type of director:

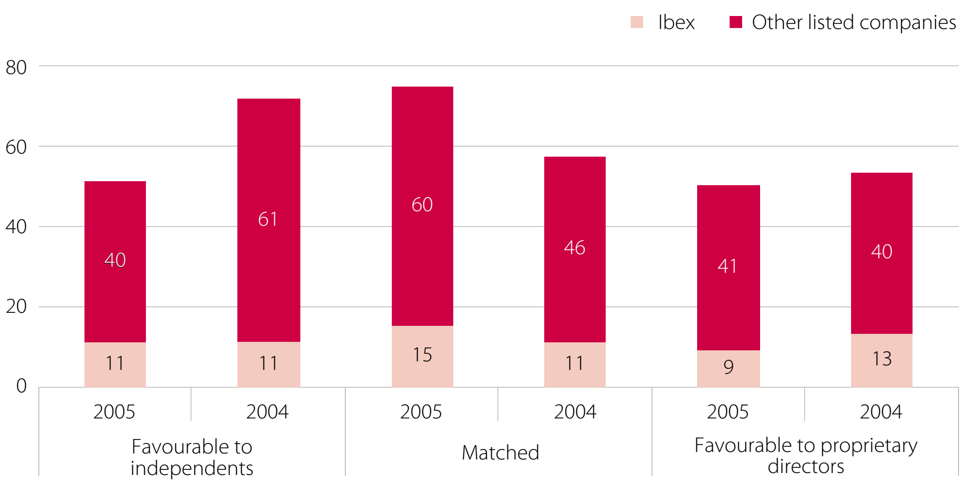
	Average size of board		Type of director							
			Executive		Proprietary		Independent		Other external	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	14.5	15	17.9%	17.3%	37.1%	39.2%	40.7%	39.2%	4.3%	4.2%
Over €1,000 million	11.9	11.3	18.1%	17.7%	50.6%	51.2%	27.1%	26.2%	4.2%	4.8%
Under €1,000 million	7.6	7.9	21.3%	23.1%	48.1%	43.8%	26.8%	29.1%	3.8%	4.0%
TOTAL	**9.6**	**9.7**	**19.7%**	**20.6%**	**45.2%**	**43.5%**	**31.1%**	**31.7%**	**4.0%**	**4.2%**

— In IBEX companies, external directors occupy an average 82.1% of board places (82.7% in 2004), while in other companies the 79.5% reported is exactly the same as in 2004.

— External directors are a majority force on all IBEX boards. Of the remaining companies, a total of 18 are not 100% compliant with this recommendation, most of them bracketed in the capitalisation group of under 1,000 million euros. Changes with respect to the prior year are confined to three companies becoming compliant and another two companies that have ceased to be so.

The Unified Code recommends that the ratio of proprietary directors to independents should reflect the relationship in the company's capital between the shareholdings they represent and others. Our next chart shows the degree of compliance reported in 2004 and 2005:

Ratio of independent to proprietary directors



— 74.4% of IBEX companies present a balanced mix or else one favourable to independents. In 2004 this percentage stood at 62.9%.

10 IBEX companies reported changes in their board membership or ownership structure, which, in most cases, involved moving from a situation of relative dominance by proprietary directors to a more reflective mix between them and independents.

— This balanced relationship was present in 71% of remaining companies, slightly below the 2004 reading (72.8%). In contrast to the IBEX group, here the increase in the number of companies reporting a reflective mix of proprietary and independent directors owes to the latter losing ground with respect to their 2004 participation.

4.4 Presence of independent directors

Independent directors are those in a position to perform their duties without being influenced by ties with the company, its significant shareholders or its management team. The Unified Code recommends that independents occupy at least one third of board places.

The following table shows the relative weight of independent directors on the boards of listed companies, grouped by market capitalisation:

Number of companies	Less than 1/3 of board members		Between 1/3 and 50% of board members		Over 50% of board members	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	11	13	14	14	10	8
Over €1,000 million	15	12	7	9	4	1
Under €1,000 million	66	67	32	37	17	21
TOTAL	**92**	**92**	**53**	**60**	**31**	**30**
%	**52.3%**	**50.5%**	**30.1%**	**33.0%**	**17.6%**	**16.5%**

— On average, independent directors represent 31.1% (31.7% in 2004) of company boards, rising to 40.7% (39.2% in 2004) in the case of IBEX companies. 55 independent directors were appointed in the year against the 65 who left their posts.

— In 52.3% (50.5% in 2004) of listed companies – 31.4% for IBEX members – independents accounted for less than 1/3 of board members. 31 of the 92 companies making up this group (3 IBEX) had a controlling shareholder.

Independent directors were in a majority on the boards of 17.6% of the companies analysed (16.5% in 2004). .

— The relative weight of independents on the Executive Committee and Audit Committee was lower than in 2004 by 0.3% and 0.5% respectively. However their weight on the Nomination and Remuneration Committee was up by 1%.

— 54% (55.9% in 2004) of Audit Committees and 51.4% (48.1% in 2004) of Nomination and Remuneration Committees are chaired by an independent director.

— A total of 20 companies (19 in 2004) place time limits on the mandates of independent directors, of five years in most cases. However, in 18 companies the tenure of independents has ranged from 10 to 12 years and in another 43 has exceeded 12 years.

4.5 Determination of independence

As in last year's report, the review of the minimum conditions a director must meet in order to be classed as independent has been carried out with reference to the Olivencia and Aldama texts. Another yardstick is Annex II of Recommendation 2005/162/EC on the role of non executive directors and the committees of the (supervisory) board.

In 2005, 55 directors classed as independents were appointed (in 38 companies) while another 65 independents left their posts (in 42 companies). 8 companies reclassified 9 of their directors as independents while another 4 reclassified independents to other directorship categories.

Our review of ACGRs for the year 2005 detected several situations in which the classing of a director as independent was open to question:

— Having been a past employee or executive director with the company without 3 or 5 years having lapsed, respectively, from the end of the relation.

— Having had business dealings in the year with a company where the group has a significant influence.

— Not appointed on the proposal of the Nomination Committee.

— Being executive director of a company belonging to the group of a significant shareholder.

— Being chairman of a company that has material business dealings with the company where they serve as an independent.

— Being reclassed from proprietary to independent director without any material change in the circumstances leading to the original classification as proprietary.

In other cases, directors having ties with company shareholders were reported as independents – including some that are members of the Board of Directors of a shareholder with board representation – or shareholder agreements gave significant shareholders the prerogative to elect independent directors.

7. The Unified Code defines independents as those directors appointed for their personal or professional qualities in a position to perform their duties without being influenced by any connection with the company, its shareholders or its management; and establishes certain minimum conditions for a director to qualify.

4.6 Gender diversity

The Unified Code considers that a good gender mix on Boards of Directors is not just an ethical-political or corporate social responsibility issue; it is also an efficiency objective that listed companies should consider working towards. Neglecting the business talent of 51% of the population cannot be economically rational for our country's firms.

The presence of women on the boards of listed companies barely varied in 2005. Although the total of female directors fell – to 95 from 104 in 2004 – this was because the firms delisting in 2005 had 12 women board members. Stripping out this effect, the number of women is actually 3 higher than in 2004.

The following table details the number of board places occupied by women in 2005 and 2004, the percentage they represent and the type of directorship held:

	Presence of women on boards								Type of director %							
	Directors		%		Companies		%		Executive		Proprietary		Independent		Other	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	17	18	3.3	3.4	12	11	34.3	31.4	11.8%	22.2%	47.1%	50.0%	41.1%	27.8%	–	–
Over €1,000 million	20	12	6.5	4.8	12	9	46.2	40.9	15.0%	8.3%	55.0%	66.7%	30.0%	25.0%	–	–
Under €1,000 million	58	74	6.6	7.5	41	53	35.7	42.4	19.0%	20.3%	63.8%	58.1%	13.8%	18.9%	3.4%	2.7%
TOTAL	**95**	**104**	**5.6**	**5.9**	**65**	**73**	**36.9**	**40.1**	**16.8%**	**19.2%**	**58.9%**	**57.7%**	**22.1%**	**21.1%**	**2.1%**	**1.9%**

— The IBEX group once again trailed the average by the measure of women directors: 3.3% (3.4% in 204) against the 5.6% (5.9% in 2004) of the survey as a whole. Nor was any significant change reported in their distribution by directorship category.

— A total of 7 companies without any women directors in 2004 appointed 9 in 2005, 44% of them independents. Another 5 companies added a new female member to their boards, breaking down 80% proprietary and 20% independent.

— In 9 companies the presence of women on the board was reduced or disappeared.

— At end 2005, 63% of companies had no women on their Boards of Directors, compared to 60% in 2004. Among the IBEX group, the equivalent percentages were 65.7% and 70% respectively.

4.7 Multiple directorships

— A total of 1,433 persons occupied the 1,694 directorships of listed companies. Of this number, 86.8% (1,244 persons) belonged to just one Board of Directors, similar to the percentage recorded in 2004 (86.1%).

Nor did the year bring significant changes in the percentage of persons holding more than one directorship, with 9.3% (9.5% in 2004) on the boards of two companies, 3.1% (3.0% in 2004) on three and 0.7% on four or more (1.4% in 2004).

— The Boards of Directors of 122 listed companies – 69.8% of the total – have some member belonging to two or more boards. This leaves 30.2% (26.4% in 2004) whose directors are not on the governing bodies of any other listed companies.

— Of the 1,245 directors sitting on just one board, 21.2% are executive directors, 44.8% are proprietary directors, 30.0% are independents and the remaining 4.0% are classed as other external directors.

4.8 Rotation and removal of directors

— Article 126 of the Public Limited Companies Law states that directors will be appointed for the term set in the bylaws, which may be no longer than six years, and may be re-elected one or more times for periods of the same maximum duration.

Good governance practice recommends that directors complete the term for which they were appointed in conformity with the company's bylaws, and that the board should only proposal their early removal in exceptional and reasoned circumstances, subject to a report form the Nomination and Remuneration Committee.

Most bylaws or board regulations list a number of triggers for directors' removal or resignation, chief among them:

(i) Becoming subject to an incompatibility clause;

(ii) The reason for their appointment ceasing to exist;

(iii) The risk that their continuing presence could jeopardise the company's interests or harm its credit or repute; or

(iv) Dereliction of general directors' duties.

— The average service of the directors of listed companies is 7.6 years (7.4 years in 2004) dropping to 6.5 years (6.4 years in 2004) among the IBEX group.

The following table shows average director service on the boards of listed companies, with a breakdown by type of directorship:

	Average		Service by type of director: Executive		Proprietary		Independent	
	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	6.4	6.5	8.0	8.7	5.1	5.7	6.7	6.4
Over €1,000 million	8.3	7.3	10.0	9.1	8.1	7.0	7.2	6.5
Under €1,000 million	8.3	8.3	9.4	9.4	8.0	7.9	6.8	7.3
TOTAL	**7.6**	**7.4**	**9.2**	**9.0**	**7.1**	**7.0**	**7.1**	**6.7**

8. The Unified Code clarifies some of these grounds. For instance, in order to confer more stability on independent directors, it recommends that boards should only propose their removal if they are shown to be in breach of their board duties or cease to qualify as independents, in all cases subject to a report from the Nomination Committee. In the interests of transparency, the Code recommends that if a director resigns following some board decision about which they have expressed serious reservations, they should state the reasons for doing so in a letter.

— In 40.3% of listed companies (71) the average service of board members is more than 8 years. In another 25% (44) this drops to between 5 and 8 years while the remaining 34.7% (61) report average service of less than 5 years. Among the IBEX contingent these percentages stand at 14.3%, 42.9% and 42.8% respectively.

— A total of 222 new directors were appointed in 2005 (in 99 companies) against the 230 removed or leaving (102 companies). The number of directors renewed was 352.

— In 60 companies – 34.1% of the total against 36.3% in 2004 – the bylaws or board regulations impose an age limit for directors, which is most commonly 70. There are also specific age limits for chairmen and chief executives, normally lower than for remaining members.

  Some companies with no age limit in place state in their ACGR that directors must offer to resign their posts at a given age (75), and do so if the board accepts.

5 Board of Directors operation

5.1 Recommendations

The Public Limited Companies Law assigns the Board of Directors full powers over the company's strategy and management, while allowing it to delegate these powers to an ample extent. The Board of Directors should have an adequate diversity of knowledge and experience to perform its tasks efficiently, objectively and in an independent manner.

The box below sets out some key good governance recommendations concerning the operation of the Board of Directors of listed companies:

Olivencia Code and Aldama Report

— *The board should expressly assume the general supervisory function as its core mission. Board members have the mission to secure the long-term viability of the company and create shareholder value.*

— *If the board chooses to combine the offices of Chairman and chief executive in the same person, it should adopt the necessary safeguards to mitigate the risk of concentrating power.*

— *The figure of Board Secretary should be made more important, and given more independence and stability. The Secretary should work to ensure compliance with the rules and principles of corporate governance.*

— *The necessary measures should be adopted to ensure that directors have information sufficiently in advance to prepare for board meetings. Directors shall also have the right to request and obtain information and to seek any necessary guidance, even engaging independent experts to this end.*

— *The board should go beyond the reporting requirements of current legislation, and undertake to provide the financial markets with fast, accurate and reliable information.*

— *The board should meet as frequently as is necessary for the fulfilment of its mission.*

9. The Unified Code stresses that a company's ultimate aim, and therefore that which should inform the actions of its board, is the maximising of its economic value over time.

— *Companies should establish in their internal regulations the obligation for directors to resign where they may have a detrimental impact on the working of the board or on the company's prestige and reputation.*

— *All companies should have a set of corporate governance rules, to include at least General Meeting and Board of Directors regulations.*

Unified Code

— *The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.*

— *The Chairman should ensure that directors are supplied with sufficient information in advance of board meetings and work to procure a good debate and the active involvement of all members, safeguarding their right to freely express and adopt positions.*

— *The Secretary shall take care to ensure that the Board's actions: a) adhere to the spirit and letter of laws and their implementing regulations, b) comply with the company's bylaws and its rules and regulations and c) are informed by the recommendations of the Unified Code.*

— *In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment or removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant procedures being spelled out in the board regulations.*

— *Director absences should be kept to the bare minimum and quantified in the ACGR.*

— *Directors' concerns about the company's performance that are not resolved at board meetings should be recorded in the minute book at the request of the member expressing them.*

— *The board should evaluate on an annual basis: a) the quality and efficiency of its stewardship, b) how well the Chairman and chief executive have performed their duties and c) the performance of each board committee.*

— *Companies should organise induction courses for new directors to supply them rapidly with the information they need on the company and its corporate governance rules. They should also be offered refresher courses when circumstances so advise.*

— *Companies should require their directors to devote sufficient time and effort to perform their duties effectively.*

— *Independent directors should not stay on as such for a continuous period of more than 12 years.*

— *Proprietary directors should resign when the shareholders they represent dispose of the shares owned in their entirety.*

— *Directors should inform the board of any criminal charges brought against them and the progress of any subsequent trial.*

— *All directors should express clear opposition when they feel a proposal submitted for the board's approval might harm the corporate interest.*

— *Directors resigning before the end of their mandate should explain their reasons for doing so in a letter addressed to the board in full, which reasons should also be disclosed in the ACGR.*

5.2 The Board Chairman

The Chairman has a key role in ensuring the proper functioning of the Board of Directors. Among his or her varied responsibilities are to draw up the agenda of meetings and direct their proceedings, to ensure that the relevant information reaches directors in a timely manner and to promote their active involvement in the decision-making process.

The table that follows outlines the main characteristics of the chairmen of the Boards of Directors of listed companies, again grouped together by market cap:

(Number of companies)	Executive Chairman		Chairman's casting vote		Specific requirements for chairmanship	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	21	22	16	16	4	4
Over €1,000 million	14	12	16	14	3	2
Under €1,000 million	49	52	67	75	10	12
TOTAL	**84**	**86**	**99**	**105**	**17**	**18**
%	**48.0%**	**47.2%**	**56.6%**	**57.7%**	**9.7%**	**9.9%**

— The chairmen of 84 listed companies – 48.0% of the total – are also chief executives (60.0% in the IBEX group). The percentage of companies without separation of functions is in line with that reported in 2004 (47.2%).

— In 2005, a total of 12 companies (1 IBEX) appointed a new Board Chairman, while in a further two the existing Chairman took on the role of chief executive. The reverse situation only occurred in one company.

— In 99 companies – 56.6% of the total – the Chairman holds a casting vote in the event that the board's voting concludes in a tie. In 55 firms within this group (12 IBEX) the Chairman is also the chief executive.

— 17 companies reported special eligibility requirements for appointment as Board Chairman, the same number as in 2004. The most usual requirements are having previously been a board member and being below a certain age limit.

According to ACGRs, the main safeguards companies have adopted to prevent too much power accumulating in the hands of executive chairmen are:

(i) Control of the Chairman's activity by the Board of Directors

(ii) Existence of a board committee performing the executive function

(iii) Ratification by the Shareholders' Meeting of the main decisions and resolutions adopted by governing bodies.

(iv) Daily management of the company is delegated elsewhere.

(v) Delegation of certain functions to board committees with a significant presence of independent directors.

Some companies have appointed Vice Chairmen qualifying as independents, though their exact functions vary from one to the next. Our next table sets out the numbers of companies with Vice Chairman, and the category they belong to:

	No. of companies with Vice Chairmen		Total no. of Vice Chairmen		Executive Vice Chairmen		Proprietary Vice Chairmen		Independent Vice Chairmen		Other external Vice Chairmen	
					2005	2004	2005	2004	2005	2004	2005	2004
	2005	**2004**	**2005**	**2004**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
IBEX	20	20	37	39	18.9	20.5	45.9	46.2	27.1	25.6	8.1	7.7
Over €1,000 million	19	14	27	21	22.2	23.8	51.9	52.4	25.9	19.0	0.0	4.8
Under €1,000 million	47	55	57	68	21.0	26.5	54.4	45.6	19.3	23.5	5.3	4.4
TOTAL	**86**	**89**	**121**	**128**	**20.7**	**24.2**	**51.2**	**46.9**	**23.1**	**23.4**	**5.0**	**5.5**

(*) The 86 companies with Vice Chairmen break down 44 (51%) with an Executive Chairman and 42 (49%) without.

Finally, the Unified Code urges companies to provide a check to the powers of Executive Chairmen by empowering an independent direct to request the calling of board meetings or add new items to the agenda. This director should also coordinate and act on the concerns of external directors and direct the board's evaluation of its Chairman.

5.3 Board Secretary

Notwithstanding the general duties applicable to all directors, the Secretary must ensure that the board acts in conformity with current laws and their implementing provisions as well as the company's bylaws and internal regulations, and pays due heed to corporate governance recommendations.

The Unified Code issues no opinion as to whether or not the Board Secretary should also be a member, but recommends with a view to safeguarding his or her independence, impartiality and professionalism in the discharge of this function that his or her appointment and removal should be subject to a report from the Nomination Committee and approved by the board in full.

— In 57 companies – 32.4% of the total as against 36.2% in 2004 – the Secretary is also a board member. This is also true of 9 IBEX companies – 25.7% of the total as against 22.9% in 2004.

— In 2005, 9 companies reported changes in their board secretaryship: with three secretaries becoming board members and six ceasing to be.

As to measures taken to reinforce the Secretary's role, companies maintained the same criteria as in 2004, namely:

(i) That he or she should be a qualified lawyer;

(ii) Any warnings he or she issues about the legality of the decision of governing bodies to be recorded in the minutes of the meeting;

(iii) Tenure in the post not to depend on the company's management;

(iv) Appointment of a Vice Secretary to assist or stand in for the incumbent; and

(v) Board Secretaries to act as general secretary of the company and its board committees.

5.4 Director information

A well functioning board requires that all members have full access to the information needed for decision making. The Unified Code advises firms to provide induction courses for new directors and refresher courses as and when warranted.

The mechanisms for supplying directors with such information are specified in companies' bylaws or internal regulations, which generally assign an interlocutor role to the Chairman or Board Secretary.

The following table shows the numbers of companies with dedicated procedures in place to ensure directors are supplied beforehand with the material they need for board meetings and when engaging the assistance of external advisors:

	External assistance to directors		Enough time to prepare meetings	
	2005	2004	2005	2004
IBEX	30	31	34	34
Over €1,000 million	21	17	26	21
Under €1,000 million	73	76	102	107
TOTAL	**124**	**124**	**162**	**162**
%	**70.5**	**68.1**	**92.0**	**89.0**

— Only 8% of the companies analysed stated they had not developed formal procedures for director information, as against 11% in 2004. Specifically, five companies wrote such procedures into their internal rules in 2005.

The procedures reported are the same as in the previous year, namely:

(i) Directors are sent information on the points of business to be transacted together with the notice of the meeting.

(ii) Directors are supplied regularly with information on recurrent issues.

(iii) Directors receive any supplementary material they need to properly discharge their functions, and any failings they perceive in this respect may be noted down in the meeting minutes.

(iv) Most companies' regulations specify a time limit in advance of meetings for the relevant information to be sent out.

— 29% of companies (31% in 2004) had no specific procedures for providing directors with external advice, though five made such arrangements for the first time in 2005. The most cited procedures are as follows:

(i) Requests for external advice must relate to specific issues that are of particular importance or complexity.

(ii) The decision to engage external advisors is usually taken by the Board of Directors. However, when the information has to do with some Executive Committee business, it is usually this committee that rules on the request.

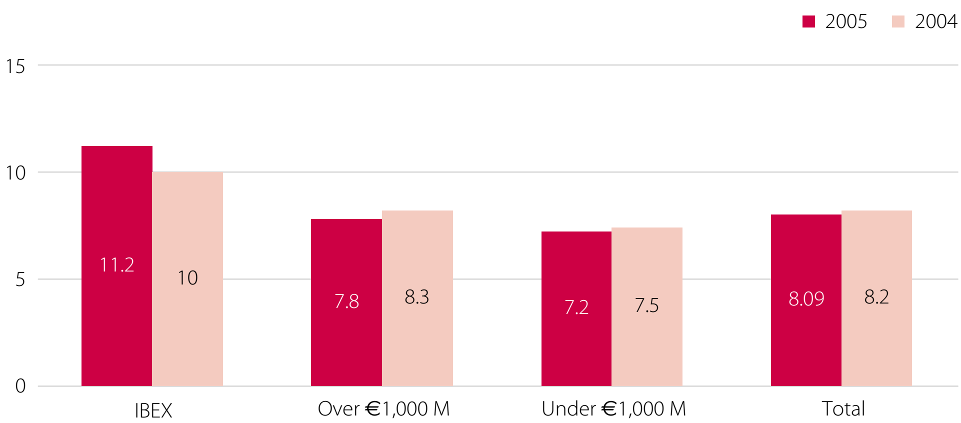
(iii) In reaching its decision, the board should consider: the reasonableness of the request; the importance of the issue; the cost of advice; and whether the director could get the same assistance from the company's own staff. In some cases, the request must be made by a minimum number of directors.

5.5 Board meetings and resolutions

Boards of Directors should meet with the necessary frequency to properly perform their functions. The Unified Code stresses that director absences should be kept to the bare minimum and quantified in the ACGR.

Our next chart shows the annual average number of meetings held by the boards of listed companies, grouped by market capitalisation:

Annual board meetings



— Among the IBEX group, the average number of board meetings was 12% higher than in the previous year. Other companies reported a slight decline, to around 8 meetings.

— Other findings with regard to board meetings are:

(i) 36 companies – 11 IBEX – require larger than legal majorities for the adoption of important resolutions.

(ii) Some companies have a formal system for directors unable to attend a meeting to appoint another director as their representative. Most make this practice subject to the conditions that the Board Chairman be informed in writing and that the proxy applies for one meeting only.

Some companies place limits on proxy voting, for instance: a director may not hold more than three proxies or a number representing more than half of board votes. The Chairman is usually exempt from such restrictions.

5.6 Internal rules and conflicts of interest

Listed companies are obliged by law to draw up Board of Directors Regulations, Shareholders' Meeting Regulations and Internal Rules of Conduct.

A total of 14 companies (three IBEX) reported some change in Shareholders' Meeting Regulations in their ACGR for the year 2005. In general, amendments introduced measures aimed at encouraging and facilitating shareholder participation:

— Regulation of procedures for electronic participation and voting at Shareholders' Meetings.

— Reduction in the ownership threshold (number of shares) for attending Meetings and a faster process for granting proxies.

— Regulation of means for the distribution of alternative proposals to those figuring on the Meeting agenda.

— Regulation of the attendance of board committee chairmen to respond to questions posed by shareholders about matters within their committee's remit.

Another 21 companies (six IBEX) reported changes in their Board of Directors Regulations. The most significant were:

— Introduction of a formal procedure for replacing members of the board or board committees.

— Creation, abolition or structural changes in board committees, and definition of the membership mix of each.

— Regulation of attendance at board committee meetings by directors who are not members.

— Reallocation of delegated functions between different committees, between them and the board or even between the Executive Committee and its chairman. In some cases this might involve the redefining of each body's powers to authorise transactions according to the nature and amount of the same.

— Increase in the competences and functions of the Audit Committee with regard to regulatory compliance, complaints handling, financial reporting processes, etc.

Finally, 8 companies (four IBEX) made changes in their Internal Rules of Conduct, which can be divided into two groups:

— Those stemming from new regulations on market abuse: preparation of lists of "insiders", a more precise definition of insider trading, etc.

— Those stemming from changes in the company's organisational chart.

6 Board Committees

6.1 Obligations and Recommendations

The Board of Directors may choose to set up delegate bodies to provide support and input concerning vital aspects of its core supervisory function. The Unified Code elaborates m the proposals made in the Olivencia and Aldama reports with regard to the Executive Committee and supervision and control committees, but makes no reference to the Strategy and Investment Committee advocated by Aldama on the grounds that its functions come within the powers attributed to the board per se.

While acknowledging that a separate Corporate Governance Committee might be useful for some firms, the Code sees no need for a blanket recommendation in this respect, at least for the time being.

The box below sets out the main recommendations of the Olivencia Code and Aldama Report concerning Board of Directors committees. The exception is the Audit Committee whose creation and composition are regulated in the Financial Law. Below that, another text box presents some of the relevant recommendations from the new Unified Code.

Olivencia Code and Aldama Report

— *The membership of the Executive Committee, where it exists, should reflect the mix existing on the board between different types of director. The relations between the two bodies should be informed by the principle of transparency, so the board has full knowledge of the matters discussed and the decisions made by the committee.*

— *The Board of Directors should create sub-committees for control purposes, composed exclusively of external directors, to deal with the selection of directors and senior officers (Nomination Committee); the determination and review of remuneration policies (Remuneration Committee); and the evaluation of the governance system (Compliance Committee).*

— *Companies should assess the need for a Strategy and Investment Committee with the remit to propose and report to the board on strategic investment and divestment decisions of material importance for the company or its group. This committee would essentially deal with the analysis and monitoring of business risks.*

Unified Code

— *When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the Board itself. The Board Secretary should also act as Secretary to the Executive Committee.*

— *The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nominations and Remuneration should be set forth in the Board regulations, and include the following:*

- *The board should appoint the members of these committees with regard to their knowledge, aptitudes and experience.*
- *These committees should be composed exclusively of external directors and have a minimum of three members.*
- *Committees should be chaired by an independent director.*
- *They may engage external advisors when they see fit.*
- *Meeting proceedings should be minuted and a copy sent to all Board members.*

— *The job of supervising compliance with internal codes of conduct and corporate governance rules should be assigned to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.*

— *All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters.*

— *The majority of Nomination Committee members - or Nomination and Remuneration Committee members as the case may be - should be independent directors.*

6.2 Executive Committee

Corporate governance principles urge maximum transparency in the relations between the Board of Directors and Executive Committees. In particular, their composition should match that of the board, since otherwise they may exercise their delegated powers from a different or divergent perspective.

The following table provides basic quantitative data regarding the Executive Committees created by listed companies, grouped by market capitalisation:

	Companies		Average members		Type of director							
					Executive		Proprietary		Independent		Other external	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
IBEX	28	29	6.9	7	32.1%	32.4%	33.2%	36.3%	31.1%	28.9%	3.6%	2.4%
Over €1,000 million	15	10	5.4	5.5	33.3%	32.7%	43.2%	47.3%	19.8%	18.2%	3.7%	1.8%
Under €1,000 million	23	30	4.0	4.1	37.4%	41.8%	41.8%	32.6%	15.4%	21.7%	5.5%	3.9%
TOTAL	**66**	**69**	**5.5**	**5.6**	**33.7%**	**35.6%**	**37.5%**	**36.6%**	**24.7%**	**25.0%**	**4.1%**	**2.8%**

— A total of 66 companies – 37.5% of the sample – run an Executive Committee with executive powers. While 80.8% of IBEX companies have appointed such a committee, the percentage drops to 57.6% in firms with market cap over 1,000 million euros and to just 20% in the remainder.

— The Executive Committee was formed, on average, by 5.5 members, representing 57.3% of average board size (57.7% in 2004). The statistical mode works out at 5 members.

— The corporate governance doctrine is that the composition of the Executive Committee should match that of the board as regards the balance between director categories:

(i) Generally speaking, the composition of the Executive Committee was biased towards executive directors to the detriment of independents. Executive directors represented an average 33.7% of committee members while their relative weight on boards was a significantly smaller 19.7%. In the case of independents, the same percentages stood at 24.7% and 31.1% respectively.

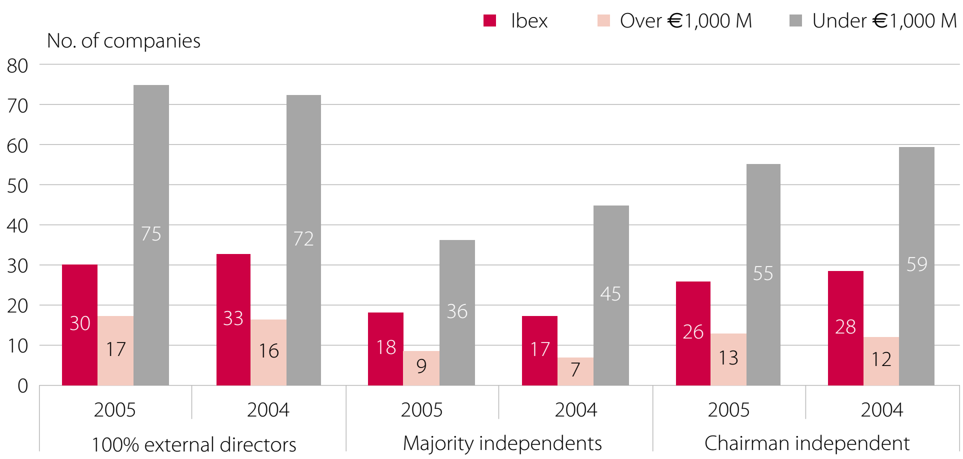
(ii) 21 companies reported a balanced match in the composition of their boards and Executive Committees. A further 22 reported some degree of mismatch, while others either assumed themselves to be compliant or offered no explanation.

(iii) In comparison to 2004, the representation of director categories on the Executive Committee has followed the same trend as on the board; namely a slight decrease in the proportion of executive and independent directors and some advance by proprietary directors, whose weight in both bodies increased in the year.

6.3 Audit Committee

The Audit Committee's supervisory and control functions urge that members be equipped with experience and knowledge in accounts auditing and risk management. The Unified Code recommends that this Committee should be formed by at least three members, all of them external directors, and chaired by an independent:

Audit Committee composition



The table below provides membership data on the Audit Committees of listed companies in 2005 and 2004, grouped by market capitalisation:

	Average members		Type of director							
			Executive		Proprietary		Independent		Other external	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	3.8	3.9	1.5%	2.2%	35.8%	40.0%	59.0%	53.3%	3.7%	4.4%
Over €1,000 million	3.6	3.4	6.5%	8.0%	50.5%	45.3%	38.7%	41.3%	4.3%	5.3%
Under €1,000 million	3.1	3.2	13.8%	14.3%	44.5%	41.1%	37.5%	39.8%	4.2%	4.7%
TOTAL	**3.3**	**3.4**	**9.8%**	**10.8%**	**43.5%**	**41.4%**	**42.6%**	**43.1%**	**4.1%**	**4.7%**

— Audit Committees have an average of 3.3 members, 3 being the statistical mode.

— In general, Audit Committees have a large majority of external directors, and in 63 companies (18 IBEX) independents make up over 50% of their membership. Of this group, 18 companies (7 IBEX) have an Audit Committee formed entirely of independent directors.

However, 47 companies (2 IBEX) report not one independent on their Audit Committee.

— In 94 companies – 53.4% of the total – the Audit Committee is chaired by an independent. Of this number, 26 belong to the IBEX (28 in 2004).

Companies reported a higher proportion of proprietary directors on their Audit Committees compared to 2004, and a smaller proportion of other director types.

— Membership rotation in 2005 came to 22.16%. Of the 582 directors (594 in 2004) sitting on Audit Committees in 2005, 129 had not been members the year before.

The Audit Committee has a key, end-to-end function in controlling the financial information companies publish. For this reason, the Unified Code recommends that it should monitor the integrity of financial reporting, supervise the internal audit function and internal control systems and liaise with the external auditor.

The Code also advises that the Audit Committee should report to the Board of Directors regarding the creation of special purpose vehicles or entities resident in tax havens, and about related-party transactions.

Finally, it bears mention that 39 companies have posted Audit Committee annual reports on their corporate websites. In general, these reports describe their internal rules of procedure, composition, number of meetings held in the year and the main business dealt with, prominently:

— Verifying that financial information presents a true and fair view and has been prepared in accordance with current accounting standards and policies.

— Supervising the progress of internal audit programmes.

— Working with senior officers to analyse the performance of business and any facts placed before of material bearing on the organisation (law suits, materialised risks, significant changes in financial ratios, etc.)

— Examining and deciding on conflicts of interest detected.

— Proposing the appointment, removal or renewal of the external auditor.

— Reviewing fees paid to the external auditor for the provision of non audit services, verifying that they are not in breach of the incompatibilities clauses of audit legislation.

— Verifying that there are no objective reasons to doubt the independence of the external auditor.

6.4 Nomination and Remuneration Committee

The usual practice in Spain is for a single committee to be entrusted with overseeing both appointment and remuneration policies with regard to the directors and senior officers of listed firms.

According to the Olivencia Code, the core mission of the Nomination and Remuneration Committee is to oversee the integrity of the selection process for company directors and top executives, ensuring that candidates meet the target profile for each vacancy, and assisting the board with drawing up and supervising remuneration policy.

The Unified Code recommends that this Committee be formed entirely of external directors, the majority independent. It also advocates that the Nomination Committee should propose the candidates for independent directorships, as well as issuing a report on all other prospective appointees.

Set out below are the main aggregate data, grouped by market capitalisation, for the composition of listed company Nomination and Remuneration Committees:

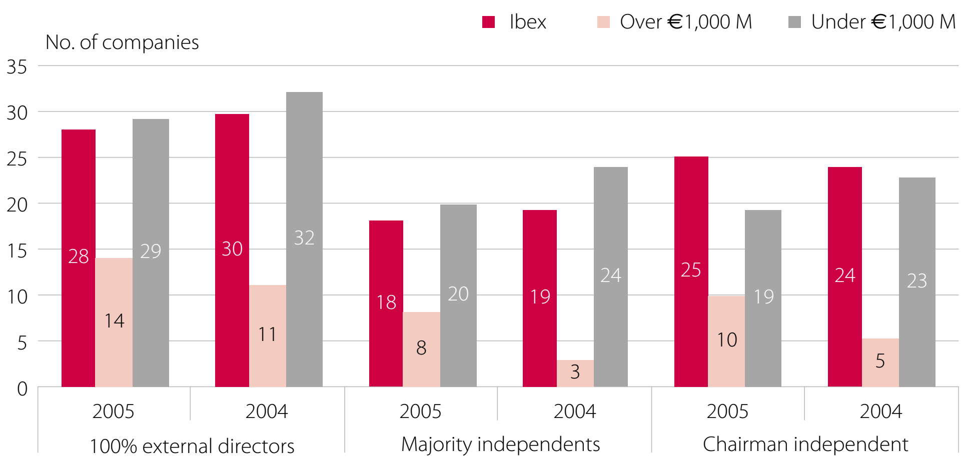
	Companies		Average members		Type of director							
					Executive		Proprietary		Independent		Other external	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	34	35	3.9	3.9	5.3%	3.6%	33.1%	37.0%	57.9%	56.5%	3.8%	2.9%
Over €1,000 million	22	18	3.6	3.6	10.0%	10.8%	43.8%	46.2%	41.3%	36.9%	5.0%	6.2%
Over €1,000 million	49	55	3.5	3.5	14.0%	16.6%	40.9%	36.8%	39.2%	41.5%	5.8%	5.1%
TOTAL	**105**	**108**	**3.7**	**3.7**	**10.2%**	**11.1%**	**38.8%**	**38.4%**	**46.1%**	**46.0%**	**4.9%**	**4.5%**

— A total of 105 companies – 59.6% of the sample – have appointed Nomination and Remuneration Committees, formed by an average of 3.7 directors.

All IBEX members operate an equivalent committee, normally with 4 members, although in one case its functions have been assigned to a board committee dedicated to supervising related-party transactions, and in another confines itself to remuneration matters. In 2005, three companies appointed this committee on a first time basis.

— In general, external directors are in a large majority vs. executive directors, although 34 companies, among them 6 IBEX members, have disregarded the Olivencia Code recommendation to the effect that all members should be external. The chart below shows committee membership by director type:

Composition of Nomination and Remuneration Committee



— Membership rotation in 2005 was approximately 20.0%. Hence of the 384 directors serving on Committees, 77 were newly appointed

— Comparing with Committee composition in 2004, we find that executive directors have reduced their presence in favour of proprietary and independent directors. According to reports, moreover, 30.7% (28.6% in 2004) of Committees were chaired by independents.

— Of the 222 new directors appointed in 2005, 58.6% were proposed by a Nomination Committee. These appointments presented the following breakdown by type of director: 55.7% proprietary, 54.8% executive, 63.3% independents and 60.0% others.

— Of the 352 renewals reported in 2005, 58.5% were at the Committee's proposal: 54.1% proprietary, 57.9% executive, 67% independent and 44.4% other external.

6.5 Strategy and Investment Committee

The Aldama Report urges listed companies to assess the possible creation of a Strategy and Investment Committee, with the remit to make reports and recommendations to the board on strategy, investment and divestment decisions of material impact for the company.

As we can see from the table below, as few as 18 companies – 10.2% of the total – have felt the need for a Strategy and Investment Committee, three of them belonging to the IBEX:

	Companies		Average members		Type of director							
					Executive		Proprietary		Independent		Other external	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
IBEX	3	3	4.7	5.0	0.0%	20.0%	71.4%	26.7%	28.6%	53.3%	0.0%	0.0%
Over €1,000 million	4	1	4.3	4.0	11.8%	25.0%	52.9%	0.0%	35.3%	75.0%	0.0%	0.0%
Under €1,000 million	11	11	4.5	4.6	26.0%	18.0%	40.0%	44.0%	26.0%	30.0%	8.0%	8.0%
TOTAL	**18**	**15**	**4.5**	**4.6**	**18.5%**	**18.8%**	**48.1%**	**37.7%**	**28.4%**	**37.7%**	**4.9%**	**5.8%**

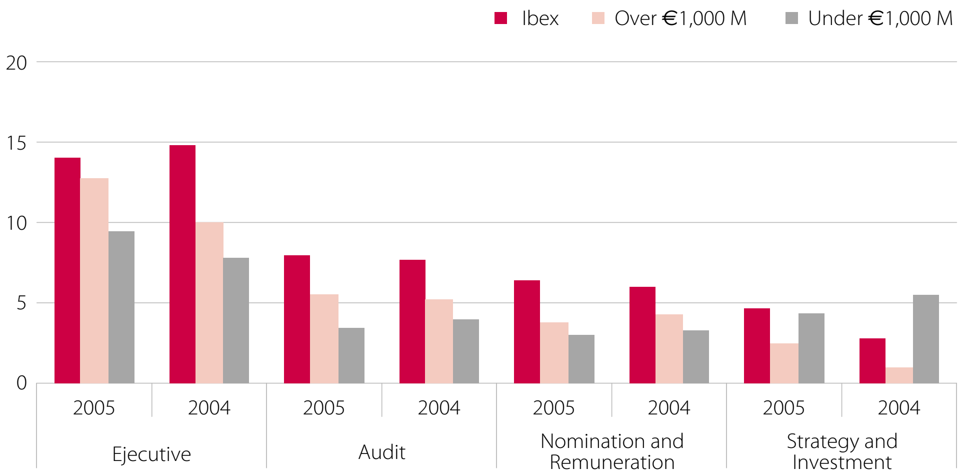
— Four new companies appointed a Strategy and Investment Committee in 2005, while another opted for its abolition.

— As to membership, proprietary directors have increased their representation at the expense of other director categories.

6.6 Meetings of board committees

Our next graph shows the average meetings held by the different board committees in the course of 2005 and 2004:

Meetings of board committees in the year



The data appearing in ACGRs indicate that the Executive Committees of five companies held no meetings in 2005, while a further 7 and 2 companies called no Nomination and Remuneration and Strategy and Investment Committee meetings respectively.

7 Board and senior officer remuneration

7.1 Recommendations

Good governance recommendations on remuneration try to compatibilise the search for well qualified professionals with criteria of moderation, performance-related compensation and maximum transparency.

The Olivencia Code includes among its strictures that remuneration policy should be guided by market considerations in order to attract people with the right skills. It should also conform to criteria of moderation and be commensurate with corporate and individual performance, seeking to reward directors' dedication without compromising their independence.

The Unified Code upholds the principle of maximum disclosure of director remuneration as a way to mitigate the risk of immoderate compensation. Transparency should extend to all remuneration components and concepts, including director severance packages, with disclosure of the individual payments received by each board member.

The Unified Code offers a series of remuneration guidelines, among them that payments linked to the performance of the company's share should be confined to executive directors. Finally, the Code recommends that the Shareholders' Meeting take a more active role in director remuneration policy by voting on the same, if only on an advisory basis.

The text boxes that follow list some of the main recommendations on the remuneration of directors and senior officers contained in the Olivencia and Aldama reports and the Unified Code:

Olivencia Code and Aldama Report

— *The director remuneration policy, whose proposal, evaluation and review should be assigned to the Remuneration Committee, should conform to criteria of moderation, be commensurate with the company's performance and be disclosed in detail on an individual basis.*

— *Remuneration comprising the delivery of shares or options in the company or others in its group should be confined to executive directors.*

— *The remuneration and total cost of the senior management team should be stated in the annual report, along with the number and title of component posts.*

Unified Code

— *External directors' remuneration should sufficiently compensate them for the commitment, qualifications and responsibility that the post entails; but should not be so high as to compromise their independence.*

— *In the case of variable awards, remuneration policies should include technical safeguards to ensure 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 circumstances of this kind.*

— *Remuneration linked to company earning should take account of possible auditor qualifications.*

— *The board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda.*

— *The notes to companies' annual accounts should provide an itemised list of individual directors' remuneration in the year.*

7.2 Board remuneration

Remuneration policy tends not to be submitted to the Shareholders' Meeting, even on an advisory basis, beyond the general requirements of each company's bylaws, except with regard to shares, options and other share-based incentives (legal obligation).

Likewise, the practice of stating individual directors' remuneration in the notes to the annual accounts or the ACGR is not very widespread. Some companies state the aggregate remuneration of executive directors separately from that received by other board members, as well as the amount corresponding to each remuneration item.

Note however that 10 IBEX companies – 28.6% of the index – disclose the individual compensation of each director under each remuneration item.

The table that follows provides aggregate data on the remuneration[10] of the board members of listed companies in 2004 and 2005, grouped by their market capitalisation:

10. The data shown refer solely to the items figuring in ACGRs in the remuneration section, which include amounts received from the company and from others in its group. Excluded are the items figuring as other benefits, because some of the captions in this ACGR section cannot be aggregated.

	IBEX		Over €1,000 M		Under €1,000 M		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004
Board remuneration (no. of companies)								
Up to €1 million	0	1	2	4	96	99	98	104
Between €1 and 3 million	11	11	14	10	16	21	41	42
Between €3 and 6 million	14	13	9	7	3	5	26	25
Over €6 million	10	10	1	1	–	–	11	11
Amount of remuneration (€ thousand)								
Average per board	5.637	5.240	3.086	2.543	584	767	1.958	1.984
Average per director	388	349	294	226	74	93	203	195
— Executive directors	1465	1371	898	696	186	213	654	578
— Extyernal directors	149	159	193	122	40	40	88	84
Average % of profits	1.3%	1.3%	3.6%	2.2%	4.5%	8.2%	3.7%	4.8%
Itemisation (% total)								
Fixed remuneration	42.1%	45.5%	29.1%	32.6%	39.2%	41.0%	38.5%	41.9%
Variable remuneration	25.1%	25.6%	15.4%	19.6%	10.3%	12.2%	19.9%	21.1%
Expenses	9.3%	8.7%	9.8%	12.6%	20.4%	16.9%	11.6%	10.8%
Other remuneration	23.5%	20.3%	45.7%	35.2%	29.9%	29.9%	29.9%	26.2%
Source of remuneration (% total)								
Comany itself	93.0%	90.3%	86.9%	85.3%	89.2%	83.7%	90.8%	89.7%
Other companies in group	7%	9.3%	13.1%	14.7%	10.8%	16.3%	9.2%	10.3%

— Average remuneration per board works out as 1.96 million euros, a similar figure to in 2004, giving an average per director of 203,000 euros against the 195,000 of the year before (up 4.1%). Again we find a strong divergence between the IBEX contingent and other listed companies.

— In aggregate terms, average remuneration per board in IBEX companies moved up 7.6% versus the prior year against the average 21.4% increase of companies with market cap above 1,000 million euros and the 23.9% decrease reported by smaller cap firms.

— Of the IBEX group, most companies fall within the over three million euro brackets, while in 3 companies board remuneration exceeded 10 million euros.

However, the boards of 61.5% of companies capitalised at over 1,000 million euros received remuneration below 3 million euros.

The boards of 83.5% (79.2% in 2004) of smaller cap companies received less than 1 million euros per year. Also, the boards of 21 companies in this group(20 in 2004) – most of them capitalising at under 250 million euros – received no remuneration in the year 2005.

— The annual remuneration of executive directors averaged 654,000 euros (578,000 in 2004) against the 88,000 euros of external directors (84,000 in 2004). This gap is largely because executive director remuneration includes the salaries they receive for their management duties on top of director fees and other payments.

— Under corporate governance rules, director remuneration policy should be tied in with the company's performance.

In 2005, board remuneration amounted to an average 3.7% of listed companies' profits against 4.8% the previous year. Again, there was a significant divergence by market capitalisation and from company to company, with percentages generally far lower in the IBEX group (average 1.3%). Companies paying out atypically high percentages were excluded from this calculation to avoid distortion.

— By item, the largest amounts corresponded to fixed remuneration (38.5% of the total compared to 41.9% in 2004). Variable remuneration items, linked in most cases to the achievement of business targets, came to about half of fixed payments.. Finally, expenses and other items accounted for 41.5% of total board remuneration (37.0% in 2004).

This distribution is considerably more skewed in 30 companies (33 in 2004), where fixed remuneration makes up 75% of the board total. In a further 30 companies (27 in 2004), other items (option plans, fees, etc.) were over half of the total amount. In 23 companies (7 IBEX), variable remuneration was higher than fixed payments.

— By source, 91% of total remuneration came from the company itself (89.7% in 2004), with the remaining 9% (10.3% in 2004) drawn from other companies in the group. This distribution holds more or less true for both IBEX companies and the rest.

7.3 Remuneration of senior officers

The following table sets out the remuneration reported for senior officers, with companies again grouped by market capitalisation. Also included is the information offered in ACGRs regarding senior officer severance packages:

	IBEX		Over €1.000 M		Under €1.000 M		TOTAL	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Number of senior officers (average per company)	13.5	13.2	7.8	7.5	6.0	6.5	8.5	8.4
Average remuneration (€)	530,731	511,700	293,804	225,600	135,623	135,600	346,216	262,900
Average distribution (no. of companies)								
Up to €200,000	0	1	5	6	53	54	58	62
Between €200,000 and €500,000	26	21	10	13	10	10	46	44
Between €500,000 and €1,000,000	6	8	4	1	–	–	10	10
Over €1,000,000	3	1	1	–	–	–	4	1
Average % of profits	1.2%	1.6%	2.6%	1.4%	5.3%	7.9%	3.6%	3.8%
Severance packages								
Number of companies	29	29	14	11	25	26	68	66
% capitalisation group	82.9%	82.9%	53.9%	50.0%	21.7%	20.8%	38.6%	36.3%
Number of senior officers	312	307	63	49	46	74	421	430

— A total of 1,020 senior officers worked at listed firms in 2005 (1,008 in 2004), with an average 8.5 reported per management team in Annual Corporate Governance Reports. In the IBEX group, the average team comprised 13.5 members.

— Average remuneration of senior officers stood at 346,216 euros a year (262,900 in 2004); 53% less than the average reported for executive directors. Among the IBEX group, the average per officer climbs to 530,731 euros (511,700 in 2004), while firms capitalising at under 1,000 millions reported payments on a par with 2004 (135,600 euros).

  Among larger cap companies, senior officer remuneration fell mainly in the 200,000 to 500,000 euros bracket, although 14 companies (9 from the IBEX) report payments on a higher scale.

— Listed companies must disclose in their ACGRs any severance packages agreed with senior officers and executive directors. They should also specify whether such packages were approved by the Board of Directors or the General Shareholders' Meeting and, failing this, whether the General Meeting was at least informed of their existence.

  A total of 68 companies – 38.6% of the total – declared in their 2005 ACGRs that they had severance clauses operative with 421 senior officers. The biggest concentration was among IBEX members, where 83% of the index reported severance packages with 312 senior officers, close in line with the previous year.

  Only one company had submitted these packages to the vote of the Annual General Shareholders' Meeting. Another 14 companies (9 from the IBEX) reported in their ACGRs that they had apprised the Meeting of their existence. This is twice as many as in 2004, when only 7 firms informed the Meeting.

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8 Financial reporting and risk management

8.1 Recommendations

Responsibility for complying with the law, preventing accounting irregularities and managing business risk lies with the Board of Directors. The Audit Committee, as a delegate body, performs a vital supervisory and control role. Its job is to assure the reliability and integrity of the company's financial information, oversee the internal audit function and exercise key risk management functions.

The external auditor provides impartial confirmation that financial statements have been correctly prepared and presented, as well as a reasonable guarantee that the data reported are free of material errors.

The text box that follows summarises the main Olivencia Code and Aldama Report recommendations on financial information and risk management. Immediately afterwards comes a list summarising the main recommendations of the Unified Code:

Olivencia Code and Aldama Report

— *All the periodic financial information should be drafted under the same professional principles and practices as the annual accounts and should be verified by the Audit Committee before release.*

— *The annual accounts presented to the Board of Directors for preparation should be verified beforehand by the Chairman (if he has executive functions), the Chief Executive and the Chief Finance Officer.*

— *The Board of Directors should endeavour to ensure that the accounts drafted by it and submitted to the Shareholders' Meeting are free of audit qualifications and, where this is not possible, both the board and the auditors should explain clearly the content and scope of the discrepancies to the shareholders*

— *The board and the Audit Committee should monitor situations that might jeopardise the independence of external auditors and verify the percentage of the audit firm's total revenues represented by the fees paid to it. The external auditor is also obliged to disclose any non audit services which it provides.*

Unified Code

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

— *The head of internal audit 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.*

— *Risk management policy should specify at least: (a) The different types of risk the company is exposed to; (b) The determination of the risk level the company sees as acceptable; (c) Measures in place to mitigate the impact of risk events should they occur; and (d) The internal reporting and control systems to be used to manage the above risks.*

— *The Audit Committee's role should be:*

1) *With respect to internal control and reporting systems: (a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, its group; (b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed; (c) Monitor the independence and efficacy of the internal audit function, propose the selection, appointment . . . and removal of the service head, . . . receive regular report-backs on its activity and verify that senior management are acting on its findings and recommendations; (d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect with potentially serious implications.*

2) *With respect to the external auditor: (a) Make recommendations to the Board for the selection . . . and removal of the external auditor, and the terms and conditions of his engagement; (b) Receive regular information from the external auditor on the progress and findings of the audit programme, etc.; (c) Oversee the independence of the external auditor, to which end: (i) the company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same, (ii) the Committee should ensure that the company and the auditor adhere to current regulations on the provision of non audit services, etc., (iii) the Committee should investigate the issues giving rise to the resignation of any external auditor; (d) Urge the group auditor to take on the auditing of all component companies.*

— *The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.*

— *The Audit Committee should report to the board on the following points for input to decision-making: (a) The financial information it must periodically disclose, etc.; (b) The creation . . . of special purpose vehicles or entities resident in tax havens, etc.; (c) Related-party transactions, unless their scrutiny has been entrusted to some other supervisory committee.*

> — *The Board of Directors should seek to present the annual accounts to the General 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.*

8.2 Mandatory financial reporting requirements and account auditing

The new bill amending the Securities Market Law to write the Transparency Directive into Spanish legislation introduces some major innovations with regard to mandatory financial reporting. These include:

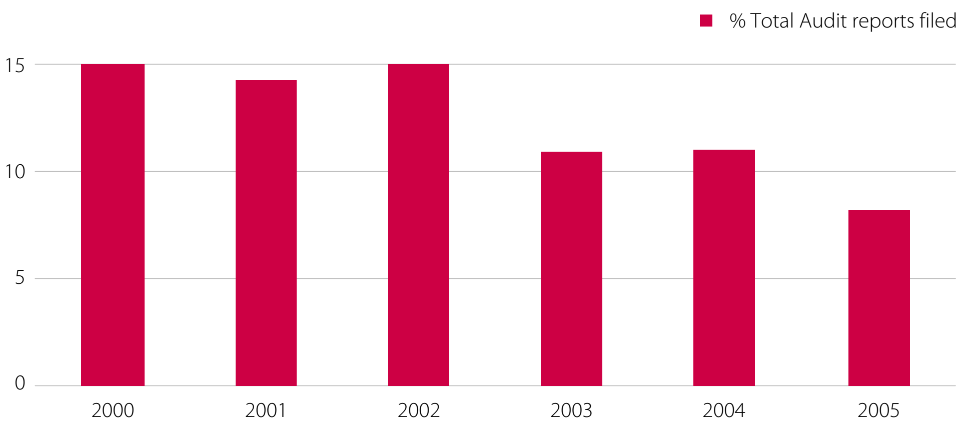
— The issuers of securities admitted to trading on regulated markets are obliged to publish, at least, annual financial statements, semiannual financial statements and interim management statements corresponding to the first and third quarter of the year.

— Issuers and/or their directors shall henceforth be liable for any damages caused to investors if the financial information they circulate does not present a true and fair view.

— The supervisor is given broader powers to verify that issuers' mandatory financial information has been prepared in accordance with the applicable legislation and to order any failings to be corrected.

These changes will reinforce the importance of Audit Committees' work on reviewing mandatory financial statements before their submission to the board. Already, the influence of these Committees is evidenced by a sizeable decline in the number of audit reports issued with qualified opinions due to non compliance with accounting policies, uncertainties or limitations of scope.

Audit reports with qualifications



The above chart includes cases where accounting standards were not uniformly applied. Excluding this group, 94.9% of audit reports for 2005 (93.3% in 2004) were issued with a favourable opinion. These exceptions were mostly because companies availed themselves of the option envisaged in IFRS 1, allowing IAS 32 and IAS 39 to be applied as of 1 January 2005, without restating 2004 figures for comparative purposes.

However, only 59 listed companies, 2 more than in 2004, had their annual accounts verified by the responsible officers before their drafting or approval by the board. Of the IBEX group, 18 companies (16 in 2004) complied with this corporate governance recommendation.

	No. of companies with accounts previously verified		Average years with currrent audit firm		% charge for non audit services/audit services	
	2005	2004	2005	2004	2005	2004
IBEX	18	16	9.6	10.34	25.0.7	28.0.0
Over €1,000 million	10	7	10.35	9.5	170.8	250.2
Under €1,000 million	31	34	8.49	8.41	11.1	11.9
TOTAL	**59**	**57**	**9.07**	**9.34**	**14.97**	**16.67**

8.3 Internal control and internal audit

The growing complexity of the world of business, the greater risks entailed by rising transaction volumes and the existence of ever more complex and decentralised organisational structures all put heavy demands on the design and quality of internal control systems.

The benchmark COSO Report sees internal control as a process designed to provide reasonable assurance regarding the achievement of company objectives. It is also a process that calls for the involvement of all members of an organisation.

Internal control systems must guarantee that a company is complying with applicable laws and regulations and operating efficiently and effectively. They must also provide reasonable assurance that accounting standards are being correctly applied and about the reliability and integrity of its financial statements, by means of policies and procedures to:

— Keep accurate and reliable transaction records.

— Allow reasonable assurance regarding the integrity of the transactions and records on which financial statements are based.

— Provide sufficiently detailed evidence that income and expense policy has the pertinent authorisations from senior management, detecting possible failures of compliance.

Internal audit must ensure the proper operation of the control system in place by means of its ongoing review and evaluation. Good government practice requires that the internal audit function should operate autonomously and report functionally to the Audit Committee, which should guarantee its independence of judgement.

ACGRs attest to the fact that most companies have established an internal audit function. According to the information provided, Audit Committee activities with regard to internal auditing have centred on: (i) the reliability of financial statements; (ii) risk management, operating efficiency and protection of assets; and (iii) compliance with internal procedures, sector regulations and the organisation's rules of conduct.

8.4 Risk management

Companies confront the risks inherent to any entrepreneurial activity, and management's goal must be to determine and control the level of risk it is willing to assume as a function of its objectives.

The Unified Code assigns the Audit Committee a key role in risk management policy, centring on their correct identification, the determination of the risk levels seen as acceptable and deployment of measures to mitigate the impact of realised risk events. The internal reporting and control systems used by the company should extend to contingent liabilities and off-balance-sheet risks.

The risk management systems reported in ACGRs remained largely unchanged with respect to 2004, though note that 14.3% of IBEX firms implemented improvement measures in the year.

Most listed companies draw up risk maps which: (i) identify the main risks to which the company is exposed; (ii) specify risk indicators and limits; (iii) define measurement and control procedures; and (iv) detail mitigation measures for the event of these risks materialising.

The main risks affecting listed companies can be grouped into four large categories: financial risks (credit, market, liquidity, etc.), operational risks, regulatory risks and environmental risks. On a sectoral basis, the main risks detailed were as follows:

— Financial entities give most space to credit risk, defining their exposure in terms of the probability of borrower default and the severity of expected loss. They also deal with the market risks arising from interest rate and exchange rate fluctuations.

— Electric utilities focus mostly on the regulatory risks associated to electricity tariffs and CO_2 emission rights, international fuel prices and the risks associated with each company's generation mix (hydroelectric, thermal, nuclear, wind power, etc.).

— Construction and real estate operators define their main risks as delays in works execution, the environmental impact of projects, interest rates, land investment policy, the conservation of rented properties and rent review clauses.

— Telecommunications companies focus on the risks deriving from sectoral regulations in the different countries where they operate. Technology companies stress the need to keep their security systems constantly updated to prevent hardware or software failure and computer fraud. Finally, oil and gas sector firms single out reserve management, plant safety and the environmental impact of their activities.

Companies tend to state in ACGRs that some risk has materialised in the year with regard to business operations, but that the incident was picked up by internal control systems and contained within reasonable limits. Very few make express mention of what these risks were.

9 Related-party transactions and conflicts of interest

9.1 Obligations and recommendations

Dealings between related parties must be informed by the principles of loyalty and operational transparency, because the possession of inside information could be improperly used to obtain some contractual or financial advantage.

For the sake of maximum transparency, listed firms are obliged to report any transactions concluded with shareholders, directors and senior officers in their annual accounts and ACGRs, along with any intragroup transactions not eliminated in the consolidation process. As regards ACGRs, this reporting requirement is confined to related-party transactions of significant amounts or that may have a material bearing on the contents of periodic reports.

Concerning conflicts of interest, article 127 ter of the Public Limited Companies Law obliges directors to inform the board of any situation of conflict, direct or indirect, with the company's interests and to refrain from engaging in the relevant transaction.

Olivencia Code and Aldama Report

— *The company's internal regulations should detail the obligations arising from the directors' general duties of diligence and loyalty, with particular attention being given to conflicts of interest, the duty of confidentiality, and the use of the company's business opportunities and assets.*

— *The board should foster the adoption of appropriate measures to extend duties of loyalty to significant shareholders and, in particular, establish safeguards for transactions between significant shareholders and the company.*

Unified Code

— *When a dominant and subsidiary company are both stock market listed, the two should provide detailed disclosure on the types of activity they engage in, and any business dealings between them, along with the mechanisms in place to resolve possible conflicts of interest.*

— *The board is the body in charge of approving related-party transactions on the basis of a favourable report from the Audit Committee. The directors involved should neither exercise nor delegate their vote, and should withdraw from the meeting room while the board deliberates and votes.*

9.2 Transactions with significant shareholders

Our next table shows the aggregate amounts of transactions with the significant shareholders of listed companies, comparing 2005 figures with those for 2004:

(Amount in million euros)	IBEX				Over €1,000 M				Under €1,000 M			
	Companies		Amount		Companies		Amount		Companies		Amount	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
No transactions reported	9	18	–	–	8	6	–	–	78	84	–	–
Less than €100 million	10	8	276	213	12	8	349	280	33	40	411	503
Between €100 and €500 million	8	1	2,753	652	1	1	400	286	4	1	903	413
Between €500 and 1,000 million	1	1	3,448	678	3	1	2,498	870	–	–	–	–
Over €1,000 million	6	6	47,922	23,562	1	5	2,653	6,382	–	–	–	–
TOTAL	**35**	**35**	**54,399**	**25,105**	**26**	**22**	**5,901**	**7,818**	**115**	**125**	**1,314**	**916**

— A total of 81 companies – 46.0% of the total versus 40.7% in 2004 – reported no significant or material operations with their significant shareholders. Seven companies reporting related-party transactions the previous year engaged in no such transactions in 2005, while the reverse was true of another sixteen.

— The total volume of transactions with significant shareholders was 61,614 million euros, with two IBEX companies alone accounting for 49% of this amount.

Transactions mainly corresponded to companies' normal business flows and tended to be of a financial nature (loans, sureties, or derivative contracts to hedge against interest or exchange rate risk, etc.). Sureties and financial derivatives are stated in ACGRs at the face value of the corresponding contract. This is used for calculating their market value but does not reflect the actual amount at which transactions will go through.

— Transactions with significant shareholders, as reported in 2005 ACGRs, were up 82.0% versus the previous year. Two IBEX firms accounted for 73.5% of this increase. Transactions were in both cases of a financial nature, because the significant shareholders were credit entities or because the dominant company centralises interest and exchange rate hedging operations.

Note that the increase in reported transactions also owes to a less restrictive reading of the rules as regards transactions deemed significant on account of their size or material bearing on the true and fair view of financial statements, and to a greater spirit of transparency around this issue.

9.3 Transactions with directors and senior officers.

The table below sets out the aggregate amounts of transactions with directors and senior officers, in comparison with the prior year:

(Amount in million euros)	IBEX				Over €1,000 M				Under €1,000 M			
	Companies		Amount		Companies		Amount		Companies		Amount	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
No transactions reported	18	23	–	–	20	17	–	–	83	105	–	–
Less than €1 million	4	4	1	1	–	–	–	–	16	12	3	5
Between €1 and 5 million	1	4	1	8	3	3	6	5	10	3	23	6
Over €5 million	12	4	1,936	299	3	1	604	2,190	6	5	143	90
TOTAL	**35**	**35**	**1,939**	**308**	**26**	**22**	**610**	**2,195**	**115**	**125**	**169**	**101**

— 121 companies – 68.8% of the sample – reported no significant or material transactions with their directors or senior officers in the course of 2005, as against 79.7% of companies in 2004.

— Total transactions with directors and senior officers came to 2,718 million euros. Three companies' transactions accounted for 58.6% of the total amount. These corresponded to transactions with financial entities on their boards or with companies having links with their directors.

— The sum of reported transactions was 4.4% higher than in 2004. The difference in this case is mainly because companies, principally IBEX members, reported a higher number of transactions with companies where their directors or senior officers hold positions on the governing bodies.

9.4 Intragroup transactions

— A total of 19 companies reported transactions with other group companies that were eliminated in the process of consolidating the accounts of the dominant company, but not in their own financial statements, and therefore qualified for inclusion in ACGRs.

— Summing 1,925 million euros, these mainly corresponded to financial transactions with the dominant company in the group.

— This amount is four times higher than in 2004, though note that 4 companies' transactions accounted for 86.1% of the total.

9.5 Conflicts of interest

Transactions involving conflicts of interest were of a diverse nature: engagement of the professional services of director-related parties; financial transactions between the company and the significant shareholder appointing the director; share capital increases contributed by a shareholder where the listed company director is also a director, etc.

A total of 25 companies – 20 in 2004 – reported some conflict of interest arising in 2005, which the director in question refrained from pronouncing or voting on at the meeting of the board or board committee.

Another 7 companies (3 IBEX) indicated the existence of conflicts of interest without giving the specifics, stating only that the situation had been handled in accordance with Board of Directors Regulations or that the contractual relation was not material.

10 The General Shareholders' Meeting

10.1 Obligations and recommendations

The Aldama Report affirms that one of the main goals of corporate governance is to strengthen the role of the General Shareholders' Meeting, as a decision-making and control structure of vital importance for the life of the company and the interests of its shareholders.

Some recommendations of the Olivencia and Aldama reports have been written into the texts of the Securities Market Law and the Public Limited Companies Law, among them: the existence of Shareholders Meeting Regulations; the possibility of using technological advances to favour shareholder participation; or the duty of directors to avoid conflicts of interests with regard to proxy applications.

The Unified Code recommends the removal of "safeguard" clauses in company bylaws designed to hinder or prevent any change in ownership control. It also reinforces the role of the Meeting as the company's supreme decision-making body by urging that any matters involving a fundamental corporate change should be submitted for its approval, even when this is not expressly required under company law. It also seeks to enhance decision-making transparency by recommending that proposals to be put to the Meeting are published sufficiently well in advance and that each proposal is voted on separately

Olivencia Code and Aldama Report

— *The company should provide shareholders with the full content of all the proposals to be voted at the Meeting the moment it is called, using its own website to this end in addition to any other legal or voluntary instrument.*

— *Each proposal should be accompanied by a reasoned argument expressed in clear, precise, understandable and practical terms so shareholders can weigh up their decision and vote accordingly.*

— *Every effort should be made to facilitate shareholders' participation in the General Meeting, and to ensure that their vote is a true expression of their wishes. Measures should be adopted to improve the transparency of the proxy system.*

— *Favour the standardisation of the attendance cards and other documentation issued to shareholders so they can attend the Meeting, grant proxy or issue voting instructions.*

Unified Code

— *The bylaws 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.*

— *When a dominant and a subsidiary company are stock market listed the two should provide detailed disclosure on:*

- *The type of activity they engage in, and any business dealings between the two, as well as between the subsidiary and other group companies.*
- *The mechanisms in place to resolve possible conflicts of interest.*

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

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

— *Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.*

— *Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.*

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

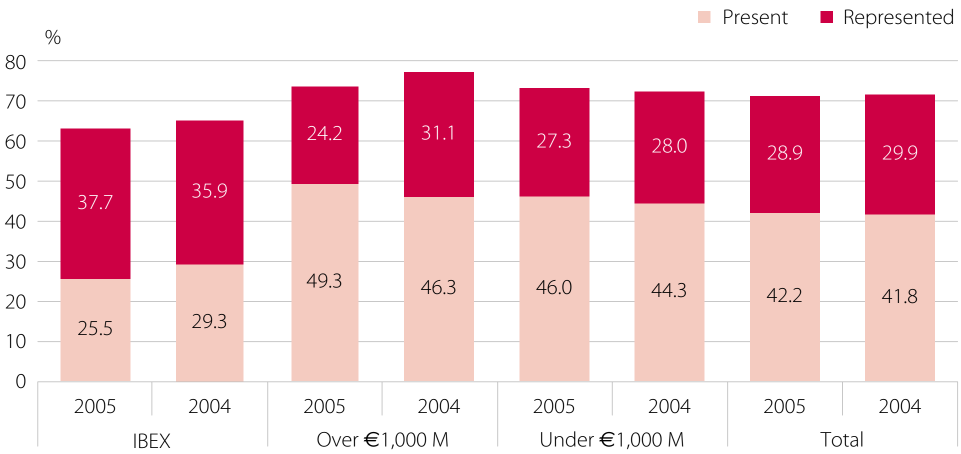
- *The appointment or ratification of directors, with separate voting on each candidate;*
- *Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.*

— *Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.*

10.2 Participation in General Shareholders' Meetings

The following graph shows the average participation in General Shareholders' Meetings held in 2005 and 2004, with a breakdown by market capitalisation and percentages of capital present and represented:

Participation in General Shareholders' Meetings



— Average participation at General Meetings held in 2005 equated to 71.3% of capital, practically the same as in 2004 (71.7%).

— The average participation in the General Meetings of IBEX companies was 63.2% of capital, slightly down on the 65.2% of 2004. As in the previous year, fewer shareholders were physically present than represented.

— In all other listed companies, the average participation came to 73.4% of capital (73.2% in 2004). In contrast to the IBEX group, considerably more shareholders were present than represented.

The following table compares attendance at General Shareholders' Meetings by year and market capitalisation:[11]

	Total		IBEX		Over €1,000 M		Under €1,000 M	
No. of companies	2005	2004	2005	2004	2005	2004	2005	2004
Participation < 50%	23	32	6	7	1	1	16	24
Participation between 50% yand 75%	71	59	19	17	15	7	37	35
Participation > 75%	81	90	9	10	10	14	62	66

11. Arcelor is not included in the IBEX group since it has not furnished details on the Shareholders' Meetings held.

— In most IBEX companies, participation stood within the 50% to 75% range, while the majority of remaining companies registered rates of over 75%.

— 38% of companies reporting participation between 50% and 75% had a free float of over 50%, and in most cases the capital present exceeded the shareholders represented.

— Most companies – 74% of the total – reporting attendance below 50% had free floats exceeding 50%.

— Finally, in five companies the shareholders present exceeded 99% of capital, while at the other extreme three companies had more than 99% of capital represented.

10.3 Voting limitations and attendance conditions, remote voting and decision making

— The bylaws of 23 companies impose limits on the exercise of voting rights at Shareholders' Meetings:

(i) Twelve companies (9 IBEX) impose a limit of 10%

(ii) Three companies have set a limit of 25% and another three of 15%.

(iii) Two companies (1 IBEX) limit the exercise of voting rights to 5%

(iv) Finally, another three companies operate maximum limits of 30%, 24% and 2%.

One company with a 10% limit opted to lift it in 2005.

— 60.2% of listed companies specify a minimum number of shares for attendance at the General Shareholders' Meeting:

(i) In 9 companies – 10 in 2004 (1 IBEX) – the threshold has been set at 1 thousandth part of capital.

(ii) In 13 companies – 14 in 2004 (5 IBEX) – the minimum limit ranges from 500 to 10,000 shares.

(iii) In 84 companies - 88 in 2004 - shareholders can attend as long as they have a minimum of 500 shares.

(iv) And the remaining 70 companies (6 IBEX) have no restrictions in place.

One company lifted its attendance restrictions in 2005 while another two lowered the ownership threshold.

— Remote voting is a good way to encourage shareholders – especially minority and non resident investors – to take part in Shareholders' Meetings. For it to work properly, safeguards must be incorporated so the person exercising his or her vote is properly identified. The system must also be efficient, understandable and practical for shareholders, with its possibilities and advantages adequately publicised .

The use of remote voting was rather more widespread at 2005 Shareholders' Meetings, though the capital involved remains fairly negligible:

(i) 57.2% of IBEX companies had procedures in place for shareholders to vote electronically at General Meetings, compared to 14.3% in 2004.

(ii) 20 companies – 17 IBEX – offered the use of these procedures at their 2005 meetings.

In 2 IBEX companies, electronic votes amounted to 0.6% and 0.3% of their share capital. At another 15 companies, the percentage was less than 0.01%, while the remaining three reported zero take-up.

In 2004, electronic voting was used at the General Meetings of three listed companies, though marginally in every case.

— The Unified Code advises institutional investors to be more active in exercising the voting rights of the shares they administer or manage, informing unitholders or final investors of the criteria followed. Only 5 companies (11 in 2004) claimed in their ACGRs to be cognisant with the policy of institutional investors as regards their involvement or not in corporate decisions.

— Finally, the bylaws of 35 companies specify conditions over and above those of public limited company legislation for the convening and constitution of meetings or adjourned meetings.

11 Comply or Explain

11.1 Self-regulation

In February 2006, the "European Corporate Governance Forum" published a note[12] arguing that the different situations faced by Europe's companies and its different national regulatory frameworks advised against too detailed a body of corporate governance legislation. More efficient, it felt, would be to leave companies free to decide the structure and operation of their own governing bodies.

For this to work in practice, there would have to be a real obligation for the Boards of Directors of listed companies to report on their degree of compliance with good governance recommendations. In this respect, article 116 of the Securities Market Law obliges Spanish listed firms to state their degree of compliance with corporate governance recommendations in their ACGRs, justifying any failure to comply.

As such, "comply or explain" is already enshrined as a basic principle of Spanish corporate governance practices. The Unified Code expands on this point, indicating that listed companies can freely decide to comply or not with its recommendations, but their reporting on the same must invariably respect the concepts and definitions used therein. In this way, the market can reach a reasoned judgement on their corporate government structure and practices.

11.2 Information quality

ACGRs for 2005 reveal some improvement in these explanatory endeavours. However, 28.4% of the sample – 50 companies, three of them IBEX members – offer only general explanations of little help to the market in reaching its conclusions. Other companies need to improve their explanations about certain departures from good governance recommendations, most notably in the following cases:

— Directors, especially independents, appointed without a proposal to this effect from the Nomination Committee.

— Ratio of proprietary directors to independents sizeably greater than the ratio of significant shareholdings to the rest.

— Executive Committees failing to match the board's composition by director categories.

12. "Statement of the European Corporate Governance Forum on the comply-explain principle".

— Failure to create a Nomination and Remuneration Committee, and deficient disclosure of director and senior officer remuneration.

— No steps to mitigate the risk of an overconcentration of power in the hands of executive chairmen, etc.

III Annual Corporate Governance Report of the issuers of listed securities other than shares

1 Introducción

The Third Additional Provision of the Transparency Law extended the requirement to publish an Annual Corporate Governance Report to entities other than public listed companies with securities admitted to trading on regulated markets. The standard ACGR format for these entities (hereafter Annex II) goes into less detail than listed companies reports, with the biggest differences relating to information on ownership structure.

The sample of companies filing an Annex II report for 2005 was in line with the previous year. The 19 entities filing in 2004 were joined by three more: a bank, a credit cooperative and a motorway concession holder:

— The financial sector again accounted for a majority of reporting entities – 13 out of the total of 22 – breaking down seven banks, four credit cooperatives, one leasing company and one insurance company.

— Of the remaining eight, half were motorway concession holders, two belonged to the electricity sector and the other two engaged in industrial or retail activities.

In general, no problems were detected in the transmission and receipt of reports. All ACGRs were approved unanimously by their respective boards, except for one bank where one board member voted against. The CNMV's review of this report led to a notice being sent to the company and subsequent changes to its ACGR accompanied by a significant event publication.

Three entities opted to amend the contents of the ACGRs originally filed.

As a supplement to the information provided in this chapter, Annex II sets out a series of indicators on the corporate governance system of each issuing entity.

2 Ownership structure and governing bodies

2.1 Ownership structure

The ownership structure of the companies analysed barely varied with respect to the previous year. The 16 public limited companies – the other six have the legal form of cooperatives – shared the characteristic of having their share capital heavily concentrated in the hands of a small number of significant shareholders:

— In 11 entities – 68.8% of the total – significant shareholdings accounted for 100% of capital; three of this group (the same ones as in 2004) were wholly owned by a single shareholder.

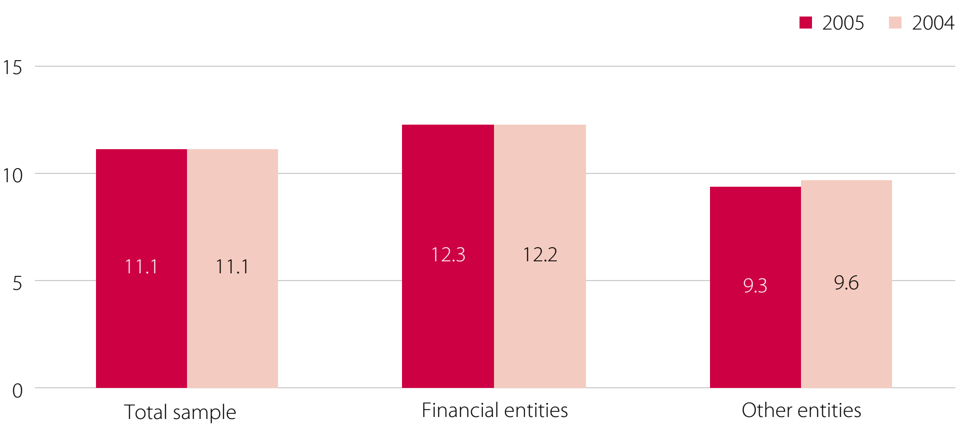
  In the remaining 5 public limited companies, the smallest percentage ownership of significant shareholders was 80.3% (49.8% in the case of the majority shareholder), while the other 4 entities reported significant shareholdings between 98.8% and 99.6%, and majority shareholders controlling stakes of over 75%.

— Finally, two credit cooperatives reported significant shareholders with 20.0% and 5.1% of capital respectively.

2.2 Size of the board

The boards or administrative bodies of the entities dealt with here had an average of 11.1 members, in line with the previous year:

Average size of board or equivalent body



The table below shows the size of the board or equivalent body with a split between financial and non financial entities:

(Number of companies)	Under 5 members		Between 5 and 10 members		Between 11 and 15 members		Over 15 members	
	2005	2004	2005	2004	2005	2004	2005	2004
Financial entities	0	0	5	6	6	3	1	1
Non financial entities	0	1	5	1	4	5	0	0
TOTAL	**0**	**1**	**10**	**8**	**10**	**8**	**1**	**1**
%	**0.0%**	**5.3%**	**45.5%**	**42.1%**	**45.5%**	**42.1%**	**9.1%**	**10.5%**

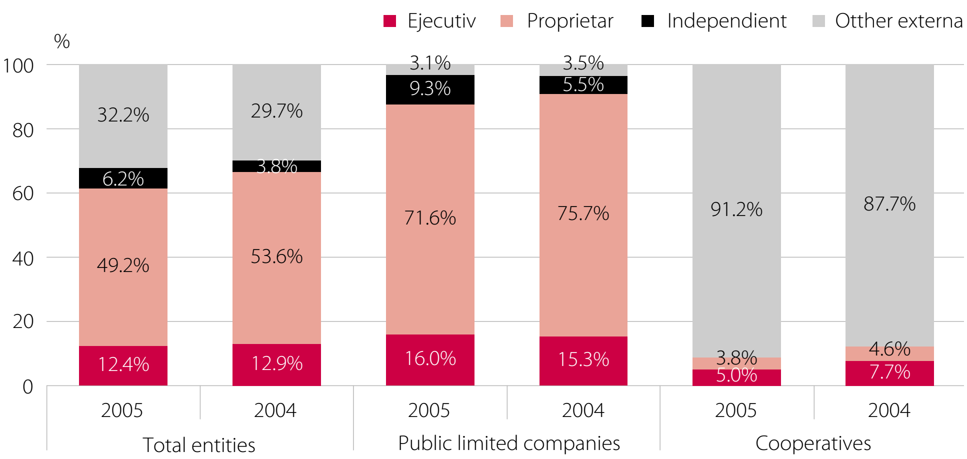
— The boards of non financial entities were in every case within the size range stipulated by good governance recommendations (no smaller than 5, no bigger than 15). Among the financial entities, two credit institutions had boards of over 15 members, while those of two credit cooperatives had exactly this number.

— In 8 entities – 36.4% of the total – the Secretary of the board or equivalent body was also a director. This trait was shared by all the cooperatives in the sample and two of the banks.

2.3 Types of director

Board composition retained the same characteristics as in 2004. Essentially the mix by director type depends on the entity's corporate form: hence proprietary directors are in the majority at public limited companies (consistent with their capital structure) while other external directors predominate on the boards of cooperative connerns:

Distribution of director categories by corporate form



The main features reported were as follows:

— External directors hold an ample majority of board places except in one public limited company where their representation is 50%.

— However, proprietary directors make up over 50% of the board in 13 entities, 5 of them in the financial sector.

— Independent directors are in a minority: globally they occupy 6.2% of total board places, which is nonetheless some improvement on 2004 (3.8%).

  Also independents are entirely absent from the boards of 14 entities – 63.6% of the total – and only one company (not part of the sample in 2004) reported a ratio over 1/3.

— In 4 credit cooperatives, all directors are classed as “other external” because they have ties with the entity’s ownership and do not perform any management function. Other external directors were also in a large majority in the other 2 cooperatives (at least 2/3 of their membership), but co-existing with executive and/or proprietary directors.

— On average, 31.1% of directors occupy at least one other directorship or senior management post in some entity within the group, close to the percentage recorded in 2004 (32.2%). In three cases (one fewer than in 2004), all board members hold similar positions in other group companies.

— Finally, 14 entities – 3% of the total – have bylaws or internal rules placing a time limit on directors’ tenure. The maximum limit imposed by these entities – one of them a cooperative – ranges from 2 to 6 years with an average of 4.5 years (4.4 years in 2004).

2.4 Board committees

— All entities analysed have an Audit Committee, with an average of 4.4 members. However, only 6 entities – one more than in 2004 – comply with the corporate governance recommendation to have annual accounts verified by the responsible officers before their presentation to the board.

— None of the entities in the sample had set up a Nomination and Remuneration Committee or a Strategy and Investment Committee.

— A total of 10 entities – 8 financial – had appointed an Executive Committee, with an average of 5.3 members.

3 Remuneration and related-party transactions

3.1 Board remuneration

As in 2004, the boards of three companies in the sample neither received nor accrued any remuneration in 2005. Key aggregate data for the remaining 19 entities were as shown below:

	Financial etities		Non financial entities		TOTAL	
	2005	2004	2005	2004	2005	2004
Board remuneration (no. of companies)						
No remuneration acc. to ACGR	1	1	1	1	3	3
Remuneration under €500,000	7	5	6	5	13	10
Between €500,000 and €1 million	3	3	0	1	3	4
Between €1 and 2 million	1	1	1	0	1	1
Over €2 million	1	1	0	0	1	1
Amount of remuneration (€ thsd)						
Average per board	825.9	847.5	354.6	297.5	652.3	641.3
Average per director	64.4	66.2	33.5	25.5	54.4	51.8
Source of remuneration (% total)						
Company itself	69.4%	74.1%	76.9%	78.4	70.9%	74.8%
Other group companies	30.6%	25.9%	23.1%	21.6%	29.1%	25.2%

— The average annual remuneration of the boards in question was around 488,000 euros, equating to 38,500 euros per director. Both these figures are lower than in 2004, by 4.7% in the case of boards as a whole and 0.7% in that of individual directors.

— However, if we add on the amounts directors receive for sitting on the boards of other group companies, these averages climb to around 652,000 euros (54,400 per director), representing year-on-year growth of 1.7% on an aggregate basis and 4.9% per head.

— These figures exhibit a significant bias, in that the combined remuneration of the board members of three entities (two of them financial) was 58.3% of the aggregate total.

3.2 Remuneration of senior officers

— The average number of persons holding senior officer posts at the 13 entities responding was 8.6 per company, albeit with a wide dispersion.

— Two of these 13 offered no information on senior management remuneration. The remaining 11 reported an average 2005 remuneration per senior officer of 148,700 euros, not even 43% of what listed companies pay to members of their management teams.

3.3 Related-party transactions

A total of 9 companies – 40.9% of the total – reported significant or material transactions with related parties in their ACGRs for 2005:

— Seven entities effected transactions with their significant shareholders summing a combined 5,907 million euros, 13.9% less than in the previous year. 96.4% of this amount corresponded to business transactions between a bank and its only two shareholders (the same entity that in 2004 accounted for 97.0% of the sum of related-party transactions with significant shareholders).

— Two entities reported intragroup transactions summing 10.4 million euros that were not eliminated in the consolidation process. This is a long way short of the almost 180 million reported under this caption in 2004.

— Finally, none of the entities analysed reported related-party transactions with their directors or senior officers, compared to the 350,000 euros reported in this respect in 2004.

4 Risk management

Among financial sector entities, the main risks identified in ACGRs are credit, market and liquidity risk, operational risk and regulatory compliance risk. Non financial entities cite among others environmental, labour and reputational risks plus compliance with execution schedules, in the case of construction, and entry to operation in that of motorway firms.

In general, financial entities give a detailed account of the internal control systems in place. Some entities indicate that they have taken out commercially available insurance policies or financial hedge contracts in respect of specific risks. Other measures adopted include the drawing up of risk limits, formal procedures with collegiate decisions for loan approval and authorisation, or the separation of business management functions.

Some entities indicate that the risks associated to related-party transactions are expressly excluded from the system of delegated powers. Their authorisation corresponds exclusively to the Board of Directors, whatever the amount involved, and the director in question must abstain from intervening.

Most entities name the Audit Committee as the body in charge of establishing and supervising internal control systems. In one entity, this task falls to the Board of Directors per se while several others indicate that it is handled by the Audit Committee of the dominant company.

A majority of respondents state that no significant risks materialised in the year for the company or group and that, in any event, the system in place would provide adequate protection.

5 Comply or Explain and information quality

The annex II model of ACGR includes a section where companies should quantify their degree of compliance with existing corporate governance recommendations. They should also offer an explanation for any departures, stating the rules, criteria or practices applied in their stead. In general, the entities analysed give only a vague assessment of their compliance status, with some notable exceptions:

— All the motorway concession holders and a few financial entities identified each recommendation individually, affirmed their compliance with its terms or gave reasoned arguments for failing to do so. It bears mention that those giving the fullest information complied with the majority of recommendations.

— Other entities explained some of their internal practices with reference to Olivencia and Aldama recommendations, but without the level of detail provided by the above group.

— Cooperative entities tend to argue that the Olivencia and Aldama recommendations do not sit well with their regulatory principles; a fact which hinders or may even preclude compliance. However, some made the effort to list these recommendations, indicating which they complied with wholly or partially, while others explained the internal rules of procedure which they believe adequately replace or improve on the said recommendations.

— One financial entity considered that its family-run nature excused it from strict compliance with good governance rules. Another analysed the Olivencia and Aldama recommendations, highlighting some which, on its understanding, were unnecessary for a firm with only fixed -income securities admitted to market trading.

— Finally, other companies (also including some cooperatives and banks) did no more than affirm their observance of Olivencia and Aldama recommendations (or those seen as applicable), without quantifying their real compliance in each case. Firms responding thus tend to stress the importance they attach to their Internal Rules of Conduct and Audit Committees, whose existence is in any regulated by law.

IV Annual Corporate Governance Report of savings banks

1 Introduction

The savings banks, as securities issuers, are obliged to annually publish a corporate governance report providing complete and reasoned information on their governance structures and practices.

Order ECO/354/2004 of 17 February stipulates the minimum contents to be included in the Annual Corporate Governance Report of savings banks, namely: structure and operation of governing bodies, loan, surety and guarantee transactions, loans and credits to public institutions, related-party and intragroup transactions, the structure of the group's business, risk management systems, summary of the annual report prepared by the Investment Committee, remuneration of governing bodies and degree of compliance with good governance recommendations.

At regional level (autonomous communities)[13], rules have been approved to adapt to the requirements of the Financial Law:

- In the case of Asturias, by means of Law 1/2005, and that of Castilla y León, by means of Decree 66/2005 completing the reform of the legal framework for governing bodies initiated in 2004.

- Three other regions – Extremadura, Castilla-La Mancha and La Rioja – have regulated savings bank social action programmes (Obra Social).

- The Galician regional government has approved the consolidated text of its savings bank legislation, as well as two decrees on the office of client's ombudsman and the attendance fees and travelling expenses of members of governing bodies.

- The Basque Country government has approved an order regulating the savings bank registry and registry of senior appointments.

This report gives an overview of the main features of savings bank corporate governance structure based on the ACGRs of 42 entities, coinciding with the sample used for our 2004 report.

In some of its sections, entities are grouped according to their asset size. Due to year-on-year changes in this variable, some savings banks now figure in a different category from in 2004. Specifically:

13. Source: 2005 annual report of the Spanish savings bank confederation (Confederación Española de Cajas de Ahorro).

(i) Unicaja and BBK have passed from the group with total assets between _11,000 and 20,000 million in 2004, to the group with over _20,000 million.

(ii) Caja Huelva and Caja Murcia have passed from the _7,000 to 11,000 million group to the group with _11,000 to 20,000 million.

(iii) Caja General de Canarias, Caja Inmaculada de Aragón, Caja Burgos, Caja Sabadell, Caixa Terrasa and Caja Baleares have passed from the _5,000 to 7,000 million group to the group with _7,000 to 11,000 million.

(iv) Caja Laietana, Caja Tarragona and Caja Insular de Canarias have passed from the group with _3,000 to 5,000 million to the group with _5,000 to 7,000 million.

(v) Caja de Badajoz has passed from the group with _3,000 million to the group with _3,000 to 5,000 million.

The 42 savings banks filed their ACGRs within deadline without any incidents of note in the use of the CIFRADOC/CNMV system for their transmission. Nor has the CNMV received any communication from Control Committees stating an unfavourable opinion on some part of the ACGR or proposing the suspension of ACGR approval.

With two exceptions, ACGRs were unanimously approved by savings bank Boards of Directors.

The data in this chapter is supplemented by two annexes. Annex IV comprises statistical tables covering the main sections of savings bank ACGRs, with a breakdown by asset size. Finally, Annex V presents indicators representing the corporate governance system of each savings bank included in this report.

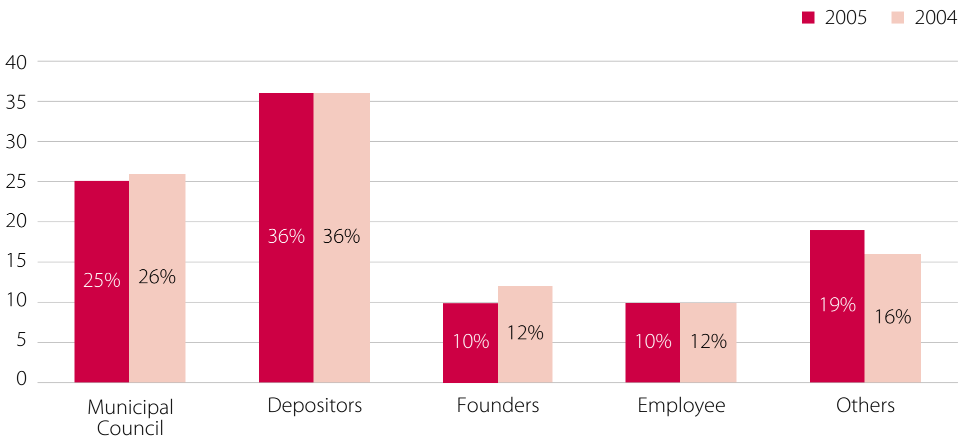
2 Governing bodies

2.1 General Assembly

Membership of General Assemblies increased with respect to the previous year, from an average of 133 general directors (consejeros generales) in 2004 to 135 in 2005. The statistical mode was again 100 members (repeated in 23.8% of cases). The largest difference corresponded to one savings bank, which increased the size of its General Assembly by 33.6% (40 general directors).

As the following chart shows, the average distribution of the different groups with representation in savings bank General Assemblies has varied little with respect to 2004:

General Assembly membership by group
(average)



— In 12 savings banks – 28.6% of the total, one more than last year – government authorities and public law entities and corporations had a General Assembly representation equating to the maximum number of general directors allowed by Law 31/1985 (50% of the total voting rights of each governing body).

— There were only 7 saving banks – 16.7% of the total – where depositors did not hold the biggest number of seats in the General Assembly. In the year 2004 this number was four, corresponding to 9% of the total.

— In 34 savings banks – 80.9% of the total – the representatives of municipal councils and depositors together controlled a majority of votes on the governing bodies.

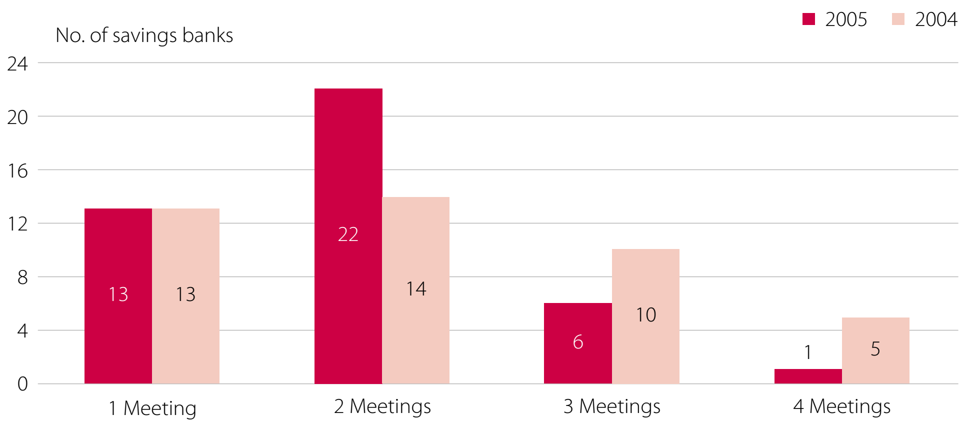
Savings banks are under no legal obligation to approve specific regulations governing the functioning of their General Assemblies. However, 6 savings banks have in fact done so – 2 more than in the previous year.

As a rule, general directors are regular participants in General Assemblies. An average of 88% of members were present at meetings and all savings banks except one reported attendance figures exceeding 75%.

General Assemblies met on 79 occasions in 2005, 13.2% fewer than in 2004. This decline is largely explained by that fact that entities holding 4 meetings that year held only 2 meetings in 2005.

The following chart groups savings banks by the number of General Assemblies held in the years 2004 and 2005:

General Assembly meeting in the year



2.2 Board of Directors

The membership of savings bank Boards of Directors moved up slightly from 719 at the 2004 close to 725 in 2005, while the average number of directors remained unchanged at 17 per entity. Law 31/1985 sets the discretionary rule that the number of board members should be no fewer than thirteen and no more than seventeen. The boards of 21 savings banks – 50.0% of the total – fell outside this interval; 5 with fewer than thirteen members and 16 (one more than in 2004) with more than seventeen.

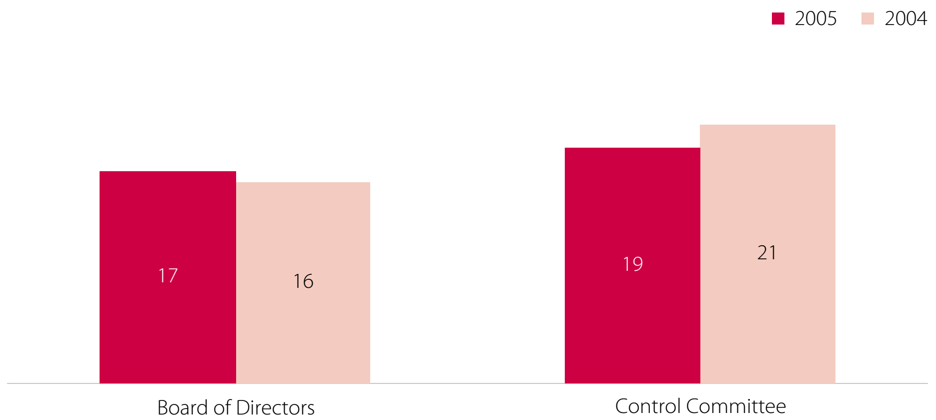
18 savings banks – 42.9% of the total – require supermajorities for certain Board of Director resolutions, most commonly the appointment and removal of the Chairman, Vice Chairman and General Manager, and the delegation of powers to the Executive Committee.

15 savings banks – 35.7% of the total – have established some eligibility requirements over and above those applying to other directorships for appointment as Board Chairman. Generally speaking, the qualities sought are skills, technical knowledge and experience. In some cases, the savings bank's founder or founding entity reserves the right to appoint the Chairman or else has a casting vote for his or her appointment.

2.3 Control Committee

Control Committees, as in 2004, had an average of 8 members, with a minimum of 5 and a maximum of 15. The following charts shows the number of Control Committee meetings held in 2004 and 2005, compared to those held by the Board of Directors:

Governing body meetings in the year



2.4 Gender diversity

Our next table shows the number and percentage of women members of the General Assembly, the Board of Directors and the Control Committee at end 2004 and end 2005:

	General Assembly		Board of Directors		Control Committee	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Total members	5,669	5,633	725	719	342	343
Number of women	1,243	1,138	115	113	59	54
% of total members	**21.9%**	**20.2%**	**15.9%**	**15.7%**	**17.3%**	**15.7%**

— Women's presence in General Assemblies and on Boards of Directors was similar to in 2004, while the number of female members of Control Committees increased 1.6%.

— Although women's percentage membership of Boards of Directors and Control Committees is lower than in General Assemblies, they are undoubtedly better represented on the governing bodies of savings banks than they are on the boards of listed companies (5.6%).

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3 Board committees

3.1 Executive Committee

A total of 37 savings banks, one less than the year before, have created an Executive Committee with broad delegated powers and considerable autonomy.

Savings bank Executive Committees were formed on average by 8 members. 19 savings banks reported that the Committee's membership matches the mix of groups represented on the board. A further 10 entities – 24% of the total – state expressly in their ACGRs that there is some mismatch between the two bodies while the remaining 8 claim to be compliant when this is not actually the case. On average, depositors are less represented on the Executive Committee than on the Board of Directors.

3.2 Audit Committee

One of the characteristics that separates savings banks from other issuers is the existence of a Control Committee. The Eighteenth Additional Provision of the Securities Market Law allows savings banks to assign Audit Committee functions to this governing body.

As in 2004, 16 savings banks –3 8.0% of the total – have chosen to constitute an Audit Committee. In the remainder (26 entities), this committee's functions are performed by the Control Committee.

Audit Committees are made up on average of 5 board members, coinciding with the statistical mode.

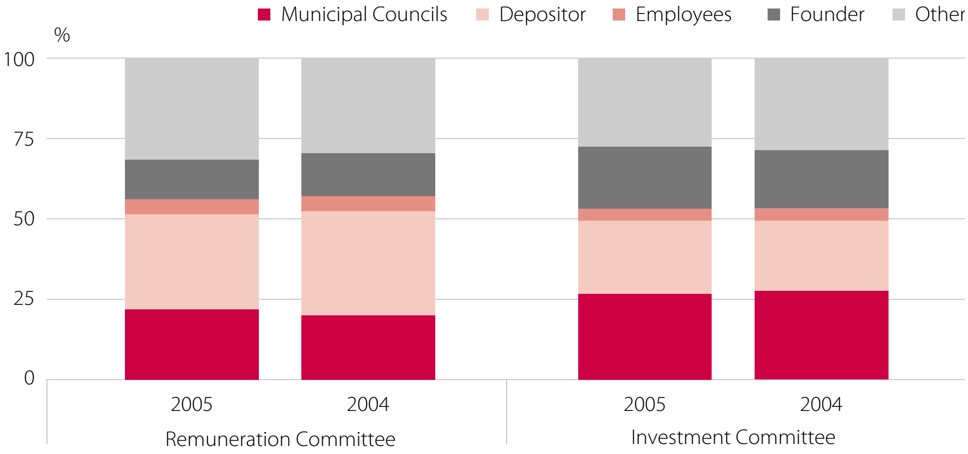
3.3 Remuneration and Investment committees

The Boards of Directors of savings banks are required to set up a Remuneration Committee, to report on the general remuneration and incentives policy applying to board members and senior officers. This Committee must be formed by a maximum of three board members and work to rules set either in the entity's bylaws or its own terms of reference.

Savings bank boards are also required to have an Investment Committee, formed by a maximum of three members, reporting to it on investments and divestments of a strategic and stable nature, made directly or through some other entity in the group, with reference to their financial viability and alignment with the organisation's budget and strategic plans. The Investment Committee will also furnish the board with an annual summary of investments, which should be attached to the ACGR.

The following chart shows the average aggregate representation of savings bank constituencies on their Remuneration and Investment committees:

Average distribution of Remuneration and Investment committee membership



4 Governing body remuneration

4.1 Directors in their capacity as senior officers and key management personnel

The table below shows the salaries paid to savings bank executive directors and key management personnel, with a breakdown of entities by asset size:

	Total remuneration of executive directors and key management personnel							
(Number of entities)	Up to €1 million		Between €1 and 2 million		Between €2 and 3 million		Over €3 million	
Savings banks by asset size:	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Under €5,000 million	7	7	1	4	-	1	-	-
Between €5,000 and 7,000 million	1	4	3	3	1	-	-	1
Between €7,000 and 11,000 million	4	3	3	1	1	-	-	1
Between €11,000 and 22,000 million	-	0	6	4	1	3	1	1
Over €20,000 million	-	1	1	1	4	1	4	3
Number of savings banks	**12**	**15**	**15**	**15**	**9**	**5**	**6**	**7**
% of total savings banks	**28.6%**	**35.7%**	**35.7%**	**35.7%**	**21.4%**	**11.9%**	**14.3%**	**16.7%**

— Among the savings banks with asset size below €11,000 million, the aggregate annual salaries paid to senior officers, including executive directors, came to 1,182,000 euros on average.

— This rises to 2,239,000 euros at savings banks with an asset size between 11,000 and 20,000 million euros and 4,367,000 euros at those with asset size exceeding 20,000 million euros.

— Salaries paid to key management staff summed €87.8 million, 6.5% more than in 2004. Most of this increase is because savings banks have reported more staff as key.

4.2 Attendance fees and like payments.

— The average amount received by each savings banks director in respect of attendance fees and like payments stood at 12,212 euros, 9.0% more than in 2004.

— The equivalent annual amount received by Control Committee members rose 13.1% in 2005 to 11,875 euros per head (10,500 euros in 2004).

— Additionally, each member of the Remuneration Committee and Investment Committee received an average 2005 payment of 1,007 euros (884 in 2004) and 1,634 euros (1,000 in 2004) respectively.

5 Loans, sureties and guarantees, other related-party transactions and risk management

5.1 Loans, sureties and guarantees

The Transparency Law requires savings banks whose securities are admitted to trading on official markets to disclose in their ACGRs all transactions effected, directly or via an endowed organisation, with members of their Board of Directors and Control Committee, or with political groups represented on local councils or regional parliaments participating in savings bank electoral processes. The same information must also be provided regarding public institutions taking part in savings bank electoral processes.

ACGRs should likewise state the year-end positions of all savings bank loans to political parties.

The table below provides aggregate figures for the loan, surety and guarantee transactions reported by the savings banks in their ACGRs for the years 2004 and 2005:

	2005		2004		Change %	
(thousand euros)	No. of transactions	Amount	No. of transactions	Amount	No. of transactions	Amount
Board of Directors	653	217,992	635	170,602	2.8%	27.8%
Control Committee	235	35,812	241	31,672	(2.5%)	13.1%
Political groups	117	42,238	165	42,983	(29.1%)	(1.7%)
Public institutions	858	2,561,879	894	2,488,127	(4%)	3.0%
TOTAL	**1,863**	**2,857,921**	**2,488,127**	**2,733,384**		

— 54% of the amount of the loans involving board members were granted by 3 savings banks. Most transactions corresponded to loans granted to companies controlled by the said members.

The total amount of loan, surety and guarantee transactions involving board members was up 27.8% with respect to 2004. Two operations with companies controlled by two savings bank directors accounted for 62.2% of the increase.

— Loan, surety and guarantee transactions involving Control Committee members totalled 35.8 million euros, 13.1% more than in 2004. Again this amount was heavily concentrated, since two savings banks' operations with related companies of committee members came to a combined 19.4 million, 54.2% of the total.

— 28 savings banks reported loans to 16 political groups represented on local corporations and regional parliaments participating in their electoral processes.

The amount of these transactions was 42.2 million euros, 1.7% less than the equivalent figure for 2004.

— Savings banks have the obligation to report the year-end status of loan outstandings with political groups represented on local corporations and regional parliaments that participate in their electoral processes.

The aggregate amount reported in ACGRs for 2005 was 6.8 million euros, 27.0% more than at end 2004. Two savings banks accounted for 60% of the total outstanding.

— Reported transactions with public institutions, mainly local councils, came to 2,561 million euros, up 3% with respect to 2004.

5.2 Other related-party transactions

— Savings bank ACGRs should also specify any transactions other than loans effected with the members of their governing bodies or senior officers, but only when their amounts are significant or they have a material bearing on the true and fair view of financial statements.

As in 2004, entities did not report any non loan transactions with directors, Control Committee members or persons related thereto, either because no such transactions took place or they were not deemed to be significant or material.

— Intragroup transactions reported in ACGRs totalled 2,858 million euros. The 35.8% increase versus 2004 is explained by 3 savings banks' transactions with credit entity subsidiaries or portfolio companies holding their equity units.

5.3 Risk management

The existence of control systems to correctly identify, manage and communicate risks is an essential pre-condition for good corporate governance practices and for board members to properly discharge their duty of care.

Savings banks ACGRs should describe their risk management systems and the risks they address, explaining why such systems are appropriate for their organisation with reference to its capital structure.

In addition, savings banks that issue cuotas participativas (equity participation units) have the obligation to disclose materialised risks in their ACGRs, along with the circumstances giving rise to them, the responsiveness of the control systems in place and whether or not some committee or other body is in charge of their supervision. They must also describe the procedures used to ensure regulatory compliance.

Among the principles the savings banks see as vital for the risk management function are:

— Independence, guaranteed by management procedures that impose the organisational and functional separation of other activities.

— A global approach, inspired by the emerging regulatory framework – Bank of Spain regulations, the New Basel Capital Accord and the European Capital Adequacy Directive, allowing for the identification, measurement and management of group exposure by product, customer category, segment, geographical area, economic sector and business activity.

Like other financial entities, savings banks locate their main exposure in their lending activity, understood as the possible loss occasioned by total or partial default on the part of the borrower. To measure this risk they use the basic credit risk variables: probability of default, severity and exposure at default.

Probability of default refers to the likelihood that a given borrower will default on its obligations, the triggers being past due payment or the loan being classed to recovery procedures. The tools used to measure probability of default vary between customer-oriented wholesale banking and product-oriented retail banking.

Severity measures the amount that will not be recovered in the event of default.

These two variables, together with exposure at default which provides specific information on each loan referenced by term and type of product, allow expected loss to be estimated for each transaction or client.

The savings banks underscore the importance of risk management as a means to maximise risk-return. And in this respect expected loss is a key variable for analysing solvency and earnings. The New Basel Capital Accord stipulates that expected loss must be provisioned for, and its calculation is a basic input for risk premiums and in pricing.

In line with Basel Committee recommendations, in most savings banks the Board of Directors is in charge of defining the organisation's overall risk policy, approving broad risk tolerance levels and developing measures for the rollout of internal control systems.