



REPORT OF THE BOARD OF DIRECTORS REGARDING THE PROPOSED DELEGATION
TO THE BOARD OF DIRECTORS OF THE AUTHORITY TO ISSUE BONDS OR SIMILAR
FIXED-INCOME SECURITIES CONVERTIBLE INTO SHARES

Madrid, February 7, 2018

I. BACKGROUND AND JUSTIFICATION FOR THE PROPOSAL

On March 9, 2018 the 5-year authority granted on March 9, 2013 by shareholders to the Board of Directors to issue ordinary bonds or debentures convertible into new shares or swappable for outstanding shares in the Company, as well as in warrants or other instruments that directly or indirectly may entitle the holder to subscribe or acquire shares in the company, whether newly issued or already outstanding.

It is considered advisable for the shareholders to renew the delegated authority to issue convertible bonds or debentures so that the Board of Directors has such authority to access capital markets and obtain financing through the issue of fixed-income securities in the most agile and effective manner possible, when this manner of obtaining resources is considered advisable, weighing market circumstances, the company's strategic objectives and its need for financing.

Within this context, it is considered advisable that the Board of Directors have the necessary capacity to take the decisions deemed most advisable for the interest of the business, as well as to execute them with flexibility and adapt to the formal and time requirements that financial markets impose.

The proposed delegation of authority would provide the Board of Directors, in accordance with the provisions of Articles 401 through 433, 510 and 511 of the Capital Companies Act, and Articles 310 and subsequent of the Mercantile Registry Regulations, with the authority to issue fixed-income securities that may be converted and/or swapped, as well as warrants or other instruments that may entitle holders to subscribe or acquire shares in the company, either newly issued or already outstanding, with the possibility of excluding a preferred subscription right when justified by the company's interests.

The resolution that is submitted for the approval of shareholders at the General Meeting establishes a maximum quantitative limit on the issue of any securities under the authorization from shareholders at TWO BILLION EUROS. The authorization would be limited to five years, during which time the Board of Directors may use the authorization one or more times. The resolution submitted to shareholders at the General Meeting for approval contains the bases and types of the conversion and/or swap of debentures or bonds into shares, as well as the execution of warrants, although the Board of Directors would have the delegated authority, if deciding to make use of the authorization from shareholders, to develop and specify those bases and types for each issue.

The proposed resolution also covers authorization to the Board of Directors so that it may exclude a preferred subscription right for shareholders and the holders of convertible debentures, warrants and other similar securities when deemed necessary or advisable to obtain financial resources from domestic and international markets, or when required by the interests of the business. However, following the recommendations of the Good Governance Code for

listed companies, the possibility of excluding the preferred subscription right is limited to 20 percent of share capital.

In the event that the Board of Directors decides to make use of the authority to exclude the preferred subscription right with respect to a specific capital increase that may finally take place through the use of the authorization granted by shareholders, a report from the directors and a report from an auditor, other than the company's auditor, must be prepared as required by Article 308 of the Capital Companies Act. Both reports must be made available to shareholders and reported at the first General Meeting held after the decision to increase capital and in accordance with the provisions of Article 506 of the Capital Companies Act.

II. PROPOSED RESOLUTIONS

Delegate to the Board of Directors the specific power to issue bonds, debentures, or other fixed-income securities convertible into shares (hereinafter, "Securities") in the following terms:

- The Securities can consist of bonds or debentures convertible into newly issued shares or exchangeable for outstanding shares of the Company, as well as warrants or other instruments that, directly or indirectly, can give subscription or acquisition rights for the Company's shares, either newly issued or outstanding.
- The Board of Directors shall have the broadest powers to proceed with the issuance of Securities and the establishment of the characteristics and conditions of each issuance, specifically, including but not limited to, the following:
 - Determine the face value, class of issuance, premiums and strike price, currency of issuance, representation, interest rates and redemption.
 - Determine anti-dilution clauses and subordination clauses; grant funded or unfunded guarantees to fulfill all the debentures resulting from the issuance; hire a third party to grant the guarantees.
 - Constitute a Syndicate of Noteholders, establish the internal regulations and designate a Commissioner of the syndicate; establish that the issuer reserves the right to choose at any moment between newly issued shares, outstanding shares, or a combination thereof, when converting or exchanging securities.
 - Request that the Securities are listed in all markets, organized or otherwise, national or international.

- Exclude or limit the preemptive subscription right in the terms set forth in article 506 of the Recast Text of the Spanish Companies Act. This power is limited to the condition that the exclusions of the preemptive subscription rights that the Board of Directors could agree in the execution of this power or other delegations thereof, or which the Annual General Meeting could agree, do not exceed, in total, 20 percent of the Company's current share capital.
- Increase share capital as needed to handle requests for conversion and/or to exercise subscription rights of shares insofar as the amount of these increases, together with that of all other increases as authorized by the Annual General Meeting of the Company, does not exceed the limit of half of the share capital; and to amend the article of the Company Bylaws regarding the share capital amount.
- The following criteria shall be applicable with respect to determining the bases and methods for conversion or exchange: the conversion or exchange ratio will be fixed, the fixed-income securities will be valued at face value and the shares will be valued at the fixed exchange set by the Board of Administration, or according to the market value of the Company shares on the date(s) or period(s) taken as a reference and which are established in the Board's agreement; in any case, the share price shall not be less than the higher of (i) the arithmetic mean of the closing prices of the Company shares on the Continuous Market for a period determined by the Board of Directors, which period shall not be greater than three months nor less than fifteen days, prior to the date of the Board of Directors meeting that approves the Securities issuance, and (ii) the closing price of the shares on the same Continuous Market the day prior to the Board of Directors meeting that, making use of the delegation herein, approves the issuance of the Securities.

Within the limits set out in the preceding paragraph, the Board of Directors shall have the broadest powers to develop and specify the bases and methods for conversion and exchange.

- The issuance can take place one or several times, at any time, within a maximum period of five years from the date of approval of the agreement herein.
- The total maximum amount of the issuances authorized by the delegation herein will be TWO BILLION euros or equivalent amount in another currency.

The Board of Directors is further authorized to complete this agreement in as many aspects as are necessary for its validity and execution.

The authorization herein revokes that granted on March 9, 2013.