



The following English translation is provided by the Company for information purposes only, based on the original and official document in Spanish available on the Company's web site (www.caf.net). In the event of any discrepancy between the English version and the Spanish original document, the latter will prevail.

REPORT SUBMITTED BY THE BOARD OF DIRECTORS IN CONNECTION WITH THE AMENDMENT OF THE RULES OF THE BOARD OF DIRECTORS, INCLUDED IN ITEM 7 OF THE GENERAL SHAREHOLDERS' MEETING AGENDA

I. Introduction and purpose of the report

This report is prepared in compliance with the provisions of Article 528 of the Spanish Corporate Enterprises Act (hereinafter, the "LSC") and intends to inform the CAF General Shareholders' Meeting about the modification to the Rules of the Board of Directors approved by the Board of Directors.

II. Information on the modifications introduced in the Rules of the Board of Directors

At its meeting held on December 18, 2018, the company's Board of Directors unanimously adopted the resolution to modify certain articles of its Rules in order to align its content to that of the Articles of Association, to include expressly different recommendations from the Code of Good Governance of listed companies, and to introduce certain improvements of a technical nature derived from current regulations.

Specifically, the modification was made with the following objectives:

- i) Incorporate recommendations put forward by the independent expert in charge of evaluating the Board's performance during 2017 into the Rules of the Board of Directors.
- ii) Incorporate into the Rules of the Board of Directors the most outstanding good practices established in the Audit Committee Technical Guide and the Proposal¹ for a Technical Guide on Appointments and Remuneration Committees published by the National Securities Market Commission (CNMV) and which were not expressly integrated in the Rules.
- iii) Align its content with the rest of the Company's internal regulations, including the current version of the Articles of Association after the amendments of provisions thereof agreed at the last General Shareholders' Meeting,

¹ When the Rules of the Board were amended, the CNMV had not approved the final version of the Technical Guide 1/2019 on Appointments and Remuneration Committees, which was published on February 27, 2019.

- iv) Adapt its wording to the current wording of certain articles in the Spanish Corporate Enterprises Act, as well as expressly reflect the terms of certain Recommendations of the Code of Good Governance of Listed Companies which, although already being complied with, the Company had not expressly included in the Rules, and
- v) Incorporate other technical improvements, for a better drafting of the Rules.

The modified articles are the following:

Article 3 (Amendment)

Article 4 (Diffusion)

Article 5 (General Supervision Function)

Article 7 (Composition)

Article 8 (Chairman of the Board)

Article 11 (The Audit Committee)

Article 12 (The Appointment and Remuneration Committee)

Article 13 (Meetings of the Board of Directors)

Article 15 (Appointment of Directors)

Article 16 (Appointment of external Directors)

Article 18 (Dismissal of Directors)

Article 25 (Obligation to avoid situations of conflict of interest)

Article 29 (Transactions with significant shareholders) (its content is aligned and integrated with that of Article 25, with a consequent re-numbering of the following)

Article 30 (new article 29) - Reports to be issued by the Board of Directors

Article 31 (new article 30) - Website

Article 34 (new article 33) - Relations with the Markets

The remaining articles were not modified.

The modified articles are expressed below in their current wording:

"Article 3. Amendment

1.- These Rules can only be amended at the request of the Chairman or of at least three Directors, or of any of the Committees, which must substantiate their proposal with the relevant supporting rationale.

2.- The proposal text must be attached to the call notice of the Board meeting which must deliberate the matter in question.

The call notice must be issued at least five days prior to the meeting.

3.- For an amendment of these Rules to be valid, an agreement must be reached by a majority of two thirds of the Directors attending or represented at the meeting, unless amendments are the result of compulsory regulations.

Article 4. Diffusion.

1.- Directors are obliged to be aware of, meet and enforce these Rules. To this end, the Secretary of the Board will provide them all with a copy of the Rules.

2.- *The Board of Directors will adopt the appropriate measures to ensure that the Rules are distributed amongst the shareholders and the investing public in general, to which end the Rules will be notified to the National Securities Market Commission , recorded in the Registry of Companies and published on the corporate website of the Company, pursuant to applicable standards.*

Article 5. General Supervisory Role.

1.- *Except for matters reserved for the General Meeting, the Board of Directors is the highest decision-making body of the Company, with no limitation of substance other than as provided for by the corporate purpose.*

2.- *The policy of the Board is to delegate the day-to-day Company management on the management team and to focus its activity on the general supervision and on establishing general strategies.*

3.- *Notwithstanding any delegated matters, the Board will deal with the matters specifically indicated in the Rules as well as any relevant matters for the Company, and is specifically obliged to directly discharge the following functions, which cannot be delegated:*

a) *Supervision of the effective operation of any Committees set up, and of the actions of the delegated bodies and any managers appointed by the Board.*

b) *Determination of the general policies and strategies of the Company.*

c) *The authorisation or waiver of obligations resulting from the duty of loyalty pursuant to Law and in the present Rules.*

d) *Its own organisation and operation.*

e) *Preparation of the annual accounts and submission thereof to the General Meeting.*

f) *Preparation of any class of report required by Law for the administration body provided that the operation it relates to cannot be delegated.*

g) *Appointment and dismissal of the CEOs, and establishing the conditions of their contracts.*

h) *Appointment and dismissal of the managers directly depending on the Board of Directors or any of its members, and definition of the basic conditions of their contracts, including their remuneration.*

i) *Decisions relating to the remuneration of the Directors, within the framework of the Articles of Association and, when applicable, the remuneration policy approved by the General Meeting.*

j) *The call-notice of the General Assembly and the preparation of the agenda and proposal for resolutions.*

k) Policy regarding own shares.

l) Powers delegated by the General Meeting on the Board of Directors, unless the Assembly expressly authorises the Board to subdelegate them.

m) Approval of the strategy or business plan, the management of objectives and the annual budget, the investment and financing policies, the corporate social responsibility and the dividends policy.

n) Establishing the risk management and control policy, including tax risks, and the monitoring of internal information and control systems.

o) Establishing the corporate governance policy of the Company and of the group the Company is the parent of; its organisation and operation and, in particular, the approval and modification of its own Rules of Procedure.

p) Approval of the financial information which, being a listed company, must be regularly made public by the Company.

q) Definition of the structure of the corporate group which the Company is the parent of.

r) Approval of any type of investment or operations which, given their significant amount or special characteristics have a strategic or special tax risk characteristic, unless this approval is the responsibility of the General Meeting.

s) The approval of the creation or acquisition of shareholdings in special purpose vehicles or entities resident in jurisdictions considered as tax havens, and any other transactions or operations of a similar nature whose complexity might impair the transparency of the Company and its group.

t) Approval, upon prior report from the Audit Committee, of the operations that the Company or companies of its group may perform with Directors, in the terms of the Spanish Corporate Enterprises Act, or with significant shareholders, either individually or by agreement with others, including shareholders represented on the Board of Directors of the Company or of other companies which form a part of the same group or with individuals related to them. Only those operations which simultaneously meet the following three characteristics will be exempted from this approval:

1. Those governed by standardized contracts applied on an across-the-board basis to a large number of customers.

2. Those made at market rates or prices that are generally set by suppliers of the goods or services in question, and

3. Those worth less than 1% of the Company's yearly revenues.

u) Establishing the taxation strategy of the Company.

4.- Under urgent and duly justified circumstances the delegate bodies or persons may make decisions regarding the matters from letters (m) to (u) (both inclusive) of the section above provided that these are reported at the first meeting of the Board of

Directors held after the decision is made

5.- The Board of Directors must conduct a yearly evaluation of performance of the Board and its Committees and, based on the results thereof, propose an action plan to remedy any shortcomings found. The results of the evaluation will be set out in the minutes of the meeting or appended to the minutes.

Article 7. Composition.

1.- The Board of Directors will consist of the number of Directors determined by the General Meeting, within the limits established by the Company's Articles of Association, as applicable.

2.- The Board shall propose to the Annual Meeting the number which, according to the circumstances of the Company at each given moment, it deems most appropriate to ensure the appropriate representation and efficient operation of the Body. The proposed number will be no less than seven and will never exceed fifteen.

3.- In exercising its powers of proposal to the General Shareholders' Meeting and of co-optation to fill vacancies, the Board of Directors will ensure a balanced composition, with a substantial majority of non-executive Directors and an adequate balance between proprietary and independent Directors, with the latter representing at least one third of the Directors.

To this regard, Executive Board Member are those persons who are the CEO or those who, not holding said position, have management responsibilities within the Company or its group, regardless of the legal bond they have with it.

Article 8. The Chairman of the Board.

1.- The Chairman of the Board of Directors will be appointed from amongst its members, following a report from the Appointment and Remuneration Committee. If this function is vested with executive roles, the Board must appoint the Chairman and agree on the content of the relevant delegated powers with an affirmative vote from two thirds of its members.

2.- The Chairman is responsible for summoning the Board of Directors, organising the agenda for the meeting and acting as moderator during the debates. However, the Chairman must summon the Board and include in the Agenda the relevant matters when so requested by at least one third of the Directors. The Chairman also holds the power to ensure that the Directors receive sufficient advance information to deliberate over the items of the agenda, to facilitate the discussions and the active participation of the Directors in the meetings, safeguarding their free standpoints, and Chairing the General Meeting.

3.- If the Chairman of the Board of Directors is also the Company's CEO, the Board of Directors, with the abstention of the Executive Directors, shall appoint a coordinating director (Consejero Coordinador) among the independent Directors who will be empowered to call to the meeting of the Board of Directors or to include new items in the agenda of a Board Meeting that has already been convened, to coordinate and convene the non-executive Directors and to manage the Board of Directors' regular assessment of

the Chairman. The coordinating director will be empowered to: chair the Board of Directors in the absence of the Chairman and Vice Chairmen, if there are any; voice the concerns of non-executive directors; conduct ongoing relations with investors and shareholders to gain insight on their viewpoints so as to create an opinion of their concerns, particularly regarding corporate governance of the company; and coordinate the Chairman succession plan.

Article 11. The Audit Committee.

The composition, functions and rules of procedure of the Audit Committee will be aligned with the provisions stipulated by Law, the Articles of Association, these Rules of the Board and the Audit Committee Rules.

The Audit Committee will consist of at least three and no more than five non-executive Directors appointed by the Board of Directors of the Company. The majority of these must at least be independent Directors and one shall be appointed based on knowledge and experience in accounting, auditing or both.

The Auditing Committee shall pass its resolutions by an absolute majority of the Directors attending the meeting, whether present or represented by proxy.

Article 12. The Appointment and Remuneration Committee

The composition, functions and rules of procedure the Appointment and Remuneration Committee will be aligned with the provisions stipulated by Law, the Articles of Association, these Board Rules and the Rules of the Appointment and Remuneration Committee.

The Appointment and Remuneration Committee will consist of at least three and no more than five non-executive Directors appointed by the Board of Directors of the Company. Two of these must at least be independent Directors.

The Appointment and Remuneration Committee shall pass its resolutions by an absolute majority of the Directors attending the meeting, whether present or represented by proxy.

Article 13. Meetings of the Board of Directors.

1.- The Board of Directors shall meet at least eight times a year in a regular session with sessions held at least once every quarter.

The Board will also meet at the Chairman's request, as many times as this person deems appropriate for the good running of the Company, or when requested by at least one third of the members of the Board. Should the Chairman also be the Company's CEO, the Board of Directors will also meet at the request of the independent coordinating Director empowered for this purpose.

2.- The Board will prepare an annual plan for regular meetings.

3.- The call-notice of regular meetings shall be issued in writing by post, fax, telegram or email, which will be issued by the Chairman or, by the Secretary under the former's instructions. The notice of the meeting shall be issued with at least five days notice. The

notice of the meeting shall always include the meeting's agenda.

4.- Upon receiving the notice of the meeting, any Director can separately propose items of the agenda other than those initially included.

5.- When,exceptionally, the Chairman wishes to submit decisions or resolutions that were not included in the agenda for the approval of the Board of Directors, the prior and express consent of the majority of the Directors attending the meeting shall be required.

6.- Any extraordinary meetings of the Board can be summoned by telephone and the advance notice term will not apply, nor will any other requirements indicated in the three sections above, when, to the Chairman's judgement, the circumstances require a meeting and notice of the meeting is immediately confirmed by fax or email.

7.- The Board shall be understood to be validly constituted without advance notice, when all its members are present in person or by proxy and unanimously agree to hold the meeting.

8.- Resolutions can also be adopted in writing and without holding a meeting, provided that the provision of corporate law are met.

Article 15. Appointment of Directors.

1. The directors shall be designated by the General Meeting or, in the event of an unexpected vacancy, by the Board of Directors, pursuant to the Spanish Corporate Enterprises Act and to the Company's Articles of Association.

2. Any proposal for the appointment or re-election of directors submitted by the Board of Directors for the approval of the General Meeting of Shareholders, and any appointment decisions taken by the Board by co-option shall be preceded by the corresponding proposal by the Appointment and Remuneration Committee, in the case of Independent Directors, or by a report from the Board itself in all other cases. Any proposal must be accompanied, in any case, by a substantiation report from the Board, assessing the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the AGM or to those of the meeting of the Board. The proposal for the appointment or re-election of any non-independent Director must also be preceded by a report from the Appointment and Remuneration Committee.

3. The paragraph above will also apply to any individuals appointed to represent a Director who is a legal entity. The proposal for a physical representative must be submitted to a judgement from the Appointment and Remuneration Committee.

4. Should the Board decide not to follow the proposals of the Appointments and Remuneration Committee, it shall submit and keep record of its reasons for such decision.

5.- The Board of Directors shall coordinate with the Company's senior management the creation of an induction programme for new Directors to acquaint them rapidly and sufficiently with the Company and its corporate governance system. Likewise, Directors should also be offered refresher programmes when circumstances so advise.

Article 16. Appointment of External Directors.

1.- *When selecting a candidate, the Board of Directors shall attempt to ensure that that the candidate has widely recognized expertise, competence and experience, with special care being taken when selecting persons to hold office as independent directors.*

2.- *Independent Directors are those who have been appointed in view of their personal and professional qualifications and can carry out their duties without being compromised by their relationships with the Company or its group, its significant shareholders or its senior managers.*

3.- *Independent Directors shall in no case be designated if:*

a) *They have been employees or executive directors in Group companies, unless 3 or 5 years, respectively, have passed since they ceased to be so.*

b) *They receive any amount or benefit from the Company or its Group companies for any reason other than Director remuneration, unless it is insignificant.*

Dividends or pension supplements received by the Director for his/her former professional or labour relationship shall not be taken into account, for the purposes of the paragraph above, insofar as such supplements be unconditional and, therefore, their accrual cannot be discretionally suspended, modified or revoked by the paying company without breach of its obligations.

c) *They are individuals who are or have been in the last 3 years partners to the external auditor or person responsible for the auditing report, whether such period's audit corresponds to the Company or any other Group company.*

d) *They are Executive Directors or senior managers of a different company where an Executive Director or senior manager of the Company holds a the External Director position.*

e) *They are individuals who maintain or have maintained in the last year a significant business relationship with the Company or companies of the Group, whether on his/her behalf or as a significant shareholder, director or senior executive of an entity which has or has had such relations either at present or in the past.*

Business relations are considered to be those related to a supplier of goods or services, including financial ones, or those of an advisor or consultant.

f) *Significant shareholders are considered to be Executive Directors or senior managers of an entity receiving donations from the Company or its Group currently or in the last 3 years.*

Those who are merely members of the board of a foundation that receives donations shall not be included in this item.

g) *Spouses, individuals with an analogous relationship, or relatives up to the second degree of an Executive Director or senior executive of the Company.*

h) *Those who have not been proposed by the Appointments Committee, whether for*

appointment or re-election.

i) Those who have been Directors for a continuous period of more than 12 years.

j) Those who, with respect to a significant shareholder or shareholder represented on the Board, meet any of the conditions of abovementioned paragraphs a), e), f) or g). In connection to the family relationship stated in paragraph g), such restriction shall be applied not only to the shareholder, but also to his/her Proprietary Directors in the investee company.

Proprietary Directors who loose such a title following the sale of the shareholding of the shareholder they represent may only be re-elected as Independent Directors when the shareholder they represented thus far sold his/her entire shareholding in the Company.

A Director holding Company shares may be an Independent Director provided that he/she meets all the requirements pursuant to this Section 3 and does not hold a significant shareholding.

Article 18. Dismissal of Directors.

1.- Dismissal of Directors shall comply with the legislation in force at each given time.

2.- Directors must submit their resignation to the Board of Directors and formally resign from their position, if the latter deems it appropriate, in the following events:

a) If the Director is a Proprietary Director, he/she must tender his/her resignation when the represented shareholder sells its entire shareholding or reduces it to a level that requires the reduction of its number of Proprietary Directors.

b) When they are involved in any circumstance of disqualification or prohibition provided by law.

c) When indicted for any presumed crime or when subjected to disciplinary measures for serious or very serious breach determined by supervising authorities.

d) When seriously reprimanded by the Board of Directors upon prior report from the Appointment and Remuneration Committee upon breaching of Director's obligations.

e) When involved in a situation that raises a conflict of interest with the Company and violates the duty to provide information and to abstain.

f) When they do not comply with the duty not to compete.

3.- Directors shall inform the Board of any criminal charges brought against them and the progress of any subsequent trial.

Should a Director be indicted or sent for trial for any of the crimes stated in Article 213 of the Spanish Corporate Enterprises Act, the Board shall examine the matter as soon as possible and decide whether or not he or she should be called on to resign. The Board shall also disclose all such matters in the Annual Corporate Governance Report.

Directors shall always report and, if applicable, resign if they are involved in a situation

that may harm the Company's name and reputation.

4.- The Board of Directors shall not propose the dismissal of an Independent Director before the expiry of their tenure as mandated by the Articles of Association, except where just cause is found by the Board of Directors, based on a proposal from the Appointment and Remuneration Committee.

Article 25. Obligation to avoid situations of conflict of interest.

1.- The obligation to avoid situations of conflict of interest referred to in section e) of article 24, Section 2 above, obliges the Director to refrain from:

a) Performing transactions with the Company, unless they have been approved by the Board of Directors, based on a proposal from the Audit Committee, or they are transactions exempt from said approval, pursuant to article 5.3.t) of these Rules.

b) Using the name of the Company or invoke their status as Directors to unduly influence the execution of private transactions.

c) Making use of corporate assets, including confidential Company information, for private purposes.

d) Taking advantage from the Company's business opportunities.

e) Obtaining advantages or remuneration from third parties other than the Company and its group, related to the fulfillment of their role, unless they are merely expressions of courtesy.

f) Performing activities on their own or other's behalf that entail either current or potential effective competition, with the Company or that would in any other way, place them in permanent conflict with the Company interests.

2.- The above provisions shall apply also where the beneficiary of the actions or prohibited activities is a person related to the Director.

3.- Directors shall notify the Board of Directors of any situation of direct or indirect conflict of interest that they or related persons may have with the Company's interests.

4.- Directors' conflicts of interest must be disclosed in the Company's annual report.

Article 29. Reports to be issued by the Board of Directors

1.- On an annual basis, the Board of Directors will approve a Corporate Governance Report for the Company which will always include the terms specified by Law, and will meet the requirements of publicity and disclosure to the Shareholders pursuant to the Spanish Corporate Enterprises Act.

2.- The Board of Directors will prepare and publish an Annual Report on Director Remuneration, including all terms specified by Law.

3.- The Board of Directors can also approve, and if applicable publish, any other relevant reports in relation to the roles that legally correspond or are attributed to them.

Article 30. Website

1.- *The Company shall have a corporate website to fulfil Shareholders' right to information as well as to publish obligatory information in accordance with Law and statutory regulations, and to distribute and publish any other information, rules or documents that the Board of Directors deems appropriate.*

2.- *The Board of Directors is responsible for keeping the information on the Company website up to date and for coordinating its contents in line with the documents deposited or registered in the relevant public registries.*

3.- *The Audit Committee is responsible for checking that the financial information published on the Company's corporate website is permanently up to date and that it complies with what has been approved or formulated by the Board of Directors and published on the website of the National Securities Market Commission. The Committee shall inform the Board of Directors of any irregularity.*

4.- *The Appointment and Remuneration Committee will check that the information regarding Directors which is published on the Company's corporate website is sufficient and adequate and meets the recommendations of the Code of Good Governance for Listed Companies published by the National Securities Market Commission.*

Article 33. Relationships with Markets

1.- *The Board of Directors shall ensure strict compliance with obligations regarding providing information to Markets, in the terms applicable under Law at each given time.*

2.- *The Board of Directors shall also guarantee that regular financial information, other than Financial Statements and, in general, any other information disclosed to the Markets, is prepared pursuant to the same professional principles, criteria and practices applied to the Financial Statements and that such information is as reliable as the latter.*

3.- *The Board of Directors shall include information about the Company's corporate governance system in its annual public documentation.*

III. Subsequent Actions

The modified Rules of the Board were reported to the CNMV and entered in the Registry of Companies and is available at CAF's corporate website www.caf.net.

In San Sebastián, on May 7, 2019