



## ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

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### ISSUER IDENTIFICATION

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Company Name:

[ **CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.** ]

Registered Office:

[ JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GUIPUZCOA ]

**A. REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR**

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- A.1.** Explain the current director remuneration policy applicable to the year in progress. To the extent that it is relevant, certain information may be included in relation to the remuneration policy approved by the General Shareholders' Meeting, provided that these references are clear, specific and concrete.

The specific determinations for the year in progress should be described, both the remuneration of directors in their status as such and as a result of their executive functions carried out for the Board pursuant to the contracts signed with executive directors and to the remuneration policy approved by the General Shareholders' Meeting.

At any event, the following aspects should be reported:

- Description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions.
- Indicate and, where applicable, explain whether comparable companies have been taken into account in order to establish the company's remuneration policy.
- Information on whether any external advisors took part in this process and, if so, their identity.

\* Upon the proposal raised by the Board of Directors on 26 April 2017, CAF's remuneration policy was approved at the Annual General Shareholders' Meeting, held on 10 June 2017, being formulated on the basis of the opinion and proposal raised by the Appointments and Remunerations Committee, also dated 26 April 2017. Nevertheless, it should be noted that the remuneration policy approved by the General Meeting did not include any substantial changes to the policy that had been implemented by CAF over the previous fiscal years. Furthermore, in accordance with that resolved by the General Meeting, the aforementioned remuneration policy was applied during 2017 and remains in force for three years following the date of its approval, this being for the 2018, 2019 and 2020 fiscal years, notwithstanding any modifications, adaptations or updates, where applicable, that may have been approved at any time by the CAF General Shareholders' Meeting.

\* In anticipation of the end of CAF's current remuneration policy in 2020, work has begun to define the remuneration policy that will be applicable in 2021, 2022 and 2023.

\* CAF's remuneration policy addresses the following principles and foundations:

1. General criteria

- in general, it seeks to follow a market-based approach, whereby taking the fixed remuneration of directors of listed companies with similar size, capitalisation or activity as that of CAF as a benchmark, in accordance with public information provided by these companies, as well as being compliant with the principles of moderation and prudence;
- the remuneration system is based on the fundamental principle of recruiting and retaining the best professionals and rewarding such on the basis of their level of responsibility and professional background, along with internal equity and external competitiveness;
- moreover, CAF has devised the compensation scheme for its directors and executives as an essential element for the creation of long-term value for the Company, specifically, so as to ensure that there is a correlation between the evolution of the Company's results and an adequate profit distribution for shareholders.
- furthermore, at all times, CAF's remuneration system falls in line with the provisions of the applicable legal rules and incorporates the standards and principles of the generally accepted best national and international remuneration and good corporate governance practices, such as those advocated by the Spanish Code of Good Governance of Listed Companies approved by the Spanish National Securities Market Commission (CNMV) in 2015.

2. Non-executive directors

- the remuneration of directors who do not act in the capacity of executives must be sufficient to compensate for their commitment, experience and duties;
- specifically for directors who are not executive or proprietary directors, this remuneration will be set at a level that does not undermine their independence of opinion in any form;
- the remuneration policy seeks to encourage the motivation and retention of the most appropriate professionals.

### 3. Executive directors

Specifically, for executive directors, the remuneration policy based on the performance of executive roles, apart from those of supervision and collegial decision, rests upon the following premises:

- offer a remuneration that attracts, retains and motivates the most appropriate professionals so that the Company may achieve its strategic objectives within an increasingly competitive and internationalised environment where it develops its activities; and
- have a competitive global remuneration level in comparison with other comparable entities in the sector.

In this respect, the remuneration policy approved by the Annual General Meeting provides for the possibility of incorporating variable remuneration items while it remains in force, linked to the attainment of specific economic-financial and industry objectives under the Strategic Plan, quantifiable and aligned with the corporate interest and strategic objectives of the Company.

Is responsibility of the Board of Directors, at the proposal of the Appointments and Remunerations Committee, to determine the objectives at the beginning of each year and to evaluate the degree of achievement at the end of each year.

\* The remunerations applied as a result of the general criteria aforementioned are in line with those of the other listed companies. The comparative principle used is based upon the activity, size and market capitalisation similar to CAF, according to the Directors Remuneration Annual Report of listed companies for the fiscal year 2018, the latest available prepared by the National Securities Market Commission (CNMV).

CAF has considered it appropriate to approve a remuneration policy that takes into account remunerations provided by comparable companies, where it would utilise these as a benchmark to determine director remuneration while, at the same time, taking into account the commitment undertaken by the Company with its stakeholders.

\* When establishing the various elements of the director remuneration package, the Board referred to the proposal raised by the Appointments and Remunerations Committee, with regard to the responsibilities assumed and the role of each Director.

\* No external advisor has taken part in determining the remuneration policy.

- Relative importance of variable remuneration items vis-à-vis fixed remuneration (remuneration mix) and the criteria and objectives taken into consideration in their determination and to guarantee a suitable balance between the fixed and variable components of the remuneration. In particular, state the actions adopted by the company in relation to the remuneration system to reduce exposure to excessive risks and adapt this to the long-term objectives, values and interests of the company, which will include, as the case may be, mention of the measures to guarantee that the long-term results of the company are taken into account in the remuneration policy, the measures adopted in relation to those categories of staff whose professional activities have a material impact on the risk profile of the company and measures to avoid conflict of interest, as the case may be.

Furthermore, state whether the company has established any period for the accrual or consolidation of certain variable remuneration items, in cash, shares or other financial instruments, any deferral period in the payment of amounts or the handover of accrued and consolidated financial instruments, or if any clause exists reducing the deferred remuneration or that obliges the director to return remuneration received, when such remuneration has been based on certain figures that have clearly been shown to be inaccurate has been agreed.

For the definition of the components and amounts that comprise the remuneration system, at all times, CAF addresses the long-term interests of the Company and, in particular, to ensure that there is a correlation between the evolution of the Company's results and an adequate profit distribution for shareholders.

Specifically for non-executive directors, this remuneration is expected to be set at a level that does not undermine their independence of opinion in any form, in line with previous years.

As for executive directors, to align their interests with those of the Company, it is expected that during fiscal year 2020 bonuses associated with professional performance criteria will be used again in the remuneration package. These parameters will be predetermined and defined under the Strategic Plan and their degree of achievement will be verified by the Board of Directors after the final data has been gathered at the end of the fiscal year. Furthermore, it will be ensured that the amount of such variable remuneration is adequately balanced with the fixed components, in such a way that it offers an appropriate incentive without distorting its complementary nature with respect to the fixed amounts.

Four of the parameters chosen to assess the degree of compliance with the performance objectives and to determine the variable remuneration of the executive directors are of an economic and financial nature (contracts, sales, EBT and working capital), and one (customer satisfaction) is of a non-financial nature and is measured using satisfaction questionnaires.

Moreover, it is foreseen that the payment of the bonuses will be deferred until the achievement of the performance parameters has been effectively verified, to allow the Board of Directors to adequately measure the level of achievement of the objectives, and so the Company can also request the reimbursement of any bonus that may have been paid on the basis of inaccurate data.

Accordingly, the Company deems that any exposure to excessive risks has been reduced and that the remuneration mix depicts a balance between its fixed and variable components, and it is aligned with the Company's objectives, values and long-term interests.

- Amount and nature of fixed components that are due to be accrued during the year by directors in their status as such.

It is expected that during fiscal year 2020, the remuneration components of the directors, acting in the capacity as such, will include a fixed remuneration for being a Board member, remuneration for being a member of a Committee, as well as board meeting attendance allowances.

Even though there is no estimate available for the increase in the amount of the fixed components for fiscal year 2020, on the date herein, it is not expected that the changes to the amounts accrued during fiscal year 2019, as described in detail in Section B.5, will be very substantial.

Moreover, it is not expected that there will be any additional remuneration for the performance of the Chairman, nor any other benefits, such as advances or loans.

- Amount and nature of fixed components that are due to be accrued during the year for the performance of senior management functions of executive directors.

On the date of this Report, the Company has two executive directors: the Managing Director and the secretary of the Board. Both directors, in addition to their remuneration in their capacity, receive a salary and have a life insurance policy.

The Managing Director is also the beneficiary of a long-term savings plan, as detailed below, in accordance with an indefinite-term commercial contract with the Company.

There are no other benefits, such as advances or loans.

Even though, on date herein, there is no estimate for how much the fixed components will increase during fiscal year 2020, based on the performance of the senior management functions of the executive directors, it is not expected that there will be any substantial changes to the amounts already accrued during fiscal year 2019, as described in detail in Section B.6.

- Amount and nature of any component of remuneration in kind that will accrue during the year, including, but not limited to, insurance premiums paid in favour of the director.

The company has not signed any agreements on remuneration in kind with its directors, apart from the aforementioned life insurance plan for the Executive Directors and one of the External Directors (in this last case, until the date in which the appointment expired, this is, 15 June 2019).

Even though, on the date herein, it is not possible to provide an estimate for the increase in the amount of the insurance premiums during fiscal year 2020, it is not expected that there will be any substantial changes compared to the amounts already contributed during fiscal year 2019.

- Amount and nature of variable components, differentiating between those established in the short and long term. Financial and non-financial, including social, environmental and climate change parameters selected to determine variable remuneration in the year in progress, explaining the extent to which these parameters are related to performance, both of the director and of the company, together with their risk profile, and the methodology, deadline necessary and techniques established to determine the degree of compliance with the parameters used in the design of the variable remuneration at the end of the year.

State the range, in monetary terms, of the different variable components according to the degree of compliance with the objectives and parameters established, and whether any maximum monetary amounts exist in absolute terms.

For the definition of the items and amounts that make up the remuneration system, CAF takes into account at all times the long-term interests of the Company and, in particular, guarantees a correspondence with the evolution of the Company's results and an adequate distribution of profits to shareholders.

On the date of this Report, it is not expected that there will be any significant changes to the applicable bonus plan compared to fiscal year 2019 with regard to the reference parameters and performance indicators and due to the possibility that the Company can request the reimbursement of any bonus that may have been paid on the basis of inaccurate data. Performance parameters will be predetermined and defined under the Strategic Plan and their degree of achievement will be verified by the Board of Directors after the final data has been gathered at the end of the fiscal year.

Furthermore, at the time of calculating Executive Director bonuses, it will be seen to that the variable component will not compromise the best interest of the Group and their payment will be deferred until the achievement of the performance parameters can be effectively verified.

On the basis of the foregoing, the Company deems that any exposure to excessive risks has been reduced and that the implemented remuneration system meets the Company's objectives, values and long-term interests.

- Main characteristics of long-term savings systems. Among other information, state the contingencies covered by the system, whether through defined contributions or benefits, the annual contribution that needs to be made to the defined contribution system, the benefits directors are entitled to in the event of defined benefit systems, the conditions under which economic rights are consolidated for directors and their compatibility with any other type of payment or severance pay as a result of the early termination or dismissal of the director, or deriving from the termination of the contractual relation, in the terms provided, between the company and the director

State if the accrual or consolidation of any of the long-term savings plans is linked to achieving certain objectives or parameters related to the short- or long-term performance of the director.

As reported in the Annual Report on Directors Remuneration for previous fiscal years, the Company has subscribed a long-term savings scheme for the Managing Director. This is a long-term group savings insurance under the defined contribution system, which is compatible with other types of compensation, where, after the payment of annual premiums, a benefit is guaranteed at the corresponding expiration date. Until such date, there is no consolidation of any rights.

On the date herein, there is no estimate for the amount to be allocated to the aforementioned long-term savings plan during 2020, however, it is expected that it will be determined according to similar criteria that was used during fiscal year 2019 and that there should not be any significant variations compared to the allocations made in 2019.

- Any type of payment or severance pay for early termination or dismissal of the director, or deriving from the termination of the contractual relation, in the terms provided, between the company and the director, whether voluntary resignation by the director or dismissal of the director by the company, as well as any type of agreement reached, such as exclusivity, post-contractual non-competition, permanence or loyalty, which entitle the director to any type of remuneration.

There has not been any compensation agreed to or settled for the termination of a director's appointment, except for that indicated in the following Section for the Managing Director.

- State the conditions that contracts should respect for those exercising senior management functions as executive directors. Among others, information should be provided on the duration, limits on amounts of severance pay, minimum contract term clauses, notice periods and payment in lieu of these notice periods, and any other clauses relating to hiring bonuses, compensation and golden parachute clauses for early termination of the contractual relationship between the company and the executive director. Include, among others, the pacts or agreement on non-competition, exclusivity, permanence and loyalty, and post-contractual non-competition, unless these have been explained in the previous section.

In accordance with the regime provided for in Article 249 of the Corporate Enterprises Act, (CEA) on directors who perform executive functions under a delegation of powers granted by the Board or of any other title, the Company signed a commercial agreement with the Managing Director for an indefinite period which included the content stipulated in the aforementioned article. This agreement establishes a compensation equivalent to two years of fixed remuneration in the event that the Company terminates the employment contract of the Managing Director on its own and without any cause attributable to the director. Furthermore, the contract expressly determines the obligations of the Managing Director in terms of non-competition and exclusivity for a period of two years following the removal of the Managing Director.

The Company has another executive director (the secretary of the Board) without delegation of authority, whose relationship with the Company is by virtue of an employment contract and with whom no clauses or agreements of any type other than those provided under the standard employment regime have been established.

- The nature and estimated amount of any other supplementary remuneration accrued by directors in the year in progress in consideration for services rendered other than those inherent in the post.

There is no supplementary remuneration payable to directors for special services outside the scope of the usual duties of a director.

- Other remunerative items or by-products, as the case may be, of the company granting the director advance payments, loans, guarantees or any other remuneration.

Directors are not expected to receive any consideration in the form of advances, loans or guarantees.

- The nature and estimated amount of any other planned supplementary remuneration accrued by directors in the year in progress that are not included in the previous sections, whether payment is satisfied by the company or another group company.

It is not expected that there will be any other additional consideration during the current fiscal year.

**A.2.** Explain any significant change in the remuneration policy applicable in the current year resulting from:

- A new policy or a modification of the policy already approved by the General Meeting.
- Significant changes in the specific determinations established by the board for the current year regarding the remuneration policy in force with respect to those applied in the previous year.
- Proposals that the board of directors has agreed to submit to the general shareholders' meeting to which this annual report will be submitted and which are proposed to be applicable to the current year.

It is not expected that there will be any relevant change made to the remuneration policy for the current year.

**A.3.** Identify the direct link to the document where the current company remuneration policy is posted, which must be available on the web page of the company.

<https://www.caf.net/upload/accionista/Pol%C3%ADtica-de-retribuciones-de-los-consejeros.pdf>

**A.4.** Explain, taking into account the data provided in Section B.4, the outcome of voting, of a consultative nature, by shareholders at the General Shareholders' Meeting on the annual report on remuneration for the previous year.

Despite the fact that the Annual Remuneration Report for 2018 was approved with an overwhelming majority, the Company considers it appropriate to provide more detail in the information in order to facilitate the analysis carried out by the proxy advisors of the Company, whose considerations are attended by some shareholders of the Company.

**B. OVERALL SUMMARY OF HOW REMUNERATION POLICY HAS BEEN APPLIED DURING THE YEAR ENDED**

**B.1.** Explain the process followed to apply the remuneration policy and determine the individual remuneration contained in Section C of this report. This information will include the role played by the remuneration committee, the decisions taken by the Board of Directors and, as the case may be, the identity and the role of the external advisors whose services have been used in the process to apply the remuneration policy in the year ended.

When establishing the various elements of the directors remuneration package, the Board referred to the proposal raised by the Appointments and Remunerations Committee, with regard to the responsibilities assumed and the role of each Director.

In particular, the Board remuneration package for fiscal year 2019 was determined in the following manner:

- (i) In the first third of the fiscal year 2019, the Appointments and Remunerations Committee agreed to propose the Board the approval of:
  - (a) the parameters on which executive directors' variable remuneration would be based and the maximum amount thereof, in line with those already approved by the Board of Directors for 2018; and
  - (b) in 2019 the remuneration of the directors in their capacity as such would be the same as the amounts earned in 2018 (i.e. a maximum of EUR 100,000 per director, plus an additional amount of EUR 15,000 for each committee they form part of). However, the possibility of dividing the maximum amount of EUR 100,000 received for attendance at Board meetings between fixed remuneration and attendance fees was raised; the ruling was postponed to the committee meeting held on 2 April 2019.
- (ii) Then, in the first third of 2019, the Board agreed unanimously the proposals stated by the Appointments and Remunerations Committee which have been described previously.
- (iii) In 2 April 2019 the Appointments and Remunerations Committee agreed the distribution of the maximum amount of € 100,000 for each director mentioned in section (i)(b) above:
  - (a) € 60,000 in concept of fixed remuneration for being a Board member; and
  - (b) € 40,000 in concept of allowances for attending Board meetings.
- (iv) On 27 February 2020, the Board of Directors approved the final remuneration for executive Directors for fiscal year 2019, once the levels of fulfilment of the parameters proposed by the Appointments and Remunerations Committee had been reviewed, and the allocation to the long-term savings scheme in favour of the CEO for 2019 which is described in section B.9

**B.2.** Explain the different actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and adapting them to the long-term objectives, values and interests of the company, including a reference to the measures that have been adopted to guarantee that the long-term results of the company have been taken into consideration in the remuneration accrued and that a suitable balance has been attained between the fixed and variable components of the remuneration, the measures that have been adopted in relation to those categories of staff whose professional activities have a material repercussion on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if appropriate.

The CAF remuneration policy primarily addresses market criteria and the compliance of the principles of moderation and prudence.

For the definition of the components and amounts that comprise the remuneration system, at all times, CAF addresses the long-term interests of the Company and, in particular, to ensure that there is a correlation between the evolution of the Company's results and an adequate profit distribution for shareholders.

As an example of this, the directors had not received any advance payments, guarantees or loans during 2019, nor have they received any additional remuneration due to their belonging to boards of directors or as senior managers of the other Group Companies.

Moreover, in order to align the interests of the executive directors with those of the Company, during fiscal year 2019, bonuses linked to professional performance criteria were included for the first time in their compensation, as described in detail in Subsection B.7 below.

In order to ensure that the remuneration is in line with the long-term results of the Company, it has been decided to link the bonus to parameters associated with the achievement of specific economic-financial and industry objectives defined under the Strategic Plan that are quantifiable and aligned with the corporate interest and strategic objectives of the Company in various areas (contracts, sales, EBT), and an adequate operational management (level of working capital), as well as a non-financial parameter (customer satisfaction) appropriate for the creation of long-term value.

When setting the fixed remuneration and bonus for the executive directors, amounts had been determined to constitute an adequate balance between both parameters. Moreover, it has been agreed to defer the payment of the bonus until the fiscal year 2020, to allow the Board of Directors the time to adequately measure the level of achievement of the objectives. Finally, the possibility has been established for the Company to claim the reimbursement of any bonus that has been paid on the basis of inaccurate data.

For directors who are not executive or proprietary directors, this remuneration is set at a level that does not undermine their independence of opinion in any form.

Following an analysis of public information available on the remuneration accrued by directors of companies similar to CAF, it was observed that the amounts received by CAF directors are around the fair amounts in relation to these similar companies.

On the basis of the foregoing, the Company deems that any exposure to excessive risks has been reduced and that the implemented remuneration system meets the Company's objectives, values and long-term interests.

**B.3. Explain how the remuneration accrued over the year meets the provisions contained in the current remuneration policy.**

Furthermore, report on the relationship between the remuneration obtained by the directors and the results or other performance measures of the company in the short and long term, explaining, as the case may be, how the variations in the performance of the company have influenced changes in the remuneration of directors and how the latter contribute to the short- and long-term results of the company.

The remuneration accrued during the year fully complies with the provisions of the director remuneration policy approved by the General Shareholders Meeting of CAF, held on 10 June 2017, as explained below:

(i) Remuneration accrued by the non-executive directors consisted solely of fixed remuneration for being a Board member, allowances for attending Board meetings and remuneration for being a Committee member, as well as life insurance premiums for one external director (solely until the date in which the appointment expired, this is, 15 June 2019), which totaled less than the limits provided for in section 3.1 of the Remuneration Policy of CAF.

(ii) Fixed remuneration of executive directors entails the items contained in section 3.2 of the Remuneration Policy of CAF and the quantitative limits established therein had not been surpassed.

(iii) Variable remuneration of the executive directors are linked to the achievement of concrete economic-financial and industry objectives defined in the Strategic Plan, as provide for in the Remuneration Policy of CAF.

As for the correlation between director remuneration and Company results, the inclusion of bonuses as remuneration for executive directors has allowed these directors to be assessed against performance criteria.

Although the period of accrual of the variable remuneration is over one fiscal year, it is considered that it contributes to the attainment of both short-term and long-term results of the Company, insofar as the achievement-based objectives have an impact on the Group's performance both in the short term (working capital levels and sales) and in the long term (contracts).

**B.4. Report on the result of the consultative vote at the General Shareholders' Meeting on remuneration in the previous year, indicating the number of votes against that may have been cast.**

	Number	% of total
Votes cast	25,834,744	75.36

	Number	% of total
Votes against	5,658,312	21.90
Votes in favour	19,167,629	74.19
Abstentions	1,008,803	3.91

**Remarks**

The annual remuneration report was approved with a large majority of votes cast, being similar to that of previous years.



It should also be noted that additional explanations in relation to directors' remuneration have been included to facilitate the analysis thereof by the Company's proxy advisors.

**B.5. Explain how the fixed components accrued during the year by the directors in their capacity as such have been determined and how they have changed with respect to the previous year.**

The fixed components of director remuneration include three concepts: a fixed remuneration for being a Board member, allowances to attend Board meetings and additional fixed remuneration for the Committee members.

As described in detail in section B.1, the Nomination and Remunerations Committee proposed to the Board of Directors that the amount of the remuneration of the directors in their capacity as such should remain unchanged (i.e., a maximum of EUR 100,000 per director, plus an additional amount of EUR 15,000 for each committee they form part of). This proposal was subsequently approved by the Board.

At a subsequent date, the Nomination and Remuneration Committee resolved to divide the aforementioned maximum amount of EUR 100,000 into two items (a) € 60,000 in concept of fixed remuneration for being a Board member; and (b) € 40,000 in concept of allowances for attending Board meetings. The remuneration for belonging to the Board of Directors' sub-committees, amounting to EUR 15,000 per year per director per committee, remained unchanged.

An external director has benefited from life insurance, receiving the same premium as that paid in the preceding year up to the date his appointment expired, i.e. 15 June 2019.

In 2019 there was no change in the total amount earned in this connection with respect to the amounts earned or received in 2018.

There was no additional remuneration for the appointment of Chairman. There are no other benefits, such as advances or loans.

**B.6. Explain how the salaries accrued by each one of the executive directors over the past financial year for the performance of management duties were determined, and how they have changed with respect to the previous year.**

The Company has two executive directors, both of which received fixed remuneration during fiscal year 2019 in the form of salaries, life insurance premiums and allowances. Also, the Managing Director is the beneficiary of a long-term savings scheme, as detailed in Section B.9.

There are no other benefits, such as advances or loans. As already indicated in the 2018 Directors Remuneration Report, and reiterated in Section A.1, the Company has signed an indefinite-term agreement with the Managing Director, approved by the Board of Directors. The other executive director, who has not been conferred any powers by the Board, has a standard employment contract. The salaries of these executive directors are included under their respective contracts.

During fiscal year 2019, salaries amounted to a total of €644 thousand, in accordance with the breakdown indicated in Section C, which is 0.46% higher than the amounts accrued during fiscal year 2018 for this item.

Additionally, executive directors in fiscal year 2018 had for the first time accrued variable remuneration, as explained in section B.7 and detailed in Section C.

**B.7. Explain the nature and the main characteristics of the variable components of the remuneration systems accrued in the year ended.**

In particular:

- Identify each one of the remuneration plans that have determined the different types of variable remuneration accrued by each of the directors in the year ended, including information on their scope, their date of approval, their date of incorporation, the periods of accrual and validity, the criteria used to evaluate performance and how this has affected the establishment of the variable amount accrued, as well as the measurement criteria used and the period necessary to be in a position to suitably measure all the conditions and criteria stipulated.

In the case of share options and other financial instruments, the general characteristics of each plan will include information on both the conditions to acquire unconditional ownership (consolidation) and to exercise these options or financial instruments, including the price and term to exercise them.

- Each one of the directors, together with their category (executive directors, proprietary external directors, independent external directors and other external directors), that are beneficiaries of remunerations systems or plans that include variable remuneration.
- As the case may be, information is to be provided on periods for the accrual or deferment of payment applied and/or the periods for withholding/unavailability of shares or other financial instruments, if they should exist.

Explain the short-term variable components of the remuneration systems:

The Board of Directors, at its meeting held on 25 October 2017, approved the introduction of the bonuses as being executive director remuneration for fiscal year 2018 and successive years.

The accrual period for variable remuneration is calculated on a yearly basis, based on the calendar year.

The specific parameters linked to the variable remuneration for 2019 were determined based on a proposal issued by the Appointments and Remunerations Committee, subsequently approved by the Board. The parameters that were defined, which had a different weighting in the total variable remuneration, are the following: contract volume (20%), sales volume (20%), earnings before tax (EBT) (30%), level of working capital (15%) and level of customer satisfaction (15%), all of which measured at a consolidated Group level, and are applicable to the Executive Committee and the director secretary, whereas three of the five parameters are applicable to the CEO, specifically the "contract volume", "EBT" and "level of customer satisfaction" parameters, with weightings that are proportional to those detailed above.

Contract volume, sales volume, earnings before tax (EBT) and level of working capital parameters are linked to the attainment of specific economic-financial and industry objectives under the Strategic Plan. The last parameter, customer satisfaction, is a non-financial criterion that assists with the creation of long-term value for the Company and is also defined as one of the objectives under the Strategic Plan.

For each parameter, a series of targets was established, whose achievement would allow the directors to attain up to 100% of the bonus. Minimum targets were also set, which would allow 50% of the bonus to be attained, and below this minimum the bonus associated with this parameter would not be accrued. In the event that the minimum targets are achieved but not the established targets, an amount of variable remuneration from between 50% and 100% would be accrued in a linear function depending on the level of achievement of these targets.

The parameters of "contracts" and "EBT" were classified as key parameters, so that the achievement of the minimum targets linked to these parameters is an indispensable requirement in order to accrue any variable remuneration with regard to the other parameters.

In accordance with the scheme, the Nomination and Remunerations Committee proposed to establish a maximum limit for the variable remuneration receivable by the CEO and the director secretary of EUR 100 thousand and EUR 55.5 thousand, respectively. These limits were subsequently approved by the Board.

As for measuring the degree of compliance with these targets, the Financial Statements and Directors Report at 31 December 2019 (with regard to the parameters "Contracts", "Sales", "EBT" and "Working Capital") is used as a reference, along with customer surveys (with regard to the parameter "Customer Satisfaction").

Settlement of the variable remuneration is deferred, in order that the Board of Directors has sufficient time to verify the degree of attainment of the objectives. Additionally, in the event that there is an error in the calculation of the variable remuneration or when measuring of the level of achievement of the objectives, the executive directors will be obliged to reimburse any excess they may have received in error.

The review on the degree of compliance with the various parameters was carried out by the Board of Directors, at the proposal of the Appointments and Remunerations Committee, at its meeting held on 27 February 2020, the date on which the Board formulated the Financial Statements and Directors Report for fiscal year 2019 and when it could effectively verify the degree of compliance with the economic-financial parameters. After evaluating this compliance, it was considered that 100% compliance had been achieved with respect to the "contract volume", "sales volume", "EBT" and "level of customer satisfaction" parameters, and 0% compliance with respect to the "level of working capital" parameter, giving rise to the accrual of 100% of the maximum variable remuneration for the CEO and 85% for the director secretary. Consequently, the Board determined the amounts to be received by the executive directors as variable remuneration for fiscal year 2019, which are broken down in section C.1.

Explain the long-term variable components of the remuneration systems:

The variable remuneration for executive directors does not include components whose accrual period is greater than one year.

- B.8.** Indicate whether certain variable components have been reduced or clawed back when, in the case of the former, payment has been consolidated and deferred or, in the case of the latter, consolidated and paid, on the basis of data that have subsequently proved to be inaccurate.

Describe the amounts reduced or clawed back through the application of the reduction or clawback clauses, why they were implemented and the years to which they refer.

To date, no variable component has been settled, nor has been proceed to reduce or to request the return of any accrued variable component, during the fiscal year 2019.

However, as approved at the meeting of the Board of Directors held on 27 February 2020, the Company may request the reimbursement of any variable remuneration paid to executive directors in the event that the level of achievement of the objectives was calculated on the basis of data that is determined to be inaccurate at a later date.

**B.9.** Explain the main characteristics of the long-term savings systems where the amount or equivalent annual cost appears in the tables in Section C, including retirement and any other survivor benefit that are financed, totally or partially, by the company, whether through internal or external contributions, indicating the type of plan, whether it is a defined contribution or benefit, the contingencies covered, the conditions to consolidate economic rights for directors and their compatibility with any type of severance pay for early termination or termination of the contractual relationship between the company and the director.

The Company has taken out a long-term group savings insurance plan for its Managing Director, of which the Company itself is a policyholder and beneficiary. This is a long-term group savings insurance under the defined contribution system, which is compatible with other types of compensation, where, after the payment of annual premiums, a benefit is guaranteed at the corresponding expiration date. Until such date, there is no consolidation of any rights. During fiscal year 2019, an allocation of €1,300,000 was made for this item, in accordance with the parameters established by the Company and the contract entered into with the Managing Director.

**B.10.** Explain, where appropriate, the severance pay or any other type of payment deriving from early dismissal or early resignation, or from the termination of the contract in the terms provided for therein, accrued and/or received by directors during the year ended.

During fiscal year 2019, no indemnity or payment has been accrued or received by a director due to his or her early termination or separation of employment contract.

**B.11.** Indicate whether there have been any significant changes in the contracts of persons exercising senior management functions, such as executive directors, and, where appropriate, explain such changes. In addition, explain the main conditions of the new contracts signed with executive directors during the year, unless these have already been explained in Section A.1.

During fiscal year 2019, the remuneration of Executive Directors maintained variable components, as detailed in section B.7, above, and a new contribution was made to the long-term savings plan for the Managing Director, as indicated in section B.9.

No new agreement has been entered into with the executive directors during fiscal year 2019.

**B.12.** Explain any supplementary remuneration accrued by directors as consideration for services rendered outside of their post.

There is no supplementary remuneration payable to directors for special services outside the scope of the usual duties of a director.

**B.13.** Explain any remuneration deriving from advance payments, loans or guarantees granted, indicating the interest rate, their key characteristics and the amounts eventually returned, as well as the obligations taken on by way of guarantee or collateral.

The directors have not received any remuneration in the form of advances, loans or guarantees.

**B.14.** Itemise the remuneration in kind accrued by the directors over the year, briefly explaining the nature of the different salary components.

The company has not signed any agreements on remuneration in kind with the directors, apart from the aforementioned life insurance plan for the Executive Directors and one of the External Directors (until the date in which the appointment expired, this is, 15 June 2019).

**B.15.** Explain the remuneration accrued by directors by virtue of payments settled by the listed company to a third company at which the director renders services when these payments seek to remunerate the director's services to the company.

[ There is no remuneration accrued by a director relating to payments made by the Company to a third-party where such director provides his or her services. ]

**B.16.** Explain any other items of remuneration other than those mentioned in the previous sections, whatever their nature or the group company that settles the payment, particularly when this is a related operation or its settlement distorts the true image of the total remuneration accrued by the director.

[ There are no additional remuneration items. ]

**C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR**

Name	Type	Period of accrual in 2018
ANDRÉS ARIZKORRETA GARCÍA	Chief Executive Officer (CEO)	From 01/01/2019 until 31/12/2019
ALEJANDRO LEGARDA ZARAGÜETA	Other External Director	From 01/01/2019 until 15/06/2019
JUAN JOSÉ ARRIETA SUDUPE	Independent Director	From 01/01/2019 until 31/12/2019
LUIS MIGUEL ARCONADA ECHARRI	Other External Director	From 01/01/2019 until 31/12/2019
JAVIER MARTÍNEZ OJINAGA	Independent Director	From 01/01/2019 until 31/12/2019
JOSÉ ANTONIO MUTILOA IZAGUIRRE	Propriety Director	From 01/01/2019 until 31/12/2019
MARTA BAZTARRICA LIZARBE	Executive Director	From 01/01/2019 until 31/12/2019
CARMEN ALLO PÉREZ	Independent Director	From 01/01/2019 until 31/12/2019
JULIÁN GRACIA PALACÍN	Independent Director	From 01/01/2019 until 31/12/2019
ANE AGIRRE ROMARATE	Independent Director	From 01/01/2019 until 31/12/2019
IGNACIO CAMARERO GARCÍA	Independent Director	From 15/06/2019 until 31/12/2019

C.1. Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.

a) Remuneration from the reporting company:

i) Remuneration in cash (thousand euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total 2019	Total 2018
ANDRÉS ARIZKORRETA GARCÍA	60	40		485	100				685	685
ALEJANDRO LEGARDA ZARAGÜETA	30	20							50	102
JUAN JOSÉ ARRIETA SUDUPE	60	40	30						130	130
LUIS MIGUEL ARCONADA ECHARRI	60	40	15						115	115
JAVIER MARTÍNEZ OJINAGA	60	40	15						115	115
JOSÉ ANTONIO MUTILOA IZAGUIRRE	60	40							100	100
MARTA BAZTARRICA LIZARBE	60	40		159	47				306	298
CARMEN ALLO PÉREZ	60	40	15						115	115
JULIÁN GRACIA PALACÍN	60	40							100	100
ANE AGIRRE ROMARATE	60	40	15						115	113
IGNACIO CAMARERO GARCÍA	30	20							50	

Remarks

[

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ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments.

Name	Name of Plan	Financial instruments at start of 2019		Financial instruments granted at start of 2019		Financial instruments consolidated during the year				Instruments matured but not	Financial instruments at end of 2019	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
No data												

Remarks

There are no share-based or financial instrument remuneration schemes.

iii) Long-term saving systems.

Name	Remuneration from consolidation of rights to savings system
No data	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights		Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights	
	2019	2018	2019	2018	2019	2018	2019	2018
ANDRÉS ARIZKORRETA GARCÍA			1,300	1,000			2,530	1,230

Remarks

iv) Details of other items

Name	Item	Amount remunerated
ANDRÉS ARIZKORRETA GARCÍA	Life insurance premiums	18
ALEJANDRO LEGARDA ZARAGÜETA	Life insurance premiums	8
MARTA BAZTARRICA LIZARBE	Life insurance premiums	

Remarks

b) Remuneration of the company directors for seats on the boards of other group companies:

i) Remuneration in cash (thousand euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total 2019	Total 2018
No data										



Remarks

Remuneration not accrued.

ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments.

Name	Name of Plan	Financial instruments at start of 2019		Financial instruments granted at start of 2019		Financial instruments consolidated during the year				Instruments matured but not exercised	Financial instruments at end of 2019	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments			No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares
No data												

Remarks

iii) Long-term savings systems.

Name	Remuneration from consolidation of rights to savings system
No data	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights		Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights	
	2019	2018	2019	2018	2019	2018	2019	2018
No data								

Remarks
[ ]

iv) Details of other items

Name	Item	Amount remunerated
No data		

Remarks
[ ]

## ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

c) Summary of remunerations (thousand €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (thousand €).

Name	Remuneration accrued in the company					Remuneration accrued in group companies				
	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total FY 2019 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total FY 2019 company
ANDRÉS ARIZKORRETA GARCÍA	685		1,300	18	2,003					
ALEJANDRO LEGARDA ZARAGÜETA	50			8	58					
JUAN JOSÉ ARRIETA SUDUPE	130				130					
LUIS MIGUEL ARCONADA ECHARRI	115				115					
JAVIER MARTÍNEZ OJINAGA	115				115					
JOSÉ ANTONIO MUTILOA IZAGUIRRE	100				100					
MARTA BAZTARRICA LIZARBE	306				306					
CARMEN ALLO PÉREZ	115				115					
JULIÁN GRACIA PALACÍN	100				100					
ANE AGIRRE ROMARATE	115				115					
IGNACIO CAMARERO GARCÍA	50				50					
<b>TOTAL</b>	<b>1,881</b>		<b>1,300</b>	<b>26</b>	<b>3,207</b>					

Remarks

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**D. OTHER INFORMATION OF INTEREST**

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If there are any relevant issues relating to directors' remuneration that you have not been able to address in the previous sections of this report, but which are necessary to provide more comprehensive and fully reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

Amounts seen in Section C are shown without decimals.

There is no relevant aspect regarding the remuneration of directors that has not been included under any other section of this report.

This annual remuneration report has been approved by the Board of Directors of the company on:

27/02/2020

State whether any director has voted against or abstained from approving this report.

Yes

No