



ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

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ISSUER'S PARTICULARS

End date of reference financial year: [31/12/20]

Tax Identification Number (CIF): [A20001020]

Company name:

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

Registered office:

[JOSE MIGUEL ITURRIOZ, 26 (BEASAIN) GIPUZKOA]

A. THE COMPANY'S REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

- A.1.** Explain the policy in force applicable to the current year relating to the remuneration of directors. If relevant, certain information may be included in relation to the remuneration policy approved by the shareholders at the Annual General Meeting, provided that the information included is clear, specific and precise.

The specific decisions for the current year should be described, both in relation to the remuneration of the directors in their capacity as such and for the discharge of executive functions by the Board in accordance with the provisions of the contracts signed with the executive directors and with the remuneration policy approved by the shareholders at the Annual General Meeting.

In any case, the following matters must be reported, at minimum:

- Description of the company's procedures and bodies involved in determining and approving the remuneration policy and the conditions thereof.
- Indicate and, where applicable, explain whether any comparable companies were taken into account to establish the company's remuneration policy.
- Information on whether any external adviser has participated and, if so, their identity.

* CAF's remuneration policy for 2021 was approved by the Annual General Meeting held on 13 June 2020, following a proposal by the Board of Directors dated 6 May 2020 which, in turn, formulated the aforementioned proposal in light of the report and proposal issued by the Nomination and Remuneration Committee on that same date. It should be noted that the remuneration policy approved by the Annual General Meeting did not include any substantial changes in relation to the policy that had been applied by CAF in previous years. Also, as approved by the Annual General Meeting, this remuneration policy is applicable for the three years following its approval, i.e. 2021, 2022 and 2023, without prejudice to any modifications, adaptations or updates that may be approved from time to time by CAF's Annual General Meeting.

* CAF's remuneration policy is based on the following principles and foundations:

1. General criteria

- in general, the aim is to meet market criteria, taking as a basis the remuneration established for directors of listed companies of a similar size or activity to those of CAF, in accordance with the public information furnished by those companies, as well as compliance with the principles of moderation and prudence;
- the remuneration system is based on the fundamental principle of attracting and retaining the best professionals, rewarding them according to their level of responsibility and professional career, based on internal fairness and external competitiveness;
- CAF also sees the remuneration system for its directors and executives as a fundamental factor in the creation of long-term value for the Company, particularly in order to ensure that the performance of the Company's results tallies with an appropriate distribution of profits to shareholders, in their interests; and
- in addition, CAF's remuneration system is adapted at all times to the applicable legislation and seeks to incorporate the standards and principles of the national and international best practices generally accepted in matters of remuneration and good corporate governance at any given time, such as the provisions of the Code of Good Governance for Listed Companies approved by the Spanish National Securities Market Commission (CNMV) in 2015, which was most recently revised in June 2020.

2. External directors

- in the case of non-executive directors, the remuneration must be sufficient to compensate for their dedication, qualifications and responsibility;
- in the particular case of directors who are neither executive nor proprietary directors, this remuneration shall be set at a level that in no case compromises their independence of judgement; and
- the remuneration policy seeks to encourage the motivation and retention of the most suitable professionals.

3. Executive directors

Specifically with regard to executive directors, the remuneration policy for the performance of their executive functions, other than supervision and collective decision-making, is based on the following premises:

- to offer them remuneration that makes it possible to attract, retain and motivate the most suitable professionals in order to enable the Company to meet its strategic objectives within the increasingly competitive and internationalised framework in which it carries on its activities; and
- to have a competitive overall remuneration level in relation to comparable entities in the industry.

In this respect, the remuneration policy approved by the Annual General Meeting foresees the inclusion of variable remuneration items linked to the achievement of specific economic, financial and industrial objectives defined in the Strategic Plan, which are quantifiable and aligned with the Company's corporate interests and strategic objectives. Also, non-financial parameters should be set to promote sustainability and the creation of long-term value for the Company.

The Board of Directors, at the proposal of the Nomination and Remuneration Committee, is responsible for determining the amount of variable remuneration, the parameters on which it is based, its weighting and the objectives at the beginning of each year, as well as assessing compliance with them once the year has ended.

* The remuneration items resulting from application of the aforementioned general principles are aligned with those of other listed companies, using comparison criteria relating to activities, size and market caps similar to those of CAF, as published in the Annual Report on Remuneration of Directors of Listed Companies for 2019, which is the most recent such report published by the CNMV.

CAF has considered it advisable to approve a remuneration policy that takes into account the remuneration applied by comparable companies, using them as a reference when setting directors' remuneration, and at the same time taking into consideration the Company's commitment to its stakeholders.

* The Board determines the various items of the Directors' remuneration package on the basis of the proposal made in each case by the Nomination and Remuneration Committee, in accordance with the responsibility assumed by each director and the functions they discharge.

* No external adviser participated in drawing up the remuneration policy.

- Realive importance of the variable remuneration items with respect to fixed items (remuneration mix) and the criteria and objectives considered in order to determine them and ensure an adequate balance between the fixed and variable remuneration components. Specifically, indicate the actions taken by the company in relation to the remuneration system to reduce exposure to excessive risks and to adjust it to the company's long-term objectives, values and interests, which will include, where appropriate, a reference to: measures envisaged to ensure that the remuneration policy takes account of the long-term performance of the company, measures adopted in relation to those categories of personnel whose professional activities have a material impact on the entity's risk profile and measures envisaged to avoid conflicts of interest.

Also, indicate whether the company has established a vesting period for certain variable remuneration items, cash, shares or other financial instruments, or a period of deferral for the payment of amounts or the delivery of accrued and vested financial instruments, or whether agreement has been reached regarding any clauses to reduce non-vested remuneration or which oblige the director to return remuneration received, whenever such remuneration was based on information manifestly proved to be inaccurate after it was initially paid.

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 that the performance of the Company's results tallies with an appropriate distribution of profits to shareholders.

In the case of non-executive directors, remuneration shall be set at a level that in no event would compromise their independence of judgement, as has been habitual practice in previous years.

In the case of executive directors, although at the date of this report no agreement had been adopted with regard to their remuneration, in 2021 executive directors are expected to continue to be included in the package of variable remuneration items linked to performance criteria, as described below, in order to align their interests with those of the Company, as occurred in 2018, 2019 and 2020.

These parameters shall be predetermined and defined in the Strategic Plan, and their level of achievement shall be checked by the Board of Directors once the definitive figures obtained at year-end are known. Also, 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.

The parameters chosen to assess the degree of compliance with the performance objectives and to determine the variable remuneration of the executive directors should be of an economic and financial nature (such as procurement, working capital, EBITDA or sales) and of a non-financial nature (such as customer satisfaction, follow-up of corporate governance recommendations, adoption of equality policies or measures, or other parameters to foster sustainability).

Payment of the variable items is expected to be deferred until it has been verified that the performance-related parameters have been fulfilled, in order to allow the Board of Directors to adequately measure the degree of achievement of the objectives, and the Company can claim the refund of any variable remuneration that may have been paid on the basis of inaccurate information.

As a result of all the foregoing, the Company considers that exposure to excessive risks is reduced and that the remuneration mix represents a balance between fixed and variable items and meets the Company's long-term objectives, values and interests.

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

It is expected in 2021 that the remuneration items of the directors earned in their capacity as such include fixed remuneration for belonging to the Board, remuneration for belonging to the Committees, and fees for attending the Board meetings.

At the date of preparation of this report, an estimate of the total amount of the fixed items in 2021 was not available.

It is not expected that additional remuneration will arise for the performance of the Chair's duties, 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.

At the date of this report, the Company has two executive directors: the CEO and the secretary of the Board of Directors. Both directors, in addition to the remuneration earned in their capacity as such, receive remuneration in the form of wages and life insurance policies.

The CEO also benefits from a long-term savings scheme, as detailed below, envisaged in the contract for services for an indefinite period which he entered into with the Company.

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

At the date of preparation of this report, an estimate of the total amount of the fixed items in 2021 for the performance of senior executive functions of the executive directors was not available.

- 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 agreed any remuneration in kind with its directors, except as indicated with respect to life insurance for the executive directors.

Although at the date hereof an estimate cannot be provided in relation to the total amount of the insurance premiums to be paid in 2021, no substantial modifications are envisaged with respect to the amounts paid in 2020.

- Amount and nature of the variable items, differentiating between short-term and long-term. Financial and non-financial parameters, with the latter including social, environmental and climate change parameters, selected to determine the variable remuneration in the current year; an explanation of to what extent such parameters relate to performance, both of the director and of the entity, and to the related risk profile; and the methodology and timeframe required, as well as the techniques envisaged, to be able to determine at year-end the effective degree of achievement of the parameters used in designing the variable remuneration, explaining the criteria and factors applied in terms of the time required and the methods used to check whether the performance or any other type of conditions to which the accrual and vesting of each variable remuneration item were linked have been met.

Indicate the monetary range of the various variable items based on the level of achievement of the established objectives and parameters, and whether there is any maximum monetary amount 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 that the performance of the company's results tallies with an appropriate distribution of profits to shareholders.

In the case of executive directors, although at the date of this report no agreement had been adopted with regard to their remuneration, in 2021 executive directors are expected to be included in the package of variable remuneration items linked to performance criteria, in order to align their interests with those of the Company, as occurred in 2018, 2019 and 2020.

In this connection, these variable items are expected to be similar to those already included in 2018, 2019 and 2020, both with respect to the benchmark parameters and their performance-related nature and to the possibility that the Company might claim the refund of any variable remuneration that may have been paid on the basis of inaccurate information. The performance parameters shall be predetermined and defined in the Strategic Plan, and their level of achievement shall be checked by the Board of Directors once the definitive figures obtained at year-end are known, after the financial statements have been formally prepared.

Also, when setting the variable remuneration of the executive directors, it will be ensured that the variable component does not compromise the pursuit of

the Group's best interests, and payment of this remuneration will be deferred until it has been verified that the performance-related parameters have effectively been complied with.

As a result of all the foregoing, the Company considers that exposure to excessive risks is reduced and that the remuneration system meets the Company's long-term objectives, values and interests.

- Main characteristics of the long-term savings schemes. Among other information, the contingencies covered by the scheme will be indicated, as well as whether it involves defined contributions or benefits, the annual contribution that must be made to the defined contribution schemes, the benefits to which the beneficiaries are entitled in the case of defined benefit systems, the vesting conditions of the economic rights of the directors and its compatibility with any type of payment or indemnity for early termination or dismissal, or resulting from termination of the contractual relationship between the company and the director under the envisaged terms and conditions.

It should be indicated whether the accrual or vesting of any of the long-term savings plans is linked to the achievement of certain objectives or parameters related to the short-term and long-term performance of the director in question.

As reported in the Annual Report on Directors' Remuneration from previous years, the Company has arranged a long-term savings scheme with its CEO. This is a collective long-term savings insurance policy under the defined contribution system, compatible with other types of compensations, in which the payment of annual premiums guarantees a benefit in the event that the corresponding maturity date is reached in the beneficiary's lifetime. Otherwise, there is no vesting of rights until that date.

At the date hereof, it is expected that the long-term savings scheme in 2021 will be determined based on similar criteria to those established in 2020 and that there will be no significant changes with respect to the amounts recognised in 2020.

- Any other type of payment or indemnity for early termination or dismissal, or arising from termination of the contract between the company and the director under the terms and conditions envisaged, whether the relationship is terminated by the company or the director, and any type of agreements entered into, such as exclusivity, post-contractual non-compete and minimum-stay or loyalty agreements, that grant the director the right to receive any remuneration.

There are no termination benefits agreed upon or paid by the Company in the event of termination of the functions as director, except as indicated in the following section in relation to the CEO.

- Indicate the conditions that must be respected in the contracts of those exercising senior management functions as executive directors. Among other matters, information will be provided on the duration, the limits on the amounts of termination benefits, the minimum-stay clauses, the notice periods, as well as payment in lieu of the aforementioned notice period, and any other clauses relating to hiring bonuses, as well as indemnities or golden parachute clauses for early termination or termination of the contractual relationship between the company and the executive director. Include, among others, non-compete, exclusivity, minimum-stay or loyalty and post-contractual non-compete clauses or agreements, unless they have been explained in the preceding section.

Under the regime provided for in Article 249 of the Spanish Capital Companies Act in relation to directors who discharge executive duties by means of a delegation of powers from the board or by any other means, the Company signed a contract for services with the CEO for an indefinite period and with the content stipulated in that article. This contract provides for termination benefits equal to two years of his fixed remuneration in the event of removal from the position of CEO at the discretion of the Company and without a cause attributable to the director. Also, the contract expressly provides for non-compete and exclusivity obligations for the CEO for concurrent periods of two years following his removal from office.

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 earned by the directors in the current year as consideration for services rendered other than those inherent to their position.

No supplementary remuneration is expected to be accrued to directors as consideration for services rendered other than those inherent to their position.

- Other remuneration items such as any arising from the company granting advances, loans, guarantees and other remuneration to the directors.

The directors are not expected to receive any remuneration in the form of advances, loans or guarantees.

- The nature and estimated amount of any other envisaged supplementary remuneration not included in the items above, whether settled by the entity or another group entity, that will be earned by the directors in the current year.

No additional items of remuneration are expected to exist in the current year.

A.2. Explain any significant change in the remuneration policy in force in the year arising from:

- A new policy or a modification to the policy already approved by the General Meeting.
- Significant changes in the specific decisions established by the Board for the current year to which the remuneration policy in force refers, with respect to those applied in the previous year.
- Proposals that the Board of Directors may have agreed to present to the Annual General Meeting, to which this annual report will be submitted and which are proposed to be applied in the current year.

As indicated in section A.1, in anticipation of the fact that CAF's previous remuneration policy was due to expire on 31 December 2020, on 6 May 2020 CAF's Board of Directors, following a report and proposal from the Nomination and Remuneration Committee, resolved to submit to the Annual General Meeting to be held on 13 June 2020 the remuneration policy for the directors of CAF for 2021, 2022 and 2023, which was approved by a majority.

It should be noted that the remuneration policy approved by the Annual General Meeting did not include any substantial changes in relation to the policy that had been applied by CAF in previous years. Also, as approved by the General Meeting, this remuneration policy is applicable for the three years following its approval, i.e. 2021, 2022 and 2023, without prejudice to any modifications, adaptations or updates that may be approved from time to time by CAF's Annual General Meeting.

The remuneration structure envisaged in the new remuneration policy is summarised as follows:

* The members of the Board of Directors will be remunerated in their capacity as such through one or several of the following items: a fixed allowance for belonging to the Board of Directors and/or the committees; fees for attending the meetings of the Board and/or committees; a fixed allowance for discharging other functions or responsibilities; and the savings or welfare schemes that may be considered appropriate (as well as other items which may be included in the Company Bylaws over the term of the policy).

The maximum annual remuneration for the directors as a whole in their capacity as such, adding together all the aforementioned items, is EUR 2,200,000 (based on a Board of ten members). This maximum amount will increase or decrease, as applicable, in proportion to the number of directors that make up the Board of Directors at any given time.

* Directors classified as executive directors pursuant to Article 529 duodecies of the Spanish Capital Companies Act will receive variable remuneration and a benefit consisting of a life insurance policy (in addition to any other items that may be included in the Company Bylaws over the term of the policy).

The variable remuneration should be tied to the achievement of specific economic, financial and industrial objectives defined in the Strategic Plan, and non-financial parameters should also be set to promote sustainability and the creation of long-term value for the Company.

The Board of Directors, at the proposal of the Nomination and Remuneration Committee, is responsible for determining the amount of variable remuneration, the parameters on which it is based, its weighting and the objectives at the beginning of each year, as well as assessing compliance with them once the year has ended.

* The directors of the Company who perform executive functions envisaged in the approved contracts pursuant to Article 249 of the Spanish Capital Companies Act will have the right to receive remuneration for certain, or all, of the items indicated in the remuneration policy: annual fixed remuneration, variable remuneration, life insurance and a long-term savings scheme. The policy also details the basic terms and conditions of these contracts, which did not change with respect to those under the previous policy.

At the date of preparation of this report, the Board of Directors had not resolved to submit for approval by the General Meeting any modification that would apply to the current year. However, it is possible that changes may be made to the remuneration policy in light of the latest reform of the Spanish Capital Companies Act which is currently being processed. In any case, no substantial changes to the remuneration policy are expected in such a situation.

A.3. Identify the direct link to the document that contains the company's current remuneration policy, which should be available on the company's website.

<https://www.caf.net/upload/accionista/politica-de-remuneraciones-de-los-consejeros-20200613.pdf>

A.4. Taking into consideration the information provided in section B.4, explain the manner in which the shareholders' votes were taken into account at the General Meeting at which the annual remuneration report for the previous year was submitted for an advisory

vote.

As the Annual Remuneration Report for 2019 was approved with an ample majority, the Company considered it appropriate to continue providing the same level of detail of information reflected therein.

B. GLOBAL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED IN THE LAST FINANCIAL YEAR

B.1. Explain the process by which the remuneration policy was applied and the individual remuneration reflected in Section C of this report determined. This information will include the role of the remuneration committee, the decisions made by the Board of Directors and, where appropriate, the identity and role of the external advisers whose services have been used in the process of applying the remuneration policy in the last financial year.

The Board determines the various items of the Directors' remuneration package on the basis of the proposal made in each case by the Nomination and Remuneration Committee, in accordance with the responsibility assumed by each director and the functions they discharge.

The Board's remuneration package for 2020 was determined in the following manner:

(i) In the first quarter of 2020, prior to the declaration of the COVID-19 pandemic, the Nomination and Remuneration Committee resolved to propose to the Board of Directors the approval of the parameters on which the variable remuneration of the executive directors would be based.

(ii) Subsequently, and also prior to the declaration of the COVID-19 pandemic, the Board of Directors unanimously approved the Nomination and Remuneration Committee's aforementioned proposal.

(iii) On 6 May 2020, due to the supervening COVID-19 situation and the resolutions adopted by the Company to compensate for the delay arising from the suspension of activities until 20 April 2020, without resorting to exceptional employment measures, the Nomination and Remuneration Committee resolved to propose to the Board of Directors a 5% reduction in the remuneration of the members of the Board of Directors in 2020, and also noted that it was unlikely that certain objectives enabling the executive directors to earn variable remuneration would be achieved in 2020.

(iv) On 6 May 2020, the Board of Directors approved the proposal received from the Nomination and Remuneration Committee in the terms set forth above, applicable to remuneration in 2020.

(v) On 25 February 2021, the Board of Directors confirmed that the objectives established in order for variable remuneration to be earned by the executive directors had not been met and, accordingly, no amounts were to be paid in this connection.

B.2. Explain the various actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and to adjusting such risk to the company's long-term objectives, values and interests, including a reference to measures adopted to ensure that the remuneration earned has taken account of the company's long-term performance and strikes an appropriate balance between fixed and variable remuneration items, measures adopted in relation to categories of personnel whose professional activities have a material impact on the entity's risk profile, and measures adopted in order to avoid any conflicts of interest, if any.

CAF's remuneration policy is primarily focused on market criteria and compliance with the principles of moderation and prudence.

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.

As an example of this, in 2020 the directors did not receive any advances, guarantees or loans; nor did they receive any additional remuneration for belonging to the Boards of Directors or senior management of other Group companies.

Also, in order to align the interests of the executive directors with those of the Company, variable items linked to professional performance were included in their remuneration in 2020, as described in greater detail in Section B.7 below.

To ensure that the remuneration takes account of the Company's long-term performance, it was decided that the variable remuneration should be linked to parameters associated with the achievement of specific economic/financial and industrial objectives defined in the Strategic Plan, which are quantifiable and aligned with the Company's corporate interests and strategic objectives in different areas (procurement, sales, EBT), and to adequate operational management (level of working capital), as well as to a non-financial parameter (customer satisfaction) capable of creating long-term value.

Also, as in previous year, it was resolved that the payment of any variable remuneration that could be earned would be deferred until 2021 to enable the Board of Directors to adequately measure the degree of achievement of the objectives. Lastly, it was established that the Company would be able to claim the reimbursement of any variable remuneration paid on the basis of inaccurate data.

The remuneration of directors who are neither executive nor proprietary directors is set at a level that in no case compromises their independence of judgement.

Due to the supervening COVID-19 situation, the Board of Directors, at its meeting held on 6 May 2020, approved the proposal made by the Nomination and Remuneration Committee to reduce the remuneration of the members of the Board of Directors by 5%, applicable in 2020. This resolution was adopted in keeping with the agreements reached by the Company to compensate, without resorting to exceptional employment measures, for the delay arising from the suspension of activities until 20 April 2020.

In view of the above, following an analysis of the publicly available information on the remuneration earned by the directors of companies comparable to CAF, it can be seen that the amounts received by the directors of CAF stand at reasonable levels in relation to these companies.

As a result of all the foregoing, the Company considers that exposure to excessive risks is reduced and that the remuneration system in place meets the Company's long-term objectives, values and interests.

B.3. Explain how the remuneration earned and vested in the year complies with the provisions of the remuneration policy in force.

Also report on the relationship between the remuneration obtained by directors and the company's short- and long-term earnings or other performance measures, explaining, where appropriate, how variations in the company's performance may have influenced the variation in directors' remuneration, including remuneration earned and subject to deferred payment, and how it contributes to the company's short- and long-term performance.

The remuneration earned in the year complies fully with the provisions of the director remuneration policy approved by the shareholders at CAF's Annual General Meeting held on 10 June 2017 (applicable to 2020), as explained below:

- (i) The remuneration earned by external directors consisted solely of fixed remuneration for being a Board member, fees for attending Board meetings and remuneration for Committee membership, and it remained within the maximum amount established in Section 3.1 of CAF's remuneration policy.
- (ii) The fixed remuneration of executive directors included the items indicated in Section 3.2 of CAF's remuneration policy, and the quantitative limits established therein were not exceeded.
- (iii) The variable remuneration of executive directors was linked to the achievement of specific economic, financial and industrial objectives defined in the Strategic Plan, as provided for in CAF's remuneration policy.

As regards the relationship between the directors' remuneration and the Company's performance, the inclusion of variable items in the remuneration of executive directors enabled such remuneration to be linked to performance criteria.

Although variable remuneration has an accrual period of one year, it is deemed to contribute to the achievement of the Company's short- and long-term performance to the extent that the achievement of the objectives on which it is based affects the Group's performance at both short (level of working capital or sales) and long term (procurement and customer satisfaction).

- B.4.** Report on the outcome of the advisory vote of the general meeting on the annual report on remuneration for the previous year, indicating the number of “no” votes cast:

	Number	% of total
Votes issued	26,530,373	77.39

	Number	% of votes cast
“No” votes	5,252,552	19.80
“Yes” votes	19,482,608	73.43
Abstentions	1,795,213	6.77

Observations

The annual remuneration report was approved by an ample majority of the votes cast, in line with previous years.

- B.5.** Explain how the fixed items earned and vested in the year by the directors in their capacity as such were determined and how they have changed with respect to the previous year.

The remuneration of the directors in their capacity as such comprise three items, namely: fixed remuneration for belonging to the Board of Directors, fees for attending the meetings of the Board of Directors and additional fixed remuneration for Committee membership.

As described in detail in Section B.1, the Nomination and Remuneration Committee proposed to the Board of Directors that the directors’ remuneration be reduced by 5%. The Board subsequently approved this proposal, which is solely applicable to 2020.

There is no additional remuneration for holding the office of Chairperson; nor are there any other benefits, such as advances or loans.

- B.6.** Explain how the salaries earned and vested in the last financial year by each of the executive directors for the performance of their management duties were determined and how they have changed with respect to the previous year.

The Company has two executive directors, who received fixed remuneration in 2020 in the form of salaries, life insurance and attendance fees. The CEO also enjoys a long-term savings scheme, as detailed in Section B.9.

There are no other benefits, such as advances or loans. As indicated in the Directors' Remuneration Report for 2019 and included in Section A.1, the Company has an indefinite-term employment contract with the CEO, approved by the Board of Directors. The other executive director, who has not been delegated powers by the Board, has an ordinary employment contract. The salaries of these executive directors are included in their respective contracts.

In 2020 the salaries totalled EUR 617 thousand, per the breakdown indicated in Section C, compared to the EUR 644 thousand earned in 2019 in this connection.

- B.7.** Explain the nature and main features of the variable items of the remuneration systems earned and vested in the last financial year.

In particular:

- Identify each of the remuneration plans determining the variable remuneration earned by each of the directors in the last financial year, including information on the scope of the plan, its approval date, implementation date, vesting conditions, if any, accrual periods and periods of validity, criteria used to assess performance and how this has affected the establishment of the variable amount earned, as well as the measurement criteria used and the time required in order to be in a position to adequately measure all the stipulated conditions and criteria. Provide a detailed description of the criteria and factors applied with respect to the time required and the methods for verifying effective compliance with the performance-related conditions or conditions of any other kind to which the earning and vesting of each variable remuneration item was linked.

In the case of stock option plans and other financial instruments, the general features of each plan will include information on the conditions both for acquiring unconditional ownership (vesting) thereof, and for being able to exercise those options or financial instruments, including the price and period for the exercise thereof.

- Each of the directors, and their category (executive directors, non-executive proprietary directors, non-executive independent directors or other non-executive directors), who are beneficiaries of remuneration systems or plans that

include variable remuneration.

- Where applicable, information shall be provided on the accrual periods or the periods of deferral of payment applied and/or the periods of retention/non-disposal of shares or other financial instruments, if any.

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

At its meeting held on 25 October 2017, the Board of Directors approved the inclusion of variable items in the remuneration of executive directors for 2018 onwards.

The variable remuneration has an annual accrual period, based on the calendar year.

The specific parameters to which the variable remuneration for 2020 should be linked were established on the basis of a proposal made by the Nomination and Remuneration Committee and subsequently approved by the Board. The following parameters were defined, with a different weighting in the total variable remuneration: procurement volume (20%), sales volume (20%), earnings before tax (EBT) (30%), level of working capital (15%) and customer satisfaction level (15%), in all cases at consolidated Group level, applicable to the Executive Committee and the executive directors.

Procurement volume, sales volume, earnings before tax (EBT) and working capital level are linked to the achievement of specific economic, financial and industrial objectives established in the Strategic Plan. The last of these parameters, customer satisfaction, is a non-financial criterion that promotes the creation of long-term value for the Company and is also defined as an objective in the Strategic Plan.

A series of objectives were established for each parameter which, if achieved, enabled 100% of the variable remuneration to be obtained, up to a maximum limit. Minimum objectives were also established, which enabled 50% of the variable remuneration to be obtained. Failure to achieve those objectives meant that the variable remuneration associated with the parameter concerned was not earned. In the event that the minimum objectives were achieved but not the fixed objectives, variable remuneration of between 50% and 100% would be earned on a straight-line basis depending on the degree of achievement of the objectives.

"Procurement" and "EBT" were categorised as key parameters and, therefore, the performance of the minimum objectives associated therewith was an indispensable requirement for the accrual of any variable remuneration in relation to the remaining parameters.

The degree of achievement of the objectives is measured on the basis of the financial statements and directors' report as at 31 December 2020, once authorised for issue by the Board of Directors in the first quarter of 2021 (with respect to the "procurement", "sales", "EBT" and "working capital" parameters), and on the basis of customer surveys (with respect to the "customer satisfaction" parameter).

Payment of any variable remuneration earned would be deferred to provide the Board of Directors with sufficient time to verify the degree of achievement of the objectives. It was also envisaged that, in the event of any error in the calculation of the variable remuneration or in the measurement of the degree of achievement of the objectives, the executive directors would be required to reimburse any excess that they had received.

The degree of achievement of the various parameters was assessed by the Board of Directors, at the proposal of the Nomination and Remuneration Committee, at its meeting held on 25 February 2021, the date on which the Board authorised the financial statements and directors' report for 2020 for issue, and the degree of achievement of the economic, financial parameters was effectively verified. As a result of that assessment, it was confirmed, as forecasted, that the objectives established for the key parameters "procurement" and "EBT" had not been achieved and, therefore, no variable remuneration was earned by the executive directors.

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

The variable remuneration of the executive directors does not include items with an accrual period exceeding one year.

B.8. Indicate whether certain variable items earned were reduced or claimed back where, in the first case, the payment of unvested amounts was deferred, or, in the second case, the items had vested and been paid on the basis of information subsequently demonstrated to be clearly inaccurate. Describe the amounts that were reduced or reimbursed under reduction (malus) or reimbursement (clawback) clauses, why they were enforced and the years to which they relate.

As indicated in Section B.7 above, the objectives established in order for the executive directors to earn variable remuneration were not achieved in 2020 and, therefore, no amounts were reduced or claimed back.

B.9. Explain the main features of long-term savings schemes, the equivalent annual amount or cost of which is shown in the tables in Section C, including retirement and any other survivor's benefits, partially or totally financed by the company, whether internally or externally, indicating the type of plan, whether it is a defined-contribution or a defined-benefit plan, the conditions that it covers, the conditions for vesting the economic rights in favour of the directors and its compatibility with any type of compensation for early termination or termination of the contractual relationship between the company and the director.

The Company has taken out a collective long-term savings insurance policy with its CEO, in respect of which the Company itself is the policyholder and beneficiary. This is a collective long-term savings insurance policy under the defined contribution scheme, compatible with other types of compensations, in which the payment of annual premiums guarantees a benefit in the event that the corresponding maturity date is reached in the beneficiary's lifetime. Otherwise, there is no vesting of rights until that date. A contribution of EUR 1,300 thousand was made in this connection in 2020, pursuant to the parameters established by the Company and the agreement reached with the CEO.

B.10. Explain any termination benefits or other payments arising from early retirement, whether prompted by the company or the director, or from termination of contract, in the terms provided therein, earned and/or received by the directors in the last financial year.

No directors earned or received any termination benefits or payment arising from early retirement or termination of contract in 2020.

B.11. Indicate whether there have been any significant amendments to the contracts of executive directors exercising senior management functions. Also, describe the main terms and conditions of the new contracts entered into with executive directors in the year, except as described in Section A.1.

In 2020 the salaries of the executive directors were reduced with respect to 2019, dropping from EUR 644 thousand to EUR 617 thousand, and no variable remuneration was earned by them.

Also, a further contribution was made to the long-term savings scheme in place for the CEO, as indicated in Section B.9.

No new contracts were entered into with executive directors in 2020.

B.12. Explain any supplementary remuneration accrued to directors as consideration for services rendered other than those inherent to their position.

No supplementary remuneration has accrued to directors as consideration for services rendered other than those inherent to their position.

B.13. Explain any remuneration arising from the grant of advances, loans and guarantees, with an indication of the interest rates, main conditions and amounts repaid, as well as any obligations assumed on their behalf by way of guarantees.

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

B.14. Detail the remuneration in kind accrued by the directors in the year and provide a brief description of the nature of the various salary items.

The Company has not agreed any remuneration in kind with its directors, except as indicated with respect to life insurance for executive directors.

B.15. Explain the remuneration accrued by directors by virtue of payments made by the listed company to a third party in which the director provides services, when such payments are intended to remunerate the director's services in the company.

No remuneration has been accrued by any directors by virtue of the payments made by the Company to a third entity at which the director provides services.

B.16. Explain any item of remuneration other than the foregoing, irrespective of its nature or the Group entity that pays it, especially when it is considered to be a related-party transaction or when its issue distorts the fair presentation of the total remuneration earned by a director.

There are no additional remuneration items.

C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Type	2020 accrual period
MR ANDRÉS ARIZKORRETA GARCÍA	Executive chairman	From 01/01/20 to 31/12/20
MR MANUEL DOMÍNGUEZ DE LA MAZA	Proprietary director	From 13/06/20 to 31/12/20
MR JUAN JOSÉ ARRIETA SUDUPE	Other external director	From 01/01/20 to 31/12/20
MR LUIS MIGUEL ARCONADA ECHARRI	Other external director	From 01/01/20 to 31/12/20
MR JAVIER MARTÍNEZ OJINAGA	Independent director	From 01/01/20 to 31/12/20
MS IDOJA ZENARRUTZABEITIA BELDARRAIN	Proprietary director	From 13/06/20 to 31/12/20
MS MARTA BAZTARRICA LIZARBE	Executive director	From 01/01/20 to 31/12/20
MS CARMEN ALLO PÉREZ	Independent director	From 01/01/20 to 31/12/20
MR JULIÁN GRACIA PALACÍN	Independent director	From 01/01/20 to 31/12/20
MS ANE AGIRRE ROMARATE	Independent director	From 01/01/20 to 31/12/20
MR IGNACIO CAMARERO GARCÍA	Independent director	From 01/01/20 to 31/12/20
MR JOSE ANTONIO MUTILOA IZAGUIRRE	Proprietary director	From 01/01/20 to 13/06/20

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

a) Remuneration from the reporting company:

i) Remuneration accruing in cash (in thousands of euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Indemnification	Other items	Total 2020	Total 2019
MR ANDRÉS ARIZKORRETA GARCÍA	55	40		461					556	685
MR MANUEL DOMÍNGUEZ DE LA MAZA	28	20							48	
MR JUAN JOSÉ ARRIETA SUDUPE	55	40	21						116	130
MR LUIS MIGUEL ARCONADA ECHARRI	55	40	14						109	115
MR JAVIER MARTÍNEZ OJINAGA	55	40	14						109	115
MS IDOIA ZENARRUTZABEITIA BELDARRAIN	28	20							48	
MS MARTA BAZTARRICA LIZARBE	55	40		156					251	306
MS CARMEN ALLO PÉREZ	55	40	14						109	115
MR JULIÁN GRACIA PALACÍN	55	40	7						102	100
MS ANE AGIRRE ROMARATE	55	35	14						104	115
MR IGNACIO CAMARERO GARCÍA	55	40							95	50
MR JOSE ANTONIO MUTILOA IZAGUIRRE	30	20							50	100

Observations

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

Name	Name of the plan	Financial instruments at the beginning of 2020		Financial instruments granted in 2020		Financial instruments vested in the year				Matured instruments not exercised	Financial instruments at the end of 2020	
		No. of instruments	Equivalent no. of shares	No. of instruments	Equivalent no. of shares	No. of instruments	Equivalent no. of (vested) shares	Price of vested shares	Gross earnings on vested shares or financial instruments (thousands of euros)		No. of instruments	No. of instruments
No data												

Observations

There were no remuneration systems based on shares or financial instruments.

iii) Long-term saving schemes.

Name	Remuneration from vesting of rights to savings schemes
No data	

Name	Contribution for the year by the company (thousands of euros)				Amount of accrued funds (thousands of euros)			
	Savings schemes with vested economic rights		Savings schemes with unvested economic rights		Savings schemes with vested economic rights		Savings schemes with unvested economic rights	
	2020	2019	2020	2019	2020	2019	2020	2019
MR ANDRÉS ARIZKORRETA GARCÍA			1,300	1,300			3,830	2,530

None earned.

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

Name	Name of the plan	Financial instruments at the beginning of 2020		Financial instruments granted in 2020		Financial instruments vested in the year				Matured instruments not exercised	Financial instruments at the end of 2020	
		No. of instruments	Equivalent no. of shares	No. of instruments	Equivalent no. of shares	No. of instruments	Equivalent no. of (vested) shares	Price of vested shares	Gross earnings on vested shares or financial instruments (thousands of euros)	No. of instruments	No. of instruments	Equivalent no. of shares
No data												

Observations



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iii) Long-term saving schemes.

Name	Remuneration from vesting of rights to savings schemes
No data	

Name	Company's contribution for the year (thousands of euros)				Amount of accumulated funds (thousands of euros)			
	Savings schemes with vested economic rights		Savings schemes with unvested economic rights		Savings schemes with vested economic rights		Savings schemes with unvested economic rights	
	2020	2019	2020	2019	2020	2019	2020	2019
No data								

Observations

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iv) Detail of other items

Name	Item	Remuneration amount
No data		

Observations

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c) Summary of remuneration (in thousands of euros):

The summary must include the amounts corresponding to all the remuneration items included in this report that have accrued to each director, in thousands of euros.

Name	Remuneration accruing in the Company					Remuneration accruing in Group companies					Total 2020 - Company + Group
	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings schemes	Other items of remuneration	Total 2020 - Company	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings schemes	Other items of remuneration	Total 2020 - Group	
MR ANDRÉS ARIZKORRETA GARCÍA	556		1,300	19	1,875						1,875
MR MANUEL DOMÍNGUEZ DE LA MAZA	48				48						48
MR JUAN JOSÉ ARRIETA SUDUPE	116				116						116
MR LUIS MIGUEL ARCONADA ECHARRI	109				109						109
MR JAVIER MARTÍNEZ OJINAGA	109				109						109
MS IDOIA ZENARRUTZABEITIA BELDARRAIN	48				48						48
MS MARTA BAZTARRICA LIZARBE	251				251						251
MS CARMEN ALLO PÉREZ	109				109						109

Name	Remuneration accruing in the Company					Remuneration accruing in Group companies					Total 2020 - Company + Group
	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings schemes	Other items of remuneration	Total 2020 - Company	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings schemes	Other items of remuneration	Total 2020 - Group	
MR JULIÁN GRACIA PALACÍN	102				102						102
MS ANE AGIRRE ROMARATE	104				104						104
MR IGNACIO CAMARERO GARCÍA	95				95						95
MR JOSE ANTONIO MUTILOA IZAGUIRRE	50				50						50
TOTAL	1,697		1,300	19	3,016						3,016

Observations

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D. OTHER INFORMATION OF INTEREST

If there are any significant issues relating to directors' remuneration that it has not been possible to include in the foregoing sections of this report, but which it is necessary to include in order to provide more comprehensive and reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

[There are no relevant matters regarding directors' remuneration that have not been included in the other sections of this report.]

This annual remuneration report was approved by the Company's Board of Directors at its meeting held on:

[25/02/21]

Indicate whether any director voted against or abstained in relation to the approval of this Report.

[] Yes

[v] No