



ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED COMPANIES 2019

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ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED
COMPANIES

A- CORPORATE REMUNERATION POLICY FOR THE CURRENT YEAR

A.1 Explain the valid director remuneration policy applicable to the current year. Whenever relevant, certain information may be included by reference to the remuneration policy approved by the general meeting, so long as the inclusion is clear, specific and concrete.

Descriptions should be given for specific determinations for the year in progress regarding the remuneration of directors in their status as such and as a result of their executive functions carried out for the board pursuant to contracts signed with executive directors and the remuneration policy approved by the general meeting.

In 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 were considered when establishing the company's remuneration policy.

-Information on whether any external advisors took part in this process and, if so, their identity.

The directors remuneration policy at Viscofan S.A (hereinafter also "**Viscofan**" or the "**Company**") valid for 2020 was approved by the company's Annual General Meeting held on 25 May 2018 as a separate item on the order of the day (item six) and will remain valid for the ensuing three years (hereinafter the "**Policy**"). The policy was drawn up by the company's Appointments and Remuneration Committee (the "**Committee**") after a process of reflection on the previously valid policy, considering the degree of alignment with corporate governance recommendations, market practices (particularly IBEX 35 companies) and shareholder interests. The process was carried out with advice from the consultancy *Willis Towers Watson*

The Policy establishes a remuneration system for directors based on (i) their capacity as such and (ii) specific executive or senior management functions:

- I. Remuneration for directors in their capacity as such.-
 - a. Limit.- The annual remuneration to directors in their capacity as such, for all the items, will not exceed the limit of 1.5% on the annual consolidated cash profit before taxes (article 29 in the company bylaws). The previous remuneration is, in any case, the maximum amount, corresponding to the Board itself, the proposed distribution of its amount between the directors. In this regard, payment is usually settled after the Annual General Meeting approves the annual accounts from the previous year.
 - b. Concepts.- The Policy addresses two separate concepts:
 - i. a fixed remuneration for sitting on the Board of Directors and committees, and according to positions or roles held on those bodies.
 - ii. attendance allowances for Board of Directors meetings.
- II. Executive director remuneration for executive or senior management functions.- For the performance of their executive duties, executive director remuneration comprises the following concepts:
 - a. An annual fixed remuneration (which may also be referred to as "Salary" or "Pay", without distinction, in this report) determined on the basis of the executive functions associated with the position and remuneration in comparable companies in the marketplace. While no significant variations are expected during the policy's effective period, it will be updated

pursuant to policy parameters (i.e. company performance, market analysis, the performance of macroeconomic indicators such as the CPI).

- b.** An annual variable remuneration (also referred to as "Annual Bonus"), which is linked to the accomplishment of a combination of economic, financial, industrial, operational and qualitative objectives, of 70% of salary for the "Target Annual Variable Remuneration" (*target*, i.e. when targets are met 100%), and limited to a maximum of 120% of the Target Annual Variable Remuneration (i.e. up to a maximum of 84% of the executive director's salary) for maximum excess of pre-established targets.
- c.** A long-term incentive plan (also referred to as a "3-year Bonus") to reward the achievement of the Viscofan Group's long-term strategic targets, sustainability of results and the creation of sustainable value for shareholders, in which case the limit of the Annualised Target Incentive (annualised *target*) is 70% of the annual fixed remuneration, which has a maximum of 120% of the Annualised Target Incentive (84% of salary).
- d.** Other benefits: life and accident insurance, healthcare assistance policy and company vehicle.

The company also has civil liability insurance for directors and executives.

During 2020, as part of the policy, the committee made the following proposal at its meeting on 20 February 2020 and the Board of Directors approved it at its meeting on 27 February 2020:

- (i) To submit to the Annual General Meeting an increase in the number of directors, from 10 to 11, and the appointment of a new independent director. Therefore, the amounts accrued by the group of directors in their capacity as such for 2020 will increase within the limits of the policy and pursuant to the same.
- (ii) As in previous years, the executive directors' salaries will be updated for 2020 and their Annual Bonus targets will be determined. Information on this will be provided in a section below.
- (iii) Submit the Long-term Incentive Plan (3-year Plan) for 2019–2021, with regard to the company's executive directors, to the Annual General Meeting, pursuant to current legislation. The above 2019–2021 Plan was approved, after a report was issued by the committee, by the Board of Directors on 30 July 2019 and communicated to the Spanish National Securities Market Commission as relevant information on the same date.

-Relative importance of variable remuneration concepts vis-à-vis fixed concepts (remuneration mix) and the criteria and objectives used to determine and guarantee a suitable balance between fixed and variable remuneration items. In particular, explain the actions taken by the company in connection with the remuneration system to reduce excessive risk exposure and match it to the long-term targets, values and interests of the company, which should include, whenever pertinent, measures taken in relation to those categories of staff whose professional activities have a material impact on the risk profile of the entity; clawback formulae or clauses to reclaim variable components of performance-based remuneration when such components have been paid on the basis of data that is subsequently proven to be wholly inaccurate; and measures designed to prevent conflicts of interest, where applicable.

Furthermore, state whether the company has established any period for the accrual or vesting 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 vested financial instruments, or if any clause has been approved 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 proven to be inaccurate.

Remuneration for the executive directors—Executive Chairman and Managing Director of the Viscofan Group—is balanced around three main components:

- The fixed component, which is accrued in any case, so long as it is not an item entailing an exposure to risk.
- Annual variable remuneration or Annual Bonus, linked to meeting operating and financial business targets that are set by the committee and approved by the Board of Directors. The annual variable remuneration objectives, as they are primarily based on the annual budget, are aligned with the strategic vision and long-term objectives in the Viscofan Group's strategic plans (presently the 2016-2020 "MORE TO BE" Plan).
- Long-term variable remuneration, which essentially takes the creation of value for shareholders and the sustainability of the same as its point of reference, with a minimum window of three years

In a scenario of meeting targets as standard (i.e. when targets are met 100%), variable remuneration represents approximately 60% of the total remuneration for executive directors, including a likewise balanced distribution between annual and multi-year remuneration. The end structure of the "remuneration mix" for executive directors ultimately depends on targets being met and on the Board of Directors' assessment, based on the committee's proposal, of the director's performance.

The following risk mitigation elements must be considered:

- Group senior management has the same variable remuneration arrangement, which yields greater cohesion to management and discourage certain categories of executives from assuming excessive risks in their respective areas.
- The main function of the Committee throughout the process, analysing, selecting and proposing the targets, objectives and metrics on variable remuneration for executive directors and senior management. The main characteristics of the objectives are as follows:
 - a) they are reviewed periodically to ensure that they are sufficiently demanding;
 - b) they are measurable and quantifiable, and their weightings and achievement levels are approved by the committee at the start of every year (usually in February) for annual variable remuneration, taking into account the economic environment, the strategic plan, historical analyses, the Group's budget and analyst and investor expectations and consensus, among other factors.
 - c) they are monitored by the committee during the measurement period;
 - d) at the end of the measurement period, the committee assesses the degree to which they are finally met. In this assessment function, the committee is backed by Internal Audit (which reports functionally to the Audit Committee), Corporate Finance and other departments with responsibilities in this regard, who provide information on the audited results. Both for the establishment of targets and for the evaluation of their achievement, the Committee also considers associated risks. Positive or negative economic effects derived from extraordinary events that could distort the results of the assessment shall be eliminated. The committee will assess to what degree the established targets are met and, taking into account the weightings for each established metric, will determine the amount to be paid to the executive directors, which must then be approved by the Board of Directors. Annual and long-term targets are assessed and variable remuneration is recognised based on audited financial statements.
 - e) under the terms set, the annual and multi-year variable remuneration is limited by the policy itself to 70% of the executive director's fixed annual remuneration or salary for the target and 84% for exceeding it.
- The Policy includes an ex-post control of variable remuneration (Clawback) should the following circumstances arise within the twelve months following the date of payment:
 - a) Significant fall in consolidated net profit (over 50%)
 - b) Serious noncompliance by the beneficiary of the internal rules, including, in particular, risk-related rules.
 - c) Material reformulation of the group's financial statements, when thus considered by statutory auditors, except when appropriate according to amended accounting legislation.
- To reinforce the commitment of executive directors to long-term company interests and alignment with shareholder interests, the Policy includes a share ownership commitment in which executive directors must hold a number of shares equivalent to two years of gross fixed remuneration while they are in office. A period of four years is established to fulfil this objective,

beginning from the effective date of the Policy or upon appointment for new directors, though the two existing executive directors hold shares that exceed the indicated threshold.

- Regarding measures to preclude conflicts of interest, the Regulations of the Board of Directors states that directors must inform of any conflict of interest (particularly for the annual assessment process) or have the duty to do so as soon as they become aware thereof, and must also immediately resign should this conflict persist or should their presence on the Board contravene the Company's interests. Directors must also refrain from discussing and voting on matters in which they have either a direct or indirect interest, even through related parties, except in the resolutions or decisions affecting their capacity as members of the Board, such as their appointment for or removal from positions within the Board.

Internal company regulations on measures for preventing conflicts of interest are applicable to all Viscofan Group employees.

-Amount and nature of fixed components that directors are expected to receive in the year for their status as such.

Remuneration for directors in their capacity as such in 2020 is staying under the terms of the policy.

- The Chairman of the Board will receive a fixed remuneration for that office of €160,000.

- Board members shall receive a fixed remuneration for membership thereof of €80,000 each.

-An additional fixed remuneration will be paid to per office and membership on Committees of the Board of Directors:

- Audit Committee: Chairman €45,000 and members €30,000.

- Appointments and Remuneration Committee: Chairman €30,000 and members €20,000.

Allowances for attendance at Board of Directors meetings, to pay for personal and effective attendance at the meetings of the Board of Directors remain at €3,000 per meeting and director. The Chairman and the Managing Director, in their capacity as executive directors who receive other remuneration for their executive functions, will not receive allowance whatsoever in this regard.

The company has civil liability insurance for directors and executives, whose 2020 premium amounted to €50,120.

-Amount and nature of fixed components that executive directors will receive in the year for discharging duties of senior management.

The following fixed remuneration has been established for 2020 by the Board of Directors, at the committee's proposal, for executive directors for the performance of executive or senior management duties:

- Chairman: €606,000 (€595,000 in 2019).

- Managing Director: €466,000 (€458,000 in 2019)

Pursuant to the policy, this salary update was proposed and agreed considering, essentially, Group performance and indicators taken as a benchmark within the Group for updating salaries.

-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 remuneration in kind that will be accrued in 2020 for the concepts contemplated by the Policy (life/accident insurance premiums, healthcare and vehicles) is estimated at €11

thousand for the Executive Chairman and €32 thousand for the Managing Director.

-Amount and nature of variable components, differentiating between those established in the short and long term. Financial and nonfinancial parameters, 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.

The variable components of the remuneration system for executive directors in 2020, pursuant to the provisions of the policy, are as follows:

- Annual variable remuneration (Annual Bonus).
- A target Annual Bonus of €424,200 has been set for the Executive Chairman (i.e. when targets are met 100%);
- A target Annual Bonus of €326,000 has been set for the Managing Director (i.e. when targets are met 100%);

The targets and weighting were proposed by the committee and approved by the Board of Directors in its meeting on 27 February 2020 and are as follows:

a) Corporate Targets, common to the two executive directors with a weighting of 50% in the Annual Bonus:

- Economic and financial parameters: increased sales, EBITDA and net profit in comparison with the previous year; decreased stock/sales ratio and increased share value.
- Non-financial parameters: improved sustainable development goals in comparison with the previous year as regards reducing CO2 emissions during production and reducing waste during production.

b) Each executive director's own targets, which will have a weighting of 30% in the Annual Bonus, linked to the Group's operational and strategic targets.

c) Assessment of each executive director's performance, which will have a maximum weighting of 20% in the Annual Bonus.

At the end of the year, the committee will determine the degree to which targets have been met and assess the executive directors' performance, and that percentage will be applied to the target Annual Bonus to determine the specific amount of the annual variable remuneration, which will be submitted to the Board of Directors for approval.

- Long-term incentive plan. The Board of Directors has submitted the Long-term Incentive Plan for the 2019–2021 period to the 2020 Annual General Meeting for approval. Its main characteristics (which are recorded in the proposed agreement and in the report that will be provided to the shareholders) are as follows, in accordance with what the company communicated to the Spanish National Securities Market Commission on 30 July 2019.

- The plan involves an extraordinary, multi-year and mixed incentive, payable in cash (30% for executive directors) and company shares (70% for executive directors).

The amounts and maximum number of shares for executive directors, pursuant to the limits established in the policy, are as follows:

- For the Executive Chairman, a maximum of €374,850 and 17,853 shares for meeting targets 100%; and a maximum of €449,820 and 21,424 shares if targets are exceeded.

- For the Managing Director of the Viscofan Group, a maximum of €288,540 and 13,742 shares for meeting the target; and a maximum of €346,248 and 16,491 shares if the target is exceeded.

All of the shares to be paid from the Plan will come from the Company's treasury stock. No minimum value of the assigned shares is guaranteed.

We propose paying an incentive based on the following parameters in the Measurement Period:

1. Total Shareholder Return (Weighting ratio = 0.8)

We propose that the Total Shareholder Return ("TSR"), which measures the return on investment for the shareholder as a sum of the variation in the share price in the Measurement Period plus dividends and other similar items received during this period, be used as an essential criterion or parameter of the plan. The average price of the share in December 2018, i.e. €48.99 per share, is taken as the initial benchmark. For the calculation of TSR performance at the end of the period, the average share price in December 2021 will also be considered. In accordance with these benchmark values, a minimum level of targets met is established, as of which the plan begins to receive 4% of the Compound Annual Growth Rate (CAGR) and ranging up to 120% of the weighting ratio if the TSR shows a total increase in the Measurement Period of 11% CAGR ("Maximum TSR excess"). These targets-met values have been determined considering the historic performance of return on Viscofan shares.

2. Accident-rate reduction (weighting ratio = 0.1).

To achieve a greater level of awareness, monitoring and alignment of the management team with occupational health and safety, the improvement of the accident rate is established as a long-term non-financial indicator, understood as the reduction in the ratio of lost work hours as a consequence of accidents with leave versus the total theoretical hours of work in the Measurement Period. The starting point is set at the 2018 figure of 0.38%, a minimum reduction of the indicator's average of 3% is proposed and an increase for the weighting ratio of up to 100% if this indicator is reduced by an average of 7% in the Measurement Period.

3. Environmental sustainability (Weighting ratio: = 0.1)

With the aim of promoting the development of the circular economy and reducing the environmental impact of productive activity, we propose using a new indicator that relates to the ratio of tonnes of waste managed in the landfill for every million metres extruded. From the figure of 1.27 it is proposed to reduce the indicator by a minimum of 4 percentage points and to increase the weighting ratio up to 100% if the indicator is reduced to 10 percentage points in the measurement period.

As a condition for payment from the plan, following a report from the committee, the Viscofan Board of Directors must have ratified the degree to which the parameters and magnitudes are met. Pursuant to the policy, executive directors who are beneficiaries of the plan may not transfer the shares delivered for a period of three years, unless they directly or indirectly hold a number of shares equivalent to twice their fixed annual remuneration. The provisions of the current Directors' Remuneration Policy will also apply to ex-post control of variable remuneration ("*Clawback*").

-Main characteristics of the long-term savings systems. In addition to 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 vested 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, on the terms provided, between the company and the director.

State if the accrual or vesting 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.

The Company has no long-term savings systems for directors.

- 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 agreed to between the company and director, whether voluntary resignation by the director, dismissal of the director by the company, or any other type of termination agreement reached such as exclusivity, post-contractual non-competition, continuance in office or loyalty, which would entitle the director to some sort of remuneration.

The following cases are addressed in executive director contracts:

- The compensation of two annual payments of the annual fixed remuneration for extinguishing the contractual relationship not attributable to the director, including termination initiated by the executive director in the following cases:

i) Substantial change in the terms and conditions of the provision of services that notoriously undermine the executive director.

(ii) Substantial change in the conditions of the provision of services of the executive director as a result of a significant change in ownership of the Company that has the effect of renewing the governing bodies of the Company or in the content and approach of its main activity, provided that the termination occurs within three months after the production of such changes.

There will be no compensation if the dismissal is the result of gross misconduct, wilful misconduct and culpable conduct of the executive director in the performance of duties.

- Two-year non-compete agreement. The compensation for the two-year non-compete commitment is included in the compensation contemplated for termination of the relationship. In case of noncompliance with the non-compete commitment, the executive director must return the received compensation and pay three times its amount in damages.

-Indicate the conditions that must be met in the contracts for senior management functions as executive directors. Among other aspects, give information on the duration, limits to the amounts of indemnity, tenure clauses, notice periods and payments that can replace such notice periods, and any other clauses regarding hiring bonuses, as well as severance payments or ring-fencing for early cancellation or termination of the contractual relationship between the company and the executive director. Include, inter alia, covenants or agreements regarding non-competition, exclusivity, tenure or loyalty and non-competition after termination of contract, unless already explained in the section above.

Executive director contracts adapt to the following essential conditions:

- Commercial/business nature

- Indefinite.

- Notice of 6 months for voluntary termination (reciprocal). In case of failure to observe the 6-month notice period (reciprocal), the compensation shall be payment of the remuneration corresponding to the unfulfilled notice period.

-Compensations and post-competition covenants (refer to section above).
- The duty of confidentiality on information, data, reports or background information to which directors had access while in office shall persist even after they leave office, regardless of the reason.

Exceptionally, and in order to streamline the hiring of candidates, the Policy provides for the Committee the ability to submit a proposal to the Board of Directors for a hiring premium to offset any loss of incentives not accrued, and the possibility of an international assignment for such cases (e.g. housing supplement). Such circumstances did not occur, and the Company made no premium payment in this regard.

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

No supplementary remuneration other than the remuneration explained in previous sections are expected.

- Other remuneration concepts, including concepts deriving from the company providing advances, loans, guarantees or any other remuneration to directors.

None were or are expected to be granted.

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

There are not and will not be any supplementary remuneration other than the remuneration explained in previous sections.

A.2 Explain any relevant change in the remuneration policy applicable to the current year arising from:

- A new policy or amendment in the policy already approved by the General Meeting.

- Relevant changes in specific determinations established by the board for the current year on the valid remuneration policy compared with the ones applied in the previous year.

- Proposals that the board of directors agreed to at the general shareholders' meeting at which this annual report will be submitted and proposed as applicable in the current year.

The currently valid Policy was approved by Viscofan shareholders at the Annual General Meeting held on 25 May 2018 and applied in that year. No changes to the policy are expected for 2020 other than those set out in Section A.1, above, which are:

- Submission to the Annual General Meeting of the increase in the number of directors from 10 to 11, through the appointment of an independent director, which will determine the increase in the remuneration set out in the policy on account of that director once she has been appointed and has accepted the position.
- The ordinary annual update of the executive directors' fixed remuneration under the terms of the policy and the setting of targets for the Annual Bonus.
- Submission to the Annual General Meeting of the new Long-term Incentive Plan for the measurement period 2019–2021 under the terms set out.

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

<http://www.viscofan.com/corporate-responsibility/corporate-governance/regulations-and-policies>

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 Annual General Meeting regarding the annual report on remuneration for the previous year.

The annual report on directors' remuneration for the year ending on 31 December 2018 received the backing of the majority of shareholders, namely 98.22% of the votes cast, which was an improvement on the previous year (95.11%). Therefore, and as understood from continuous contact with shareholders and investors, the current policy is concluded to be aligned and has the backing of the shareholders and there is no proposal to submit any amendments to the policy to the Annual General Meeting this year. During 2021, at the committee's proposal, a new remuneration policy for 2021–2023 is expected to be submitted by the Board of Directors to the Annual General Meeting for approval.

B- GLOBAL SUMMARY OF HOW THE REMUNERATION POLICY WAS 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.

Pursuant to the company's internal regulations, the Board of Directors, at the committee's proposal, is the body responsible for setting the directors' remuneration, as part of the policy approved by the Annual General Meeting, except for any remuneration involving company shares or share options or linked to the value of Viscofan shares, which must also be approved by the former.

The committee, which met on eight occasions in 2019, is made up of the following members at the date of this report:

Name	Position	Type
Jaime Real de Asúa Arteche	Chairman	External Independent
José María Aldecoa Sagastasoloa	Member	External Independent
Néstor Basterra Larroudé	Member	Other External
Juan March de la Lastra	Member	Nominee
José Antonio Cortajarena Manchado	Non-member secretary	N/A

In all the processes for adopting their respective decisions, the committee and the Board of Directors have received information and advice from the company's internal services.

In this regard, it is worth noting:

- (i) Regarding the remuneration of directors in their capacity as such, the policy is applied as follows:
 - a. Allowances for attendance at Board of Directors meetings. After each meeting of the Board of Directors and after the secretary has checked the attendance list, each director entitled to the accrued subsistence allowance has been paid it
 - b. Fixed remuneration: Payment of the amounts accrued by each director in their capacity as such for 2019 is subject to approval of the financial statements for that year at the Annual General Meeting 2020, within the first six months of the year (and foreseeably in April). Once these financial statements have been approved, the corresponding agreement will be adopted for recognition and payment of each director pursuant to the amounts set out in the policy.
- (ii) Regarding the remuneration of executive directors:
 - a. The proposed individual fixed remuneration or salary for each executive director for 2019 was submitted by the committee at their meeting on 21 February 2019 and approved by the Board of Directors on 28 February 2019. This salary has been gradually paid to the executive directors on a monthly basis.
 - b. The settlement and recognition of this Annual Bonus 2019 was proposed by the committee at their session on 20 February 2020 and approved by the

Board of Directors at their meeting on 27 February 2020. The determination of the degree to which the financial targets have been met is based on the annual financial report under the terms set out and submitted to the shareholders for approval.

- c. In relation to the Long-term Incentive Plan 2019–2021, the committee's definitive proposal was made for all plan beneficiaries at the meeting on 27 June 2019 and approved by the Board of Directors at their meeting on 30 July 2019. In particular, the committee has proposed that the plan be submitted by the Board of Directors to the Annual General Meeting, pursuant to current regulations, and the Board of Directors has agreed to do so at their meeting on 27 February 2020.

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 response for this section is included in Section A.1 with reference to actions derived from the approval of the policy at the Annual General Meeting 2018.

Turning to the remuneration of directors in their capacity as such, there is no excessive assumption of risks in setting a fixed remuneration and allowances, excluding the payment of variable remuneration for non-executive directors (who represent the majority on the Board of Directors at 80%), which promotes greater long-term planning when the Company and group establish strategy and action plans.

Regarding executive directors, the current policy added items to reduce exposure to excessive risks and increase alignment with long-term targets.

- The fixed component was updated and increased so that, while aligned in the 25th percentile of the reference market (IBEX 35 companies), position and responsibilities are remunerated suitably, accruing in every case, so that this is not risk exposure in itself.
- The policy expressly sets maximum limits on annual and three-yearly variable remuneration, under the established terms, of 70% of executive directors' salaries for meeting targets 100% and of 120% of the Target Annual Variable Remuneration or Annualised Target Incentive (84% of salary) for exceeding targets.
- A reasonable balance is established between annual and multi-year remuneration (the latter having a 3-year minimum measuring period).
- A *clawback* clause is introduced through which the Company can recover the variable remuneration from executive directors in case of a series of circumstances during the twelve months following the date of payment of the variable remuneration.
- The compensation for contract termination was reduced, where pertinent, to two annual payments of fixed remuneration.

B.3 Explain how the remuneration accrued over the year meets the provisions contained in the currently valid 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.

Remuneration accrued by directors in their capacity as such is determined and set out in the policy and is not determined by profit or other measures of the company's performance. Pursuant to this policy, the total amount paid as subsistence allowances and in payment to each director of a fixed amount for belonging to the Board of Directors, committees and positions, amounts to €1,417 thousand and falls within the statutory limit (Article 29 of the company by-laws and stipulated in the policy) of 1.5% of the annual consolidated cash profit before taxes. This amount is approximately 15.46% less than the amount accrued in 2018 (€1,676 thousand). Likewise, salaries for executive directors, once determined by the Board of Directors at the proposal of the committee and pursuant to the above, are not subject to profit or other measures of the Group's or the company's performance.

The variable remuneration of the executive directors has been decided by the Board, at the committee's proposal, once the audited annual accounts were provided.

50% of the annual variable remuneration or Annual Bonus is linked, as set out in the policy, to the Group's and the company's main economic and financial indicators—sales, EBITDA, net profit, share performance or stock/sale ratio— and sustainability indicators—reduction of accident rate and absenteeism—and other strategic or operational targets for each executive director (30%), so that the performance of both the indicators and the directors determines the end amount recognised and accrued as their Annual Bonus. In addition, the component of the Board of Directors' own assessment of the each director's performance, at the committee's proposal, with a weighting of 20%, is aligned with the policy approved at the Annual General Meeting.

Lastly, we should state that regarding remuneration in kind, the company has paid what is set out in the policy (to a total of €45,000), without this exceeding the limit of 20% of the fixed remuneration for executive directors.

B.4 Report on the outcome of the consultative vote at the Annual General Meeting on the annual remuneration report for the previous year, indicating the number of votes cast against, if any:

	Number	% of total
Votes cast	38.349.769	82,47 %
	Number	% of cast
Votes against	436.136	1,14%
Votes in favour	37.666.980	98,22%
Abstentions	246.653	0,64%

Observations:

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

The fixed components have been determined pursuant to the current policy, which has not varied in 2019 in comparison with the previous year after it was approved at the Annual General Meeting on 25 May 2018 for a period of three years.

Therefore, the amount that has accrued as fixed remuneration for the directors in their capacity as such has remained at €80,000. Likewise and pursuant to the policy, allowances to remunerate the personal and effective attendance at Board of Director meetings by non-executive directors have also been applied. €3,000 for each meeting and director.

Fixed remuneration was also applied unchanged for members and the chairs of Board Committees:

- Audit Committee:
 - Chairman: 45.000 €
 - Member: 30.000 €
- Appointments and Remuneration Committee:
 - Chairman: 30.000 €.
 - Member: 20.000 €

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.

In 2018, the fixed remuneration or salary of executive directors for performing their senior management functions was updated to ensure a positioning in the 25th percentile of the reference market (IBEX 35), keeping the remuneration for the Managing Director proportionate to that of the Chairman. Pursuant to the policy and during its term, no significant variations are expected, although the Board of Directors may review and adjust the salary yearly, taking into account different criteria, such as the company's performance or macroeconomic indicators, which is precisely what was agreed by the Board of Directors, at the committee's proposal, with an increase of 1.7% in 2019. Therefore, in 2019, as regards the Executive Chairman, based on fixed remuneration of €585,000 set for 2018, the committee proposed and the Board of Directors approved a simple update to €595,000 for 2019. Regarding the Managing Director, based on fixed remuneration of €450,000, the committee for 2019 proposed and the Board of Directors approved an update to €458,000, based on the same indicators mentioned above.

Detailed information on annual and multi-year variable remuneration for executive directors is determined in Section B.7.

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 (vesting) and to exercise these options or financial instruments, including the price and term to exercise them.

Each director and category (executive directors, proprietary external directors, independent external directors and other external directors) who are beneficiaries of remuneration 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.

Executive directors have accrued the following annual variable remuneration (Annual Bonus) in 2019:

Executive Chairman:

Target Annual Bonus (targets met 100%): 416.500€.

- Group corporate targets (50% weighting): Met 48%
 - o Economic and financial parameters: sales, EBITDA, net profit, share performance or stock/sales ratio
 - o Sustainability parameters: reduction in accident rate and absenteeism
- Strategic and growth targets (30% weighting): Met 75%
- Performance assessment (20% weighting): 90% degree of recognition
- 65% degree totally met
- Annual Bonus amount 2019: 271.000€

Managing Director:

Target Annual Bonus (targets met 100%): 320.600 €.

- Group corporate targets (50% weighting): Met 48%
 - o Economic and financial parameters: sales, EBITDA, net profit, share performance or stock/sales ratio
 - o Sustainability parameters: reduction in accident rate and absenteeism-
- Strategic and growth targets (30% weighting): Met 75%
- Performance assessment (20% weighting): 90% degree of recognition
- 65% degree totally met
- Annual Bonus amount 2019: 208.500€

These amounts will be paid in the first quarter of 2020.

[Explain the long-term variable components of the remuneration systems:](#)

See Section A.1, which explains that the Board of Directors has submitted the Long-term Incentive Plan for the 2019–2021 period for the executive directors, the characteristics of which are contained in the same section, to the Annual General Meeting 2020 for approval.

[B.8 Indicate whether certain variable components were reduced or clawed back when, for the former, payment was vested and deferred or, for the latter, vested and paid, on the basis of data that were subsequently proven 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.](#)

No circumstances arose that would have entailed the reimbursement of variable remuneration.

[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 for vesting 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.](#)

Not applicable. The remuneration policy does not cover long-term savings systems.

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 upon the terms provided for therein, accrued and/or received by directors during the year ended.

Not applicable. Did not occur.

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.

Did not occur

B.12 Explain any supplementary remuneration paid to directors as consideration for services rendered outside of their post.

Not applicable. There was no supplementary remuneration.

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

Not applicable. Did not occur.

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

The remuneration in kind accrued in 2019 under the headings set out in the policy (life/accident insurance premiums, healthcare and vehicles) was €6,000 for the Executive Chairman and €39,000 for the Managing Director.

B.15 Explain the remuneration accrued by directors by virtue of payments made 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.

Not applicable. Did not occur.

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-party transaction or the payment thereof distorts the true image of the total remuneration accrued by the director.

Not applicable. Did not occur.

C- INDIVIDUAL REMUNERATION CORRESPONDING TO EACH DIRECTOR

Name	Type	Accrual period 2019
JOSE DOMINGO AMPUERO OSMA	EXECUTIVE CHAIRMAN	From 01/01/2019 to 31/12/2019
JOSE ANTONIO CANALES GARCIA	EXECUTIVE DIRECTOR	From 01/01/2019 to 31/12/2019
IGNACIO MARCO-GARDOQUI IBAÑEZ	INDEPENDENT DEPUTY CHAIRMAN	From 01/01/2019 to 31/12/2019
JOSÉ MARÍA ALDECOA SAGASTASOLOA	LEAD DIRECTOR	From 01/01/2019 to 31/12/2019
JAIME REAL DE ASÚA Y ARTECHE	INDEPENDENT DIRECTOR	From 01/01/2019 to 31/12/2019
NESTOR BASTERRA LARROUDÉ	OTHER EXTERNAL DIRECTOR	From 01/01/2019 to 31/12/2019
AGATHA ECHEVARRIA CANALES	OTHER EXTERNAL DIRECTOR	From 01/01/2019 to 31/12/2019
JUAN MARCH DE LA LASTRA	NOMINEE DIRECTOR	From 01/01/2019 to 31/12/2019
SANTIAGO DOMEcq BOHORQUEZ	NOMINEE DIRECTOR	From 01/01/2019 to 31/12/2019
LAURA GONZALEZ MOLERO	INDEPENDENT DIRECTOR	From 01/01/2019 to 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 (in thousands of €)

Name	Fixed remuneration	Allowances	Board committee membership remuneration	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other concepts	2019 Total	2018 Total
JOSE DOMINGO AMPUERO OSMA	160	-	-	595	271	0	0	0	1.026	1.165
JOSE ANTONIO CANALES GARCIA	80	-	-	458	209	0	0	0	747	759
IGNACIO MARCO-GARDOQUI IBAÑEZ	80	36	45	0	0	0	0	0	161	166
JOSÉ MARÍA ALDECOA SAGASTASOLOA	80	36	50	0	0	0	0	0	166	152
JAIME REAL DE ASÚA Y ARTECHE	80	36	30	0	0	0	0	0	146	143
NESTOR BASTERRA LARROUDÉ	80	36	20	0	0	0	0	0	136	271
AGATHA ECHEVARRIA CANALES	80	36	30	0	0	0	0	0	146	245
JUAN MARCH DE LA LASTRA	80	33	20	0	0	0	0	0	133	130
SANTIAGO DOMEcq BOHORQUEZ	80	33	30	0	0	0	0	0	143	140
LAURA GONZALEZ MOLERO	80	36	30	0	0	0	0	0	146	82

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

Name	Plan	Financial instrument at start of 2018		Financial instrument vested in 2018		Financial instrument consolidated in the year				Instruments matured but not exercised	Financial instruments at end of 2018	
		Instruments	Equivalent shares	Instruments	Equivalent shares	Instruments	Equivalent/ vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)	Instruments	Instruments	Equivalent shares

Observations:

iii-) Long-term savings systems

Name	Remuneration from vesting of rights to savings

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with vested economic rights		Savings systems with non-vested economic rights		2019		2018	
	2019	2018	2019	2018	Savings systems with vested economic rights	Savings systems with non-vested economic rights	Savings systems with vested economic rights	Savings systems with non-vested economic rights

Observations:

iv-) Details for other concepts

Name	Concept	Amount
JOSE DOMINGO AMPUERO OSMA	Life and accident insurance premiums Healthcare policy Company car	6
JOSE ANTONIO CANALES GARCIA	Life and accident insurance premiums Healthcare policy Company car	39

Observations:

B. Remuneration to company directors for seats on the boards of other group companies:

i-) Remuneration in cash (in thousands of €)

Name	Fixed remuneration	Allowances	Board committee membership remuneration	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other concepts	2019 Total	2018 Total

Observations:

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

Name	Plan	Financial instrument at start of 2018		Financial instruments created in 2018		Financial instrument consolidated in the year				Instruments matured but not exercised	Financial instruments at end of 2018		
		Instruments	Equivalent shares	Instruments	Equivalent shares	Instruments	Equivalent/vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)		Instruments	Instruments	Equivalent shares

Observations:

iii-) Long-term savings systems

Name	Remuneration from vesting of rights to savings

	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with vested economic rights		Savings systems with non-vested economic rights		2019		2018	
	2019	2018	2019	2018	Savings systems with vested economic rights	Savings systems with non-vested economic rights	Savings systems with vested economic rights	Savings systems with non-vested economic rights

Observations:

iv-) Details for other concepts

Name	Concept	Amount

Observations:

C. Summary of the remuneration (in thousands of €):

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

Name	Remuneration accrued at the Company					Remuneration accrued at Group companies				
	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings systems	Remuneration under other headings	Company total 2019	Total cash remuneration	Gross profit from vested shares or financial instruments	Remuneration from savings systems	Remuneration from other concepts	Total 2019 Group
JOSE DOMINGO AMPUERO OSMA	1.026			6	1.032					
JOSE ANTONIO CANALES GARCIA	747			39	786					
IGNACIO MARCO-GARDOQUI IBAÑEZ	161				161					
JOSÉ MARÍA ALDECOA SAGASTASOLOA	166				166					
JAIME REAL DE ASÚA Y ARTECHE	146				146					
NESTOR BASTERRA LARROUDE	136				136					
AGATHA ECHEVARRIA CANALES	146				146					
JUAN MARCH DE LA LASTRA	133				133					
SANTIAGO DOMEcq BOHORQUEZ	143				143					
LAURA GONZALEZ MOLERO	146				146					
TOTALS	2.950			45	2.995					

Observations:

D. OTHER INFORMATION OF INTEREST

If there are any relevant issues relating to director remuneration that could not be addressed 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.

This annual remuneration report was approved by the company's board of directors at its meeting on: 27 February 2020

Indicate whether any board members voted against or abstained from voting on approving the present Report.

Yes:

No: X

Name or company name of the member of the board of directors who voted against approving this report	Reasons (against, abstention, nonattendance)	Explain the reasons