

**REPORT TO JUSTIFY THE PROPOSED POLICY ON THE REMUNERATION  
OF DIRECTORS FOR 2019-2021**

I

The current Policy on the Remuneration of Directors is the one which was included in the Annual Report on Directors' Remuneration for 2013-2014, which received the favourable vote of the General Meeting of 17th February, 2015.

In accordance with Article 529 novodecies of the Law of Capital Companies and Transitional Provision 2 A) of Law 31/2014 of 3rd December, which modifies the Law of Capital Companies to improve corporate governance, the approval of the General Meeting, in its advisory capacity, and expressed after 1st January, 2015, is understood to confirm the Remuneration Policy for the three following years, that is to say, in the case of the Company, for 2016, 2017 and 2018.

By a resolution of the General Meeting of 21st March, 2017, the Company's Remuneration Policy was modified in order to:

- i) include, in the contractual terms and conditions of executive directors, 'ex-post' adjustments to their short-, medium- and long-term variable remuneration, and also the obligation to keep Company shares received as a result of their participation in medium- or long-term variable remuneration plans, and
- ii) reconcile the receipt of both the fixed remuneration of the Chairman of the Board of Directors and the fixed remuneration of the Chairman of the Appointments and Remuneration Committee, even when both offices are discharged by the same person.

As a result of the foregoing, the current Policy on the Remuneration of Directors expires this year, so a new Policy, covering 2019, 2020 and 2021, must be proposed for the approval of the General Meeting.

## II

### Legal framework of the Policy on the Remuneration of Directors

In accordance with Article 39 of the Bylaws, the remuneration of Directors, in their capacity as such, will consist of a fixed monthly allowance in cash plus certain expenses to cover attendance at meetings of the Board of Directors and of its Committees.

The Remuneration Policy will be approved by the General Meeting at least every three years, and must include the maximum amount of the annual remuneration to be paid to the Directors as a whole, in their capacity as such.

It falls to the Board of Directors to determine the remuneration of each of the Directors, in their capacity as such. For that purpose, the Board will take account of the functions and responsibilities assigned to each Director, membership of Committees, and other objective circumstances which it considers relevant.

In addition, Directors may be remunerated with Company shares, the granting of rights of option over the same, or by any other system based on the value of the shares, the effective application of which will require a resolution of the General Meeting (this system of remuneration being restricted to Executive Directors, in accordance with Article 31 of the Board's Rules).

Executive Directors, regardless of their remuneration as members of the Board, will be paid a fixed amount in accordance with the services which they perform and the responsibilities which they assume, and also a variable amount, as well as being included in the pension and insurance schemes, including that of Social Security and the incentive schemes for the Company's Senior Management.

It falls to the Board of Directors to fix the remuneration of the Directors who perform executive duties and the terms and conditions of their contracts, in accordance with the provisions of the Law, of the Bylaws, and of the Policy on the Remuneration of Directors approved by the General Meeting.

For their part, the Rules of the Board of Directors devote their Article 30 to the remuneration of the Board, in terms similar to those contained in the Bylaws.

The remuneration of directors is governed by the Law of Capital Companies, which lays down, among others, the following stipulations:

- The system for remunerating directors must conform to the system envisaged in the Bylaws (Art. 217.1).
- The remuneration system will specify the components of the remuneration of directors, in their capacity as such (Article 217.2), applying one or more of the criteria fixed by the Article itself.
- The maximum annual amount to be paid to the directors as a whole, in their capacity as such, must be approved by the General Meeting (Art. 217.2 and Art. 529 septdecies).
- The remuneration of its directors must always be reasonable in relation to the importance of the company, the economic situation and what is customary for comparable companies (Art. 217.3).
- Directors' remuneration for the performance of their executive functions must be in accordance with their contracts and with the Policy on the Remuneration of Directors, and the Board of Directors will be responsible for fixing it (Article 529 octodecies).
- The Policy on the Remuneration of Directors will conform to the statutory remuneration system, and must be approved by the General Meeting at least every three years (Art. 511 bis 1 c) and Art. 529 novodecies 1).
- Any remuneration which is linked to the Company's shares must be expressly foreseen by the Bylaws, and its payment will require a resolution of the General Shareholders' Meeting (Art. 219.1).
- The proposed Policy for the Remuneration of the Board of Directors must be justified, and must be accompanied by a report from the Appointments and Remuneration Committee. Both documents will be made available to the shareholders via the Company's website as soon as the General Meeting is called (Article 529 novodecies 2).

In accordance with the Rules of the Board of Directors of 26th January, 2016, it is the responsibility of the Appointments and Remuneration Committee to *"propose to the Board of Directors, for approval by the General Meeting, the Policy on the Remuneration of Directors, in their capacity as such, and the Policy for Executive Directors."* (Article 18.2 h).

### III

#### Guidance in the formulation of the Remuneration Policy

In order to formulate the Remuneration Policy, the Appointments and Remuneration Committee had contracted, in previous years, the services of Garrigues Human Capital Services ("Garrigues"), who had been advising the Company on the requirements of the Law of Capital Companies and on the recommendations in relation to corporate governance.

To draw up the Policy, Garrigues used the following structure:

- (i) For the remuneration system for non-executive directors:
  - The principles and bases of the remuneration policy.
  - The maximum amount of the annual remuneration to be paid to the directors as a whole, in their capacity as such, and the justification for it.
  - A description of, and justification for, the remuneration system for the directors in their capacity as such. The different components of the remuneration and the parameters used to fix it.
- (ii) For the remuneration system for executive directors:
  - Determination of, and justification for, the amount of the fixed annual remuneration and its variation in the period to which the policy relates (three years).
  - Description of, and justification for, the different parameters used to fix the variable components:
    - The chosen criteria for evaluating performance.
    - The evaluation components and methods for determining whether or not the said evaluation criteria have been fulfilled.
    - Alignment of the variable remuneration with the Company's interests and those of its shareholders.
    - Ex-post adjustments, mechanisms for deferment, and clauses for the 'clawback' of variable remuneration.
    - The keeping of shares received in implementation of Variable Remuneration Plans.

- The main terms and conditions of their contracts, particularly:
  - The duration.
  - Compensation for early cessation or for termination of the contractual relationship.
  - Agreements covering exclusivity and post-contractual non-competition.

## IV

### General principles of the Policy on the Remuneration of Directors

#### 4.1 Principles and bases

The remuneration of the Company's Directors is determined by taking account of (i) the regulations applicable to capital companies, viz., the Law of Capital Companies; (ii) the Bylaws, the Rules of the Company's Board of Directors and the Policy on the Remuneration of the Group's Senior Management (as they relate to Executive Directors); (iii) the objectives set in the Group's Business Plan; and (iv) the resolutions adopted by the General Shareholders' Meeting.

In addition, when defining its Remuneration Policy, the Company ensures that it conforms to the principles of, and recommendations for, good corporate governance, the best market practice and the guidelines of institutional investors and proxy advisors.

In view of the foregoing, the general principles on which the Remuneration Policy is based are the following:

- The creation of value for the shareholder in a manner which is sustainable over time.
- Competitiveness, through the establishment of a remunerative framework which is aligned with the best practices in the marketplace, which is competitive in relation to that of comparable companies, and which attracts and retains the best professionals.
- Rewarding in accordance with levels of responsibility and professional track record.
- A reasonable balance between fixed and variable remuneration, reflecting adequate management of risks combined with the achievement of defined objectives.

- Remuneration linked to results: a significant proportion of the total remuneration of the Company's Executive Directors is variable, its payment being linked to the achievement of financial, business and value-creation objectives which are pre-determined, specific, quantifiable and aligned with the Business Plan.

The Remuneration Policy is designed to attract, retain and motivate the best professionals, while establishing a stable and durable link between remuneration, results and the shareholders' interests, thereby achieving the Group's long-term objectives.

Article 39 of the Bylaws stipulates that the position of Director must be remunerated, and specifies the remunerative systems applicable to Directors in accordance with their status.

In accordance with the aforementioned Article, and with Articles 30 and 31 of the Rules of the Board of Directors, the Remuneration Policy distinguishes between the remuneration of Directors in their capacity as such and the remuneration of Directors who perform executive duties.

The characteristics of the remunerative system for Directors, in their capacity as such, and of that of Executive Directors, are described below.

#### 4.2 Characteristics of the Policy on the Remuneration of Directors in their capacity as such

The application of the principles listed in point 4.1 above, in relation to the remuneration system of the Company's Directors in their capacity as such, produces the following characteristics in their remuneration:

- Remuneration in accordance with the positions, duties and responsibilities assumed by the Director in the Board of Directors and its Committees. In this regard, the remuneration of each Director differs from that of the others, the amounts of the fixed remuneration being greater in the case of the Chairman of the Board of Directors and of its delegated Committees. The amounts paid as expenses for attendance at meetings also vary, depending on whether the meetings are those of the Board of Directors, the Audit and Control Committee or the Appointments and Remuneration Committee.
- It is reasonable for their reward to reflect their dedication, skill and responsibility, without being an obstacle to their duty of loyalty or independence of judgement.

- It is aligned with the standards of corporate governance and with market conditions, taking account of the Group's characteristics and activity.
- Finally, and in accordance with the recommendations of the Code of Good Governance, Directors, in their capacity as such, have no (i) systems of variable remuneration, either in cash or in shares, stock options or rights over shares or instruments referenced to the share value; (ii) life assurance; or (iii) long-term savings schemes or other pension schemes.

#### 4.3 Characteristics of the Policy on the Remuneration of Executive Directors

The characteristics of the remunerative system for Directors who perform executive duties are the following:

- Remuneration is assigned for the performance of executive duties.
- There is an effective balance between its fixed and variable components.
- The variable remuneration has a medium- and long-term component which stimulates Directors' strategic performance, and another component which rewards the obtention of results in the short term. A sufficient proportion of the variable remuneration is linked to (i) medium- and long-term objectives, and (ii) the deferred award of the Company's own shares.
- The remunerative system is consistent with an appropriate and efficient management of risk and with the Company's business strategy, values and long-term interests, and is orientated towards promoting the Company's profitability and long-term sustainability.
- It takes account of market trends and of the principles and recommendations of good governance, and is effective in attracting and retaining the best professionals.

Thus the Policy on Remuneration is orientated towards the generation of value in the Group, and seeks to be aligned with the interests of the shareholders, with prudent risk management and with strict compliance with current regulations governing the remuneration of directors of listed companies.

5.1 Remuneration of Directors in their capacity as such

The proposal to the Board of Directors was for the maintenance of the Remuneration of the Directors in their capacity as such (fixed monthly remuneration plus allowances for attendance at meetings of the Board or of its Committees), as fixed by the Board of Directors itself in its meetings of 18th July and 17th September, 2014, and of 31st October, 2017, which was within the limits laid down by the General Meeting of Shareholders on 17th February, 2015.

The amount of that remuneration is shown under point 4 of the Remuneration Policy.

5.2 Remuneration of Executive Directors

The scheme proposed is the following:

Component		Purpose
Fixed Remuneration		Determined in accordance with their services and responsibilities in the Group, and after ensuring that it is competitive in comparison with remuneration in comparable entities.
Variable Remuneration	Short-term (annual)	To conform to the most usual remunerative practices in the marketplace and to link remuneration to the achievement of annual objectives, in line with the Business Plan.
	Deferred: medium- and long-term (multiannual)	To strengthen the medium- and long-term commitment to the Company's shareholders. Effected by means of plans for Consolidation Periods overlapping with deferred settlement in Company shares. Each Consolidation Period is of three years.
Long-term savings schemes		To constitute a complementary savings scheme linked to retirement.
Remuneration in kind		To offer a competitive remunerative package in line with the customary market practices.



The method of determining the components of the Remuneration System for Executive Directors is shown in section 5 of the proposed Remuneration Policy.

In addition, and with regard to the variable remuneration deferred in the medium- and long-term (the Long-Term Incentive Plans of 2014 and 2017), it is worth pointing out that the General Meeting of 4th June, 2014, and that of 21st March, 2017, granted to the Chief Executive Officer (Mr. Luis Egido Gálvez) and to the Board Secretary/Director (Mr. Rafael de Juan López) a Recognized Initial Incentive of the maximum amount foreseen in the respective Plans for Executive Directors (namely, 100% of the Bonus in the 2014 and 2017 General Plans, and 75% of the Fixed Salary in the 2014 and 2017 Special Plans).

The foregoing Report is the one which was issued and unanimously approved by the members of the Appointments and Remuneration Committee in their meeting of 23rd January, 2018, in accordance with the provisions of Article 529 novodecies 2 of the Law of Capital Companies.

Leganés, 23rd January, 2018.

The Board Secretary/Director,

Rafael de Juan López