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## **REPORT ON THE OPERATION OF THE NOMINATION AND REMUNERATION COMMITTEE OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF) FOR THE FINANCIAL YEAR 2019**

### **1. Introduction.**

The purpose of this report is to disclose the functions and activities performed by the Nomination and Remuneration Committee (hereinafter the "NRC" or the "Committee") of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (hereinafter, "CAF" or the "Company") during the year ended December 31, 2019, for which purpose it will be made available to shareholders and other interested parties through the corporate website, pursuant to the terms set forth in Recommendation 6 of the Code of Good Governance of Listed Companies of the CNMV (hereinafter, the "Code of Good Governance").

In preparing this report, the principles and criteria set out in the CNMV's Technical Guide 1/2019 on Nomination and Remuneration Committee, published on 27 February 2019, (hereinafter, "the **Technical Guide**") have been taken into account, in particular with regard to the minimum structure and content required in section 11 for this type of document.

### **2. Regulation.**

The legal regime of the NRC is contained in the Bylaws, in the Regulations of the Board of Directors and in its specific Regulations.

Specifically, article 37 ter of the Bylaws refers to the composition and functions of the Committee. Article 12 of the Rules of the Board of Directors establishes certain rules on the composition and operation of the Board. Finally, the Committee's Regulations regulate in greater detail fundamental aspects of this body, such as its powers, rules of operation and relations with other bodies of the Company.

In execution of the 2018 action plan approved by the Committee, and after the publication of the Technical Guide, the Board of Directors of the Company approved, in its meeting of May 7, the modification of the NRC Regulations, in order to incorporate them into the said text: (i) the recommendations of the independent expert who evaluated the performance of this Committee during the 2017 financial year, (ii) the powers attributed by the Board of Directors to this Committee within the framework of Recommendation 53 of the Code of Good Governance, (iii) the most important guidelines provided by the Technical Guide, (iv) the adjustments necessary to standardize the texts of the Regulations of the Board and its Committees, and (v) other technical improvements.

### 3. Composition.

In accordance with the provisions of **article 37 ter of the Bylaws, article 12 of the Rules of the Board of Directors and Article 4 of its own Regulations**, the Committee is made up of three non-executive Directors, two of whom are independent. The Chairman of the Committee has been appointed from among the independent Directors who are members of the Committee.

In 2019 there were no changes in the composition of this Committee.

The appointment and removal of members of the NRC is carried out by the Board of Directors. They are appointed for a period of four years, notwithstanding their renewal, and will be removed when they do so in their capacity as directors, by resolution of the Board, through resignation or for not complying with the requirements of the Regulations or the legal provisions.

In determining the composition, both quantitative and qualitative, of this body, the Board of Directors has taken into account the rules contained in article 529 quidecies of the Revised Text of the Capital Companies Act (hereinafter, the “Capital Companies Act”), Recommendation 47 of the Code of Good Governance and the guidelines of the Technical Guide, adapting them to the circumstances and complexity of the organization, with the aim of favoring diversity in its structure, its independence and its resolution effectiveness.

The members of the Committee, as members of the Board, have significant professional backgrounds in the fields of business and corporate management, management training, senior management, organizational transformation and management development. All of them have been appointed on the basis of the knowledge, skills and experience required to carry out the functions entrusted to them.

The composition of the Committee is diverse in terms of age, gender, professional experience, personal skills and sectoral expertise.

As of December 31, 2019, the composition of the NRC and the distribution of its positions is as follows:

Director	Position	Category	Seniority
Mr. Juan José Arrieta Sodupe	Chairman	Independent	Appointed Director on June 7, 2008, and Chairman of the Committee on February 25, 2015.
Mr. Luis Miguel Arconada Echarri	Member	Other External	Appointed Director on January 29, 1992. Member of the Committee since February 25, 2015.
Ms. Ane Agirre Romarate	Member	Independent	Appointed Director on December 19, 2017. Member of the Committee since

			February 27, 2018.
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The following is a brief summary of the professional profiles of the current members of the Committee:

- Mr. Juan José Arrieta Sudupe (Chairman) has a PhD in Economics and Business Administration. He has extensive experience in carrying out senior management functions in financial institutions and prestigious business schools. He is also the Coordinating Director of the Company.
- Mr. Luis Arconada Echarri (Member) has extensive experience and knowledge in the business and corporate sector, as well as in-depth knowledge of the Company. He has enjoyed prestige in different areas of social and economic life since his successful period in the world of sport.
- Ms. Ane Agirre Romarate (Member) has a degree in Economics and Business Studies and a Master's degree in Advanced Management. She has extensive experience in the field of Human Resources, particularly in relation to management development and talent management, both as a manager in different entities and in strategic consulting.

In the "Shareholders and Investors" section of CAF's corporate website, information regarding the composition of the Nomination and Remuneration Committee (<http://www.caf.net/es/accionistas-inversores/gobierno-corporativo/comisiones-consejo.php>) and public information on each of the directors (<https://www.caf.net/pdf/Informacion-Publica-Consejeros-Octubre-2019.pdf>) are permanently available and updated.

#### **4. Operation and competencies.**

The standards of operation of this committee are set forth in **article 12 of the Rules of the Board of Directors** and **Chapter V of the Rules of the NRC**, and can be summarized as follows:

- The Nomination and Remuneration Committee meets periodically as needed and a minimum of three times a year. In particular, it shall meet when requested to do so by the Board of Directors.

Either the Chairman of the Board of Directors or the Managing Director may request the holding of general informative Committee meetings.

- The call for meetings shall be sent to each member of the Committee at least five days in advance by the Secretary of the Committee, following the instructions of its Chairman, via post, fax, telegram, or email, except in special cases of urgency at the discretion of the Chairman. The call shall include the agenda for the session.

- The Chairman of the Committee shall provide the necessary information and documentation to the other members of the Committee either himself or through the Secretary, and sufficiently in advance for them to analyze this prior to the meetings.
- In exceptional cases, Committee sessions may take place by means of a conference call or video conferencing or any other means of remote communication, provided the identity and participation of the individuals is duly guaranteed and provided all members of the Committee agree to this. In this case, the meeting will be understood to have taken place wherever the Chairman is.
- The Committee is constituted with the presence of more than half of its members and adopts its resolutions by absolute majority of the directors present or represented at the meeting. It may also be constituted when all members are present and unanimously agree to hold the meeting.
- The resolutions adopted are recorded by the Secretary in the corresponding minutes, which are approved during the same or immediately subsequent session.
- The Committee may require the attendance at its meetings of the Chairman of the Board, members of the Board, the Managing Director, as well as any CAF manager or employee.
- The Committee maintains regular or occasional contact with the Chairman and Chief Executive Officer of the Company, especially on matters relating to executive directors and senior managers.

**Article 37 ter of the Bylaws and article 3 of the Rules of the NRC** attribute the following minimum functions to it:

- a) To assess the skills, knowledge and experience required of the Board of Directors. For this purpose, it shall define the duties and capabilities required of the candidates for a particular vacancy and assess the time and commitment required for them to effectively carry out their duties.
- b) To establish a representation target for the under-represented sex on the Board of Directors and develop guidelines on how to achieve this target.
- c) To submit proposals to the Board for the appointment of independent advisers through cooptation or for the consideration of the shareholders in a General Meeting of Shareholders, together with proposals for the re-election or dismissal of said board members by the shareholders in a General Meeting.
- d) To report on proposals for the appointment of the other directors through cooptation or for consideration of the shareholders during a General Meeting, in addition to proposals for the re-election or dismissal thereof by the shareholders during a General Meeting.

- e) To report regarding the proposed appointment of the Chairman and Secretary of the Board of Directors, in addition to the Deputy Chairmen, if applicable.
- f) To report regarding proposals for the appointment or dismissal of senior management and the basic terms of their contracts.
- g) To examine and organize the succession of the Chairman of the Board of Directors and that of the company's chief executive and, where applicable, make proposals to the Board of Directors to ensure that said succession is planned and orderly.
- h) To issue a report prior to the issuance of a warning to a board member on the part of the Board of Directors as a result of an infraction of his or her obligations in this capacity.
- i) To report in advance regarding proposals for the dismissal of independent advisers by the Board of Directors before the end of the statutory period, so that the latter can assess if there is just cause.
- j) To make proposals to the Board of Directors regarding the remunerations policy for board members and general directors or those performing their senior management duties and reporting directly to the Board, Executive Committees, or Managing Directors, in addition to the individual remuneration and other contract terms of the executive directors, ensuring compliance therewith.
- k) Periodically review the remuneration policy applied to directors and senior managers, including the share based remuneration systems and their application, and ensure that their individual remuneration is proportionate to that paid to the other directors and senior managers of the company.
- l) To ensure that any possible conflicts of interest do not compromise the independence of the external advice given to the Committee.
- m) To verify the information in relation to the remuneration of the board members and senior management contained in the various corporate documents, including the annual report on the remuneration of the board members.
- n) In relation to the corporate governance system, the internal codes of conduct and the Company's corporate social responsibility policy:
  - (i) To supervise compliance with the internal codes of conduct and the Company's rules of corporate governance.
  - (ii) To periodically assess whether or not the Company's corporate governance system adequately fulfills its mission of promoting the company's interests and takes into account, as applicable, the legitimate interests of the other stakeholder groups;
  - (iii) To review the Company's corporate social responsibility policy, ensuring that this is aimed at the creation of value;

- (iv) To monitor the corporate social responsibility strategy and practices and assess the degree of compliance therewith;
  - (v) To supervise and assess the relationship processes with the various stakeholders; and
  - (vi) To coordinate the non-financial and diversity information reporting process, in accordance with the applicable legislation and the international standards of reference.
- o) Proposing the modification of the Rules for the Board of Directors to said Board, whenever the Committee should deem this to be necessary, including the corresponding reasoning with its proposal.
  - p) To produce a master document with the responsibilities of the Board defining the skills and knowledge required of the candidates to these positions and periodically update this.
  - q) To verify compliance with the Director Selection and Diversity Policy on an annual basis, reporting on this in the annual corporate governance report.
  - r) To present an annual assessment report to the Board of Directors regarding its own performance and an annual assessment report on the performance of the Board of Directors, within the framework of the annual assessment of the Board of Directors and its Committees.
  - s) Issuing a report on the functioning and activities of the Committee during the previous financial year.
  - t) To check that the information on the experience and professional career and regarding the remuneration of the Board Members that the Company publishes on its website is sufficient and adequate and follows the recommendations of the Code of Good Governance for Listed Companies published by the Spanish Securities Market Commission.
  - u) Any other duty attributed thereto by Law, the Company's Bylaws, the Rules of the Board of Directors or the Board of Directors itself.

In order to better carry out the functions and powers entrusted to it, the Committee may require any type of information or documentation it considers necessary, as well as request the Board to hire external advisory services on technical or especially relevant matters. Additionally, the Committee may request the personal collaboration or a report from any member of the Company's management and/or that of other companies of its group, other directors, executive or otherwise, employees, or experts, whenever it should deem this necessary or convenient to fulfill its duties; likewise, it may request the presence of any of these people at its meetings, although only to address the specific points on the agenda for which they are invited.

## 5. Meetings held during the year, number and nature of attendees

In 2019, a total of five meetings were held, attended by all the members of the Committee. All of them were held in person.

Meeting date	Number of Committee member attendees
02/27/2019	3
03/14/2019	3
04/02/2019	3
05/07/2019	3
12/17/2019	3

The meetings cover matters within the competence of the Committee, facilitating the free participation of all members in the deliberations.

Everything discussed and agreed at each meeting has been reported on in due course at the following meetings of the Board of Directors.

Annex I to this document details the schedule of meetings held and the matters dealt with by the Committee during the financial year 2019.

## 6. Functions and tasks carried out during the year and changes in them during the year:

### 6.1. Functions of the Committee and reference to the Regulations that govern them:

During the year under review, the Committee has adequately performed the functions set forth in the Bylaws (art. 37 ter) and in its own Regulations (art. 3), all of which are described in section 4 of this report. As indicated in section 2 of this document, during the financial year 2019, articles 3 and 15 of the Rules of the Committee implementing the powers and competences attributed to it have been amended for the purposes indicated above.

### 6.2. The most significant activities carried out during the year:

#### a. Appointment activities.

- Analysis of the Board's competence matrix and evaluation of the profiles required therein, in order to take them into consideration for the evaluation of candidates in the framework of possible vacancies.
- Presentation to the Board, for submission to the General Meeting, of proposals for the re-election and appointment of two Independent Directors.

These proposals were made available to shareholders on the corporate website as soon as the General Meeting was called.

- Proposal to the Board for organizational changes in the Executive Committee.

**b. Activities in terms of remuneration.**

- Proposal to the Board of Directors of the Report on the Remuneration of Directors, corresponding to the 2018 financial year.
- Proposal to the Board of Directors on the remuneration of directors in their capacity as such for the 2019 financial year.
- Proposal to the Board of Directors on the remuneration of executive directors for 2019.
- Proposal to the Board of Directors on the remuneration of the members of the Executive Committee for the 2019 financial year.
- Assessment of the Directors' Remunerations Policy in relation to the Company's strategy and Market conditions.

**c. Activities in the area of Corporate Governance and Corporate Social Responsibility.**

- Review of the Corporate Social Responsibility Report.
- Review of the Declaration on Combating "Modern Slavery" (UK), for the year 2018.
- Report of the non-financial information contained in the Management Report for the year 2018.
- Reports for the supervision and evaluation of the Corporate Governance System and Corporate Social Responsibility.

**d. Activities related to the process of evaluating the performance of the Board and the committees, including the NRC itself.**

The Committee has prepared the Report on the annual evaluation of its own performance in 2019, as well as the Report on the annual evaluation of the Board of Directors and its committees in the same year, in compliance with Recommendation 36 of the Code of Good Governance for Listed Companies. Both reports have been submitted to the Board of Directors.

The evaluation process has included, among others, the following aspects i) quality and efficiency in the performance of the Board of Directors, including the degree of effective use of the contributions of its members; ii) size, composition and diversity of the Board and its committees; iii) performance of the Chairman of the Board and Chief Executive Officer of the Company; iv) frequency and duration of the meetings; v) content of the

agenda and adequacy of the time devoted to addressing the various issues; vi) quality of the information received; vii) openness of the debates and viii) whether the decision-making process is dominated or strongly influenced by one member or a small group of members.

To carry out this process, the Committee has taken into consideration, among other indicators, the degree of compliance with regulatory requirements and guidelines in the area of corporate governance, as well as the level of achievement of the plans and objectives set for 2019.

The Committee has evaluated favorably the performance of the Board and the Committees, including the NRC itself.

The results of the evaluation have not led to significant changes in the internal organization and/or procedures of these bodies.

However, a series of suggestions or action plans have been made to continue making progress in the area of corporate governance, which will be monitored during 2020.

**e. Other actions.**

- Proposal to the Board of Directors to modify the Rules of the NRC Regulations in order to incorporate the new features mentioned in the second section above.
- Approval of the Operation Report of the Nomination and Remuneration Committee, corresponding to the 2018 financial year.
- Analysis of the Technical Guide on Nomination and Remuneration Committees published by the CNVM.
- Annual verification of compliance with the Director Selection and Diversity Policy.

**f. Activities in the area of monitoring the Committee's own action plans.**

Throughout this year, the Committee has continuously monitored the following action plans for 2019, proposed in the Report on the annual assessment of its own performance, approved by the Committee at its meeting on December 17, 2018:

- i. Strengthen the Committee's track record in complying with best practices in transparency and corporate governance, especially in light of the Technical Guide on Appointments Committees that is expected to be published by the CNMV in the coming months.*
- ii. Analyze the final text of the Technical Guide on Appointment and Remuneration Committees that is finally published and propose to the Board the amendment of the current Regulations of this Committee to adapt them to the said Guide.*

The Committee has implemented both plans through the following actions:

- Following the publication of the Technical Guide at the end of February, the Committee devoted the session of March 14 specifically to analyzing the most relevant aspects of the Guide. It also agreed to prepare a proposal for the amendment of its Regulations, in order to adapt them to the said Guide.
- This proposal was submitted to and approved by the Board at its meeting on May 7.

## **7. Conclusion.**

As a result of the above, the Nomination and Remuneration Committee considers that its organization and operation during the 2019 financial year are in line with the provisions contained in the law, the Bylaws, the Rules of the Board of Directors and its own Regulations.

In particular, all the recommendations of the Code of Good Governance concerning the commissions in this category, contained in section III.3.4.4 and the other relevant ones, to which CAF attaches particular importance, have been complied with. Special attention has also been paid to the principles and guidelines contained in the Technical Guide on Nomination and Remuneration Committees.

The Committee understands that, through the work carried out throughout this year, it has faithfully fulfilled the functions entrusted to it. Notwithstanding this positive assessment, the Committee reaffirms its willingness to continue improving the efficiency of its operation and compliance with its goals, in line with best practices in the area of Corporate Governance.

This report was issued by the Nomination and Remuneration Committee on February 27, 2020 and approved by the Board of Directors on the same date.

In accordance with Recommendation 6 of the CNMV's Code of Good Governance for Listed Companies, this document will be published on the Company's website ([www.caf.net](http://www.caf.net)) sufficiently in advance of the Ordinary General Meeting.

**ANNEX I**  
**Calendar of meetings held in 2019**

<b>Date</b>	<b>Issues addressed</b>
February 27, 2019	<ul style="list-style-type: none"><li>○ Review of the Corporate Social Responsibility Report and the Declaration on Combating "Modern Slavery" (UK), corresponding to the 2018 financial year.</li><li>○ Report of the non-financial information contained in the Management Report for the year 2018.</li><li>○ Review of the Annual Report on Directors' Remunerations for the 2018 financial year and proposal for remuneration for the 2020 financial year.</li><li>○ Approval of the Report on the Operation of the Committee for the year 2018.</li><li>○ Miscellaneous.</li></ul>
March 14, 2019	<ul style="list-style-type: none"><li>○ Analysis of the Technical Guide on Nomination and Remuneration Committees and decisions thereon.</li><li>○ Miscellaneous.</li></ul>
April 2, 2019	<ul style="list-style-type: none"><li>○ Matrix of Board competences.</li><li>○ Miscellaneous.</li></ul>
May 7, 2019	<ul style="list-style-type: none"><li>○ Proposals for re-election and appointment of Directors.</li><li>○ Modification of the Rules of the Nomination and Remuneration Committee.</li><li>○ Organizational changes in the Executive Committee.</li><li>○ Miscellaneous.</li></ul>
December 17, 2019	<ul style="list-style-type: none"><li>○ Reports for the supervision and evaluation of the Corporate Governance System and Corporate Social Responsibility.</li><li>○ Verification of compliance with the Director Selection and Diversity Policy.</li><li>○ Assessment of the Directors' Remunerations Policy in relation to the</li></ul>

Company's strategy and market conditions.

- Annual evaluation of the performance of the Committee and the Board.
- Approval of the Plan of Activities for 2020.
- Miscellaneous.