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**REPORT PREPARED BY THE APPOINTMENTS AND REMUNERATION COMMITTEE OF NEINOR HOMES, S.A. BASED ON THE PROPOSED AGREEMENT ON THE AMENDING OF THE COMPANY REMUNERATION POLICY, INCLUDED IN ITEM SEVEN OF THE AGENDA OF THE ORDINARY GENERAL SHAREHOLDERS' MEETING TO BE HELD ON 17 AND 18 APRIL 2018, ON FIRST AND SECOND CALL, RESPECTIVELY**

**1. OBJECT OF THE REPORT**

Under article 529 novodecies of the consolidated text of Spanish Companies Act, enacted by Royal Legislative Decree 1/2010, of 2 July ("**Spanish Companies Act**"), as well as article 15.5.(vii) of the Rules of the Board of Directors of Neinor Homes, S.A. ("**Neinor**" or "**Company**"), the Appointments and Remuneration Committee, in its meeting of 21 February 2018, prepared and approved this report to justify and explain the proposed amendment of the Company Remuneration Policy, which will be brought to the Board of Directors so that the Board, in turn, can submit it for approval at the General Shareholders' Meeting of the Company.

The aforementioned proposal, attached hereto as Annex I, has the purpose of (i) increase the categories of directors that have the right to receive a compensation for their condition as such, including, within the categories, the "other external" category, in order to guarantee that compensation received by the directors of the Company is competitive enough to attract and retain talent that contributes with value creation; (ii) grant more flexibility to the Board, in order for It to determine the annual fixed remuneration payable to each of the directors in their condition as such, without modifying the previously established limits, in order to attract and retain best-in-class professionals; and (iii) carry out other minor adjustments and amendments, not included in the previous paragraphs (such as, dates, paragraph numbers, technical adjustments to eliminate possible contradictions or duplicities, inclusions deriving from the current applicable law, etc.), as well as increase part of the information included in the section

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related to executive directors and update the maximum annual amount payable to the directors in their condition as such.

The remaining terms of the Remuneration Policy approved by the then sole shareholder of the Company on March 8, 2017 will remain unchanged.

## **2. JUSTIFICATION OF THE PROPOSED AMENDMENTS**

### **2.1 Amendments to section one of the Remuneration Policy**

The members of the Appointments and Remunerations Committee consider it appropriate to include, in the context of the proposed amendments, a more detailed description of the process followed by the Company during the preparing and drafting the present policy.

### **2.2 Amendment of the section relating to the fixed annual remuneration of the members in their capacity as such**

The members of the Appointments and Remunerations Committee consider that it is important to guarantee that the Company has access to the tools and mechanisms that allow it to attract and retain best-in-class talent that contribute to the development of the Company's business. In this context, the members of the Committee agree that the limitation included in paragraph 4.2 of the Remuneration Policy—which states that only independent directors are allowed to be remunerated for their conditions as such—may hinder the capability of the Company to attract and retain talent.

Similarly, the Committee understands that paragraph 4.2 of the Remuneration Policy reduces the flexibility of the Board of Directors regarding the determination of the specific amount payable to each of the members of the board, within the limits included in the referred Policy. Specifically, the members of the Committee highlight that the current wording prevents the Board from reducing the amount payable to each director even when circumstances demand it.

Taking this into account, the Committee concludes that:

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- i. The increase of the categories of directors allowed to be remunerated for their conditions as such is justified and directors with the category “other externals” should be included within these categories; and
- ii. in line with article 529 septdecies of the Companies Law, the Appointments and Remuneration Committee considers important that, in certain circumstances, the Company’s Board of Directors has the power to moderate the fixed remuneration assigned to each of the board members due to their status as such and, therefore, the Board of Directors must have the power to reduce the amount to be received by each of the members when, as a result of an increase in the number of members of the Board of Directors the total amount of the remuneration to be paid exceeds the maximum annual amount set by the Company’ Shareholders’ Meeting.

### **2.3 Technical adjustments, inclusion of information regarding executive directors and increase of the maximum annual amount of the remuneration of the members of the Board of Directors**

In light of the current applicable legislation and the best practices regarding remuneration of directors, the Appointments and Remuneration Committee considers it appropriate, in the context of the ordinary General Shareholders’ Meeting of the Company, to carry out certain technical adjustments and include certain additional information in the paragraph related to the remuneration of the executive directors of the Company.

Likewise, after taking into account the changes in the qualitative composition of the Board of Directors of the Company, the members of the Appointments and Remuneration Committee consider the proposal to increase the maximum annual amount of the remuneration of the members of the Board of Directors, currently set at EUR 500,000, sufficiently justified. Specifically, the Appointments and Remuneration Committee considers that the maximum amount should be set at EUR 900,000 in order to allow the Company to attract and retain the necessary talent, guaranteeing that the Company has access to the best-in-class management.

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### **3. IN-FORCE PERIOD**

In accordance with article 529 novodecies of the Spanish Companies Act, the Remuneration Policy will be applicable during the 2017, 2018, and 2019 accounting periods, except for when the Company General Shareholders' Meeting agrees to its amendment or substitution during this period.

### **4. CONCLUSION**

Given all of the above, in accordance with article 529 novodecies of the Spanish Companies Act, the Appointments and Remuneration Committee of Neinor brings this proposal to the Company Board of Directors so that it may in turn propose it to the Shareholders' Meeting for approval.

Madrid, February 21, 2018

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## ANNEX 1

An amendment is proposed to the second paragraph section “*1 Background and scope of the Remuneration Policy*”, which will have the following text:

“... ”

*The Remuneration Policy has been prepared by the Company taking into account the significance of the Company, its financial status and market standards for comparable companies. In this process, the Company has counted with the legal advice of Uría Menéndez and, furthermore, in the context of the offering and listing of its shares, the advice from Willis Towers Watson regarding the drafting of the current long term incentive plan (see section 5.2.2 of the Remuneration Policy). It is hereby stated that, in order to carry out its duties, Willis Towers Watson, (i) carried out a consultation process with several members of the Company’s senior management; and (ii) analyzed the remuneration system of 12 European peers from the real estate sector<sup>1</sup> and of 14 comparable companies (in terms of size) from different sectors<sup>2</sup>.*

...”

In the context of the amendment, the following footnotes will be included:

*“1 Barratt Developments, Bellway, Berkeley Group, Bovis Homes, Countryside Properties, Crest Nicholson, Redrow, Persimmon, Taylor Wimpey, Cairn, Nexity and Kaufman & Broad.*

*2 Técnicas Reunidas, Acerinox, Sacyr, Indra, Viscofan, Meliá Hotels, NH Hotel Group, Atresmedia, Applus Services, Cie Automotive, Ebro Foods, Faes Farma, Axiare Patrimonio, Talgo, Saeta Yield y Prosegur.”*

An amendment is proposed to section “*4.1. Maximum amount of annual remuneration for directors*”, which will have the following text:

### **“4.1. Maximum amount of annual remuneration for directors**

*The maximum annual remuneration payable to the members of the Board of Directors in their capacity as such shall amount to EUR 900,000.”*

A proposal is made to amend section “*4.2. Annual fixed remuneration*”, which will have the following text:

### **“4.2. Annual fixed remuneration**

*The Board of Directors shall establish the criteria in order to determine the remuneration payable to each director, taking into account:*

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- *The category of the Director.*
- *The office held by the director in the Board of Directors and in any of its committees.*
- *The specific tasks and responsibilities assumed during the year.*
- *The experience and knowledge required to carry out those tasks.*
- *The amount of time and dedication required to carry out effectively such tasks.*

*Considering the above, only “independent” and “other external” directors shall be entitled to remuneration for their status as such. The individual amount to be received by independent and other external directors by way of fixed annual remuneration shall be as follows:*

- *EUR 100,000 for the Chairperson of the Board of Directors.*
- *EUR 75.000 for each independent and “other external” directors.*

*These amounts are payable on the basis of a full tax year. Where a director sits in the Board for less than a full tax year, the amount payable to such a director shall be prorated accordingly. If, following any increase in the number of directors sitting in the Board, the aggregate remuneration otherwise payable to them as members of the Board were to exceed the maximum annual amount referred to in Section 4.1 above, then the Board of Directors may reduce the figures in this Section 4.2 on a prorated basis.*

*Directors shall also be paid, by way of allowances, the following amounts:*

- *EUR 3,000 for attending each meeting of the Board of Directors.*
- *EUR 1,500 for attending, where appropriate, each meeting of any committee of the Board of Directors where they have a seat.*

*If the number of members of the Board of Directors were increased within the limits foreseen in the Company’s by-laws, the fixed remuneration payable to any additional director shall be determined in accordance with the provisions above.”*

An amendment is proposed to section “5.2.1. Annual variable remuneration (bonus plan)”, which will have the following text:

**“5.2.1. Annual variable remuneration (bonus plan)**

*Executive directors may receive an annual variable remuneration as set out in their individual agreements entered into with the Company, and may also benefit*

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*from any variable compensation (bonus) plans, if applicable, approved by the Company.*

*The CEO's service agreement with the Company provides for the possibility of receiving an annual bonus in cash if the figures in the business plan are substantially exceeded and the Board of Directors approves so. The current bonus plan provides that the Board of Directors shall take into account the following weighted indicators in order to determine the bonus for the CEO:*

- 75% of the amount payable as variable remuneration shall be determined on the basis of the degree of achievement of the general targets linked to the Company's revenue and EBITDA/Margin, profitability (measured in terms of cost efficiency) and delivery timing; and*
- 25% of the amount payable as variable remuneration shall be determined on the basis of the degree of achievement of individual objectives associated to his role as executive director and not directly linked to the general results of the Company (such as, for example, development and/or execution of new projects for the Company).*

*In any case, on any given financial year, the maximum amount payable under the annual variable remuneration (bonus plan) will be EUR 500,000."*

An amendment is proposed to the sixth paragraph of section "5.2.2. *Long-term incentive plan (LTIP)*", which will have the following text:

*"The shares shall be delivered to each beneficiary after the end of each cycle and once the relevant tax obligations have been duly met. Executive directors will be subject to a lock-up period of 1 year after the delivery of the shares of the LTIP."*

An amendment is proposed to section "5.2.1. *Annual variable remuneration (bonus plan)*", which will have the following text:

***5.3. Severance compensation; compensation for exclusivity, non-competition and minimum commitment undertakings***

*Executive directors shall be entitled to receive severance compensation in the event of early termination of their labor agreement for reasons not attributable to the relevant executive director. The amount of this compensation shall be set out in the agreement entered into between the executive director and the Company. In any case, this compensation shall not exceed two years of fixed*

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*remuneration and the Company shall procure that this compensation is not used to reward unfavorable results.*

*Regarding the CEO, his service agreement with the Company does not include severance compensation clauses.*

*In addition, the agreements entered into between the Company and the executive directors may include exclusivity, post-contractual non-competition and minimum commitment covenants or restrictions in accordance with and subject to the relevant statutory provisions.*

*Regarding the CEO, his service agreement with the Company provides:*

- That he shall provide his services full-time on an exclusive basis; and*
- That, for a period of two years after the termination of his service agreement with the Company, he shall refrain from: (a) performing, directly or indirectly, the same activity as that carried out by the Company; and (b) investing, directly or indirectly, in the share capital of any company or other entity that competes with the Company.”*

An amendment is proposed to section “5.4. Contributions to pension plans, social welfare schemes and life insurances”, which will have the following text:

*“Executive directors may also receive certain social welfare benefits, such as life insurance premiums or contributions to pension plans. The amount to be received by each executive director shall be detailed in the individual agreement entered into between the relevant executive director and the Company.*

*Regarding the CEO, his service agreement with the Company establishes that the CEO will be allowed to participate in the benefit plans or programs that the Company may approve for its senior management (e.g. life insurances).”*

The other sections of the Remuneration Policy remained unchanged, except for matters regarding possible adjustments of dates or paragraph numbering.