



TECNICAS REUNIDAS

REPORT ON THE OPERATION OF THE  
APPOINTMENTS AND REMUNERATION  
COMMITTEE

FISCAL YEAR 2019



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## REPORT ON THE OPERATION OF THE APPOINTMENTS AND REMUNERATION COMMITTEE FOR THE FISCAL YEAR 2019

### 1. INTRODUCTION

Article 529 of the consolidated text of the Spanish Corporations Act, approved under Royal Legislative Decree 1/2010, of 2 July (“LSC”) establishes in sub-section 13 that publicly listed companies must create an appointments and remuneration committee (or two separate committees), while article 529, sub-section 15 LSC establishes how that committee is to be composed, how it will function and its scope of competence.

For its part, article 529, sub-section 9 LSC establishes that the Board of Directors must make an annual assessment of its performance and that of its committees. Recommendation 36 of the Good Governance Code for listed companies (the “Good Governance Code”) establishes that the assessment of the committees will be based on the report submitted by them to the Board of Directors.

Accordingly, the Appointments and Remuneration Committee of Técnicas Reunidas, S.A. (the “Company”) has drawn up this report on its performance during the 2019 financial period, which will be available to shareholders and other stakeholders on the corporate web site from when formal notice of the Shareholders Annual General Meeting has been sent out, in accordance with Recommendation 6 of the Good Governance Code.

### 2. REGULATION OF THE COMMITTEE AND PRACTICAL GUIDELINES THAT ARE BEING FOLLOWED

The Appointments and Remuneration Committee of the Company is regulated in articles 30 of the Articles of Association and 14 of the Regulations for the Board of Directors. Those documents are permanently available for consultation on the corporate web site of the Company ([www.tecnicasreunidas.es](http://www.tecnicasreunidas.es)).

In exercising its functions, the Appointments and Remuneration Committee takes the terms established in the Good Governance Code as a basis and has also taken into account the basic principles and recommendations of the Technical Guide 1/2019, of the CNMV [the Spanish Securities & Exchange Commission] on Appointments and Remuneration Committees, published in February 2019 (the “Technical Guide 1/2019”). In this respect, this report includes the information contained in sub-section 11 of article 3 of the Technical Guide 1/2019.

### 3. COMPOSITION

In compliance with articles 30 of the Articles of Association and 14 of the Regulations for the Board, the Appointments and Remuneration Committee must be composed of a minimum of three and a maximum of five directors designated by the Board of Directors from among the non-executive directors, and at least two of which should be independent directors.

The Chairperson of the Appointments and Remuneration Committee will be appointed by the Board of Directors from among the independent directors for a four-year term and may be re-elected one or more times for terms of equal duration.

During the 2019 financial period the composition of the Appointments and Remuneration Committee has varied. In this respect, between 1 January and 26 June 2019 the composition of the Committee was as follows:

Director	Position	Category
Mr Alfredo Bonet Baiget	Chairman	Independent
Mr Fernando De Asúa Álvarez	Member	Other external
Mr José Manuel Lladó Arburúa	Member	Proprietary
Mr Javier Alarcó Canosa	Member	Independent
Non-Director Secretary: Ms Laura Bravo Ramasco.		

Between 26 June and 30 July 2019, when Mr Javier Alarcó Canosa had ceased to hold office as director due to the expiration of the 12 years term that he has served as independent director, and the Board of Directors had appointed Mr José Nieto de la Cierva as Committee Member, the composition of the Appointments and Remuneration Committee was as follows:

Director	Position	Category
Mr Alfredo Bonet Baiget	Chairman	Independent
Mr Fernando De Asúa Álvarez	Member	Other external
Mr José Manuel Lladó Arburúa	Member	Proprietary
Mr José Nieto De La Cierva	Member	Other external
Non-Director Secretary: Ms Laura Bravo Ramasco.		

From 30 July 2019, with the appointment by the Board of Directors of Mr Rodolfo Martín Villa as Committee Member, the composition of the Committee until 31 December 2019 was as follows:

Director	Position	Category
Mr. Alfredo Bonet Baiget	Chairman	Independent
Mr. Fernando De Asúa Álvarez	Member	Other external
Mr. José Manuel Lladó Arburúa	Member	Proprietary
Mr. José Nieto De La Cierva	Member	Independent
Mr. Rodolfo Martín Villa	Member	Other external
Non-Director Secretary: Ms Laura Bravo Ramasco.		

- Mr. Alfredo Bonet Baiget (Chairman) is an external independent director. Appointed as a Director at the General Meeting of 27 June 2018, and appointed member and Chairman of the Committee on 25 July 2018.

Mr Bonet Baiget has a degree in Economics and Business Administration from the Complutense University of Madrid and is a State Economist and Trade Expert In his professional career, he has held the positions of Spanish Economic and Commercial Advisor in Miami (1987-1991) and Milan (1993-1997). Managing Director of Altair Asesores (1997-2001). Managing Director of Promotion at the Spanish Institute of Foreign Trade (ICEX) (2001-2004). Secretary General for Foreign Trade and member of the Board of Directors of the Official Credit Institute (ICO) and Navantia (2004-2010). Secretary of State for Foreign Trade, and Chairman of ICEX and Invest in Spain (2010-2012). Chief Economic and Trade Advisor in the Spanish Delegation to the OECD (2012-2015). International Director of the Spanish Chamber of Commerce (2015-2018). He has been Secretary General of the Círculo de Empresarios (Business Circle) since 2018.

- Mr. Fernando de Asúa Álvarez (member) is another external director. Appointed as a Director at the General Meeting of 10 May 2006, subsequently re-elected on several occasions in Shareholders' General Meetings, and a member of the Committee since its inception in 2006.

Mr. de Asúa Álvarez has a degree in Economics and Computer Science from the Complutense University of Madrid, and a degree in Business Administration and Mathematics from the University of California (USA). His professional experience is centred on a long career with IBM and IBM Spain from 1959 to 1991, where he was Managing Director of the South America Area, and subsequently Europe; Chairman and Chief Executive Officer of IBM Spain; and a director of IBM World Trade Corp. He was First Deputy Chairman of the Banco Santander Group from 2004 to February 2015.

- Mr. José Manuel Lladó Arburúa (member) is a non-executive proprietary director. Appointed as a Director at the General Meeting of 10 May 2006, subsequently re-elected on several occasions in Shareholders' General Meetings, and a member of the Committee since its inception in 2006.

Mr. Lladó Arburúa has a BSBA from Georgetown University and an MBA from the University of Chicago. In his professional career, he has been manager of the international corporate finance division of Citibank N.A. (1986-1990) Managing Director of The Chase Manhattan Bank, with responsibility for Global Market Sales for Spain (1990-2001); and Deputy Managing Director of Banesto, with responsibility for the International and Treasury area (2001-2004). He is a founding Partner of Summa Financial Services (2004-present) and Managing Director of Ideon Financial Services (2008-present). He is a member of the Board of Directors of Aragonesas Promoción de Obras y Construcciones, S.L.; Layar Castilla, S.A. (Chairman); Summa Investment Solutions, S.A. (Chairman); Choice Financial Solutions, S.L. (Director); Fintonic Servicios Financieros, S.L. (Director); León Valores S.A., SICAV (Director); Araltec, S.L. (Deputy Chairman) and Aragonesas Promoción de Obras y Construcciones (Director

- Mr. José Nieto de la Cierva (member) is an external independent director. Appointed as a Director at the General Meeting of 10 May 2006, subsequently re-elected on several occasions in Shareholders' Annual General Meetings and appointed as a Committee member on 26 June 2019.

Mr Nieto de la Cierva has a degree in Economic Sciences and Business Administration from the Complutense University of Madrid. He has developed his professional career in the private sector, as a member of the consultancy department of KPMG Spain (1988-1989), subsequently part of the JP Morgan group (1989 -2002); Director of The Chase Manhattan Bank (1998-2002); and Managing Director of Corporate Banking for The Chase Manhattan Bank in Spain (1998-2002). He subsequently joined Banesto (2002-2010), where he was Deputy Managing Director of Corporate Banking (2002) and Managing Director of Wholesale Banking (2006). He has also held positions in the Banca March Group (2010-2017), where he was Chairman of Banco Inversis and Chief Executive Officer of Banca March; Director and member of the Audit Committee of Corporación Financiera Alba; Director and member of the Executive Committee of Ebro; Director of Consulnor; and Director of Aegon España. He was also appointed Deputy Managing Director of

Banco Sabadell in 2018, entity where he is currently its Managing Director since January 2020.

- Mr. Rodolfo Martín Villa (member) is an external independent director. He was appointed as a Director at the General Meeting of 26 June 2019 and appointed as a member of the Committee on 30 July 2019.

Mr. Martín Villa has a degree in Industrial Engineering from the Polytechnic University of Madrid. In the public sector, Mr Martín Villa has held a number of senior positions, which have included Minister for Trade Union Relations; Minister of the Interior and Minister of Territorial Administration from 1975 to 1981; Vice President of the Government in 1981 and 1982; Senator from 1977 to 1979; and Member of Parliament for two terms (1979-1983 and 1989-1997). In the business sector, Mr Martín Villa has held senior positions in leading companies, such as Endesa (Chairman between 1997 and 2002) and Sogecable (Chairman between 2004 and 2010). In addition, Mr Martín Villa has been a full member of the Royal Academy of Moral and Political Sciences since 2013.

Shareholders, investors and other interested parties may consult the company website to obtain further details about the members of the Committee and their professional background.

Accordingly, the Committee was composed entirely of non-executive directors, at least 2 of whom are independent directors, including its Chairperson, in compliance with Article 529 sub-section 15 of the LSC. Each member has been appointed by the Board of Directors taking into account the functions of the Committee and ensuring that the composition of the Committee meets the various criteria for diversity, including those related to the knowledge, skills, professional experience, competences, personal expertise, gender and sectoral knowledge of its members.

Since 30 July 2019, 2 independent directors are part of the Committee, with the Company's Coordinating Independent Director also forming part of the Committee, as recommended in Technical Guide 1/2019.

#### 4. COMPETENCIES OF THE COMMITTEE AND ACTIONS CARRIED OUT DURING THE YEAR

In accordance with Article 14.2 of the Regulations of the Board of Directors, and without prejudice to other functions that may be assigned by the Board of Directors, the Committee has, among others, the following basic responsibilities:

- Assessing the necessary competences, knowledge and experience of the Board of Directors. For this purpose, the Committee will define the required functions and skills for candidates for each vacant position and assess the time and dedication needed to perform their duties effectively.
- Establishing a representation target for the under-represented gender on the Board and issuing guidelines on how to reach this target.
- Submitting proposals to the Board of Directors nominating independent Directors for appointment by co-option or submission to the decision of the General Meeting, as well as proposals to the General Meeting for the re-election or dismissal of these directors.
- Reporting on proposals designating natural persons to represent a director that is a legal entity.
- Reporting on proposals nominating other directors for their appointment by co-option or submission to the decision of the Shareholders' General Meeting, as well as proposals to the Shareholders' General Meeting for their re-election or dismissal.
- Proposing members for positions on each of the Committees, taking into account their knowledge, competences and experience and the tasks of each Committee.
- Reporting on the functioning of the Board of Directors.
- Reporting on proposals for the appointment and dismissal of the Company's senior executives and the basic terms and conditions of their contracts.
- Reporting to the Board of Directors on the appointment of the Board's internal positions (Chairperson, Deputy Chairperson, Chief Executive Officer, where appropriate, and Secretary and Vice-Secretary).
- Examining and organising the succession of the Chairperson of the Board of Directors and the Chief Executive Officer of the Company and, where appropriate, making proposals to the Board of Directors to ensure the transition is orderly and well-planned.
- Proposing to the Board of Directors the remuneration policy for the directors and general managers or anyone in senior management who reports directly to the Board, the Executive Committee or the Chief Executive Officers, as well as individual remuneration and the remaining



contractual conditions of the executive directors, ensuring that these are met.

- Formulating and reviewing the criteria governing the composition of the management team of the Company and its subsidiaries and for the selection of candidates and informing the Board of Directors of the appointment or dismissal of managers reporting directly to the Board of Directors.
- Analysing, formulating and periodically reviewing proposals for policies on the recruitment, loyalty and dismissal of managers.
- Analysing, formulating and periodically reviewing proposals for policies on the remuneration of managers, considering their suitability and effectiveness.
- Reporting annually to the Board of Directors on the performance evaluation of the Company's senior management.
- Carry out the annual evaluation of the operation and composition of the Board of Directors.
- Informing the Board of Directors about the systems for and the amount of annual remuneration for directors and senior management and preparing the information for inclusion in the annual public report on directors' remuneration.
- Ensuring transparency on remuneration.
- Informing the Board of Directors about transactions that involve potential conflicts of interest.

In particular, during the 2019 financial period the Committee has carried out the following activities:

a) In relation to the appointment of Directors and senior management:

The Committee proposed the appointment of Mr Rodolfo Martín Villa as another external director of the Company, and issued the mandatory report accrediting that the candidate has an outstanding academic background and extensive professional experience in the public and business sectors, which was submitted to the Board of Directors.

The Committee is also fully aware of the requirement to ensure that the Board of Directors has a diversity of age, professional training, experience

and gender among its members, and the need for selection procedures that seek to encourage such diversity and, in particular, to facilitate the selection of female directors in numbers that allow for a balanced composition of men and women. In this regard, the Committee is aware of the need to address the inclusion of a greater number of women on the Board, and this issue has been raised and assessed in various meetings.

The Committee was also informed by the representatives of the Company's Human Resources Department, the Director of the International Human Resources and Compensation and Benefits Department, and the Director of Personnel Administration, of the Resource and Structure Optimisation Plan, prepared by the Human Resources Department with the assistance of the external consultants Ernst & Young and McKinsey, which also includes the Retirement Age Personnel Optimisation Plan.

b) In relation to the appointment of Committee members:

The Committee also informed the Board of Directors of the directors it proposed for appointment to this Committee, taking into account their knowledge, skills and experience, and the functions of the Committee. In this regard, the Board were informed of the Committee's proposal to appoint Mr José Nieto de la Cierva as a member of the Appointments and Remuneration Committee, given that Mr. Nieto de la Cierva's position as Coordinating Director, and his training and experience, makes him particularly valuable to the Appointments Committee. The Committee also proposed the appointment of Mr Rodolfo Martín Villa as a member of the Committee, due to his outstanding academic background and his extensive professional experience in the public and business sectors.

c) In relation to succession planning for Directors and senior management:

The Committee was informed of the need to draw up a wider-ranging succession plan which includes, among other groups of employees, area managers or heads of department. This will involve the identification of potential successors and the preparation of a development programme for each successor.

The Committee has monitored the progress of the Company in absence of the President and has verified the normal functioning of the Company and its corporate bodies under the presidency of the Vice Chairman I.

d) In relation to the remuneration of Directors and senior management:

In various meetings, the Committee has been informed of the existing regulatory obligations with regard to matters within its competence, and in particular, in relation to obligations regarding Directors' remuneration.

In this respect and taking into consideration the preparation of the new policy on directors' remuneration to be approved by the General Meeting in 2019, the Chairperson of the Committee reiterated the conclusions of the market study (the benchmarking of sectoral remuneration of IBEX 35 and other comparable companies at a national and international level) on directors' remuneration prepared by the external consultant E&Y, and presented at a previous meeting in 2018. In this connection, the Committee was presented the report on the remuneration model for the Company's executive directors, which was also prepared by the external consultant E&Y. In reference with the executive directors, the Committee has executed some additional actions like, for example, the adaptation and amendment of their contracts due to the new policy for directors' remuneration for the years 2019 to 2021 submitted to the Shareholders' Annual General Meeting for its approval and, finally, the analysis of a long term incentives as described below.

At various meetings, the Committee analysed the progress being made on the new text of the directors' remuneration policy, which was submitted for approval at the Shareholders' Annual General Meeting of 26 June 2019, along with the advice of the external consultant E&Y, assessing, among other aspects, the need to clearly distinguish between the two existing systems according to the type of directors.

At the meeting on 13 May 2019, the Committee received information from E&Y on the final text of the proposed policy for directors' remuneration. It was unanimously agreed to approve the proposed policy for submission to the Board, and to approve the report justifying these policies.

The Committee also established a plan to analyse a long-term variable remuneration structure adjusted to Company requirements.

In addition and following the corresponding evaluation and consideration of the criteria for variable remuneration of executive directors and its various parameters (among which, the evaluation of the performance of the Company during the corresponding financial year is of fundamental importance), the Committee applied the prudence concept, and established when the variable remuneration would be due and paid corresponding to the 2018 financial year.

The Committee was also informed by the external consultant E&Y about Long-Term Incentives (LTI) (instruments that allow the participant the possibility of receiving variable remuneration after a certain period of time has elapsed, and provided that certain conditions are met). The Committee assessed the information received, and agreed to commission the external consultant to design a LTI, based on the nature of the Company's business and best market practices, while taking into account simplicity, market value and appropriate application of the prudence concept.

In line with the above, the Committee unanimously agreed to report favourably to the Board of Directors on the implementation of the LTI proposal presented by the external consultant E&Y, that must be approved by a Shareholders' General Meeting.

In addition, the Committee was informed in various meetings, with the presence of different managers from the Human Resources Department, on various issues related to appointments, scorecards, salary reviews and senior management remuneration, including the objective-based variable remuneration system.

Similarly, the Committee informed the Board of the proposal for the distribution of the total remuneration of the Board approved by the General Meeting, to enable the Board to establish the specific amount corresponding to each of its members, taking into account the duties and responsibilities attributed to each director, membership of Board Committees, and any other objective circumstances that the Board of Directors may deem relevant, in accordance with Article 22 of the Articles of Association.

Mention should also be made of the effective coordination between the Appointments and Remuneration Committee and the Human Resources Department, which has contributed to the smooth operation of this Committee.

e) Other matters:

The Committee was informed by the Company's Finance Director of the Plan 100, the main objective of which is to optimise the Company resources and structure, identifying different opportunities for improvement.

Within the framework of the assessment of the Board and its Committees described in sub-section 6 below, the Committee unanimously approved the report on its performance corresponding to the 2018 financial period, agreeing to submit it to the Board.

The last Committee meeting also reviewed and unanimously approved the schedule of meetings for 2020, after making the pertinent changes in accordance with its availability.

Lastly, it is reported that during the 2019 financial period there were no deviations with regard to the procedures adopted by the Company, nor has any irregularity been brought before the Board of Directors on issues within the competence of the Committee, as none have come to its attention.

## 5. MEETINGS

In accordance with the provisions of article 14 of the Regulations for the Board, the Committee will meet in ordinary session once a year to prepare the information on directors' remunerations to be approved by the Board of Directors and made public, although it should be noted that in recent years the Committee has held at least four meetings a year, up to seven meetings on 2019. Likewise, it will meet each time it is convened by the Chairperson, which must be done whenever the Board of Directors or the Chairperson of the Board requests the issuance of a report or the adoption of proposals and, in all cases, whenever it is appropriate for the satisfactory fulfilment of its duties.

Furthermore, the Technical Guide 1/2019 recommends that the presence of other directors, members of management or any other third parties at the meetings of the appointments and remuneration committees should be upon prior invitation of the Chairperson of the committee and they will be restricted to the points of the Agenda for which they are called to attend. Moreover, it provides that the minutes of the meetings must record the entry and exit of the various individuals invited and that, except in specific cases for which an appropriate justification must be stated in the minutes, the guests may not be present at the debating and voting stages of the committee.

In the period comprised between 1 January 2019 and 31 December 2019, the Appointments and Remuneration Committee met on 7 occasions, having been called by the Secretary upon instructions of the Chairperson, by individual notice sent to each of its members.

All members of the Committee attended in person, (except in one meeting, in which Mr José Manuel Lladó Arburúa attended by conference call) and were present at all the meetings held. Only on one occasion, Mr José Nieto de la Cierva apologised for his absence, giving his proxy to the Chairperson of the Committee.

Apart from its members, the following people, upon invitation from the Chairperson of the Committee, were also present at the meetings of the

Appointments and Remuneration Committee, to address certain points on the Agenda:

- Director of Human Resources.
- Director of the Department for International Human Resources and Compensation and Benefits.
- Director of Personnel Management, in the Human Resources Department.
- Finance Director.

Similarly, when it was considered appropriate, external advisors (in particular, Ernst&Young and KPMG) also participated in the meetings of the Appointments and Remuneration Committee to deal with topics specific to their field, as mentioned in sub-section 4 above, of this report. The advisors did not report, nor did the Committee identify, any potential conflicts of interest.

All guests invited to the Committee meeting were previously invited by the Chairperson to be present for speaking on the points of the Agenda for which they have been summoned, and none of them were present at the debating and voting stages of the Committee meetings; the minutes recorded the entry and exit of the various guests in the meetings.

## 6. EVALUATION

As mentioned before, during the 2019 financial period an assessment was made of the Board of Directors and its Committees, corresponding to the 2018 financial period carried out with the help of the external consultant KPMG, having ascertained that the consultant is not the same firm that advises the Company on the appointment of directors or senior executives nor on remuneration schemes; their independence has been verified by the Appointments and Remuneration Committee.

The areas under assessment were the following:

- The standard and efficiency of the functioning of the Board of Directors.
- The functioning and the composition of its Committees.
- The diversity in the composition and competencies of the Board of Directors.

- The accomplishments of the Chairperson of the Board of Directors, the Executive Deputy Chairperson and the Secretary of the Board.

As for the methods used, the evaluation of the different Committees is based on the report submitted by the committees to the Board of Directors, and for the evaluation of the Board, the report submitted by the Appointments and Remuneration Committee. Furthermore, as part of the process, all directors were sent an assessment questionnaire which, after being filled out by each director, was analysed in order to obtain a uniform result regarding the members of the Board of Directors. Furthermore, the external consultant has interviewed the members of the Board as part of the assessment process.

It is worth noting that the evaluation of the performance of the Board of Directors and of its Committees has been steadily improving over the past few years. In particular, the following aspects have been highly valued: the number of directors is considered to be adequate; the minutes adequately reflect the content of the meetings; the interaction between external and executive directors within the Board is adequate and strengthens the decision-making process; the directors act independently, using their professional judgement and freely expressing their opinions; and the Board has worked adequately on guidance and supervision of issues relating to ethical culture, compliance and corporate social responsibility.

As for the actions included in the action plan provided for in article 529 sub-section 9 LSC, the main areas for improvement identified by the directors were the following: to continue encouraging interaction between the Board of Directors and senior management; to continue sending information for the meetings with greater advance notice, notwithstanding the acknowledgement of the difficulties involving the need to safeguard the confidentiality of the information; some directors suggested enhancing the information supplied to the Board on the conception that institutional investors have of the business, governance and management model of the Company; and to focus on the diversity of the members of the Board, both in respect of their fields of knowledge and experience and in the diversity of gender.

In particular, with regard to the Committee, the directors positively evaluated its performance during the year, considering it has adequately carried out its functions. As for the actions included in the action plan, the main recommendation of the directors was to continue reinforcing the planning for items to be dealt with during the year.

The Committee also analysed how to address the assessment of the Board and its Committees for the 2019 financial period, deciding that it would be performed with the collaboration of an external consultant as in previous years.

## 7. CONCLUSIONS

On the basis of the above, the Appointments and Remuneration Committee has assessed its composition and performance during the 2019 financial period, considering that:

- The composition of the Committee is in line with the provisions of the LSC and of its internal regulations, its members have the knowledge and experience suited to the competencies of the Committee and the business sector to which the Company belongs; 2 of its members are independent directors, and the Independent Coordinating Director is also a member.
- The Committee has met with greater frequency than that established in article 14 of the Regulations for the Board and whenever necessary to address the matters to be dealt with, exceeding the minimum frequency for meetings provided for in the Technical Guide 1/2019.
- Six of the seven Committee meetings were attended by all of its members.
- Lastly, the Committee has deliberated and adopted informed resolutions on the matters falling within its competence, following discussions in which there was constructive dialogue and a critical approach, promoting diversity of opinions, as provided for in the Technical Guide 1/2019. Also, whenever necessary, the Committee has been advised by external experts.

Accordingly, the Appointments and Remuneration Committee has in general terms complied with the standards provided for in the Law and its internal regulations in respect of composition, frequency of holding meetings, attendance and the informed participation of its members; the Committee also dealt with the matters within its competence, with its activity during the 2019 financial period being given a very positive evaluation.

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*This Report on the performance of the Appointments and Remuneration Committee during the 2019 financial period was drawn up by the Committee on 5 May 2020 and was submitted to the Board of Directors in its meeting held on 22 May 2020.*