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**DIRECTORS' REMUNERATIONS POLICY OF
CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES,
S.A. (CAF)**



Approved at the General Meeting held on June 13, 2020

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DIRECTORS' REMUNERATIONS POLICY OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF)

1. PURPOSE AND REGULATORY FRAMEWORK

1.1 Purpose and legal framework

The Capital Companies Act ("**CCA**") establishes, among other points, the need for listed companies to have a director remuneration policy, which must be submitted to the General Meeting of Shareholders for approval by binding vote at least every three years.

The Ordinary General Meeting of Shareholders of the Company held on June 10, 2017 approved, in accordance with the provisions of article 529 *novodecies* of the CCA, a remunerations policy for the financial year 2017 and for the three financial years following its approval, i.e. the financial years 2018, 2019 and 2020.

The Company's Board of Directors, upon the proposal of the Nomination and Remuneration Committee, and in view of the fact that the above-mentioned remunerations policy will have expired on December 31, 2020, has agreed to submit to the Ordinary Meeting of Shareholders the remunerations policy for the Company's directors for the years 2021, 2022 and 2023 with the content established in the CCA.

This proposed remunerations policy for the financial years 2021, 2022 and 2023 is accompanied by the reasoned report by the Nomination and Remuneration Committee, available to shareholders on the Company's website since the call of the General Meeting of Shareholders for June 13 and 14, 2020, on first and second call respectively, in accordance with the provisions of the second paragraph of article 529 *novodecies* of the CCA.

1.2 Statutory and regulatory framework

The statutory framework applicable to the remuneration of the directors of CAF is contained in article 39 of the bylaws and article 22 of the Rules of the Board of Directors.

Finally, article 3 of the Rules of the Nomination and Remuneration Committee gives this committee certain powers with regard to the remuneration of the directors of CAF.

The content of the CAF bylaws and the respective regulations of the Board of Directors and the Nomination and Remuneration Committee are available to shareholders and investors on the Company's website (www.caf.net).

2. GENERAL CRITERIA AND PRINCIPLES OF THE REMUNERATIONS POLICY

2.1 The general remunerations policy for CAF board members is based on the following criteria:

2.1.1 General criteria

- (a) in general, the company seeks to be in line with market criteria, on the basis of the remuneration established for directors of listed companies of a similar size and activity to CAF's, in accordance with the public information provided by these companies, as well as complying with the principles of moderation and caution;
- (b) the remuneration system is based on the fundamental principle of attracting and retaining the best professionals, remunerating them in line with their level of responsibility and their track record, based on internal fairness and external competitiveness;
- (c) likewise, CAF considers that the remuneration scheme for its board members and managers is a key factor in the company's long-term value creation. Specifically, in order to ensure that this remuneration is in line with the company's business performance and that there is an adequate distribution of profit to shareholders, being therefore in the interest of shareholders and workers alike; and
- (d) furthermore, CAF's remuneration system is at all times in line with the provisions of the applicable legal regulations. It also strives to incorporate the standards and principles of the best generally accepted national and international practices with regard to remuneration and corporate good governance at any time.

2.1.2 Criteria relating to external directors

- (a) with regard to non-executive directors, the remuneration must be sufficient to reward their dedication, qualification and responsibility;
- (b) in the specific case of directors that are neither executive nor proprietary directors, this remuneration shall be set at a level that in no way challenges their independence of criterion; and
- (c) the remuneration policy seeks to foster the motivation and retention of the most suitable professionals.

2.1.3 Criteria relating to executive directors

Specifically with regard to executive directors, the remunerations policy for performance of executive duties, other than supervisory and joint decision duties, are based on the following premises:

- (a) offer these directors remuneration that makes it possible to attract, retain and motivate the most suitable professionals, to allow the Company to meet its strategic objectives within the increasingly competitive and internationalized environment in which it operates; and

- (b) have a competitive global remuneration level with regard to peer companies in the sector.

The remuneration envisaged in accordance with these general criteria is aligned with that of other listed companies, using as criteria for comparison those relating to activity, size or market capitalization similar to those of CAF.

3. REMUNERATION STRUCTURE

The CAF Board of Directors has considered it appropriate to propose a remunerations policy that takes into account the remunerations applied by peer companies, using them as a benchmark to determine the remuneration of its directors while also taking into consideration the Company's commitment to create value for its workers and shareholders.

It has been considered that remuneration consisting of fixed remuneration, complemented, in the case of executive directors, by variable remuneration and life insurance, is sufficiently attractive to retain and motivate directors.

It is not considered necessary, at least at the current time, to introduce variable remuneration items, share options and/or other financial instruments, or other forms of remuneration such as advances, guarantees or loans, however this does not rule out the possibility of including these in subsequent financial years within the term of this policy.

Described below is the directors' remuneration system, which provides for two distinct systems in accordance with the provisions of the Capital Companies Act: one for directors in their capacity as such, and another for executive directors.

3.1 Remuneration structure of directors in their capacity as such:

In line with the provisions of article 39 of the bylaws, the members of the Board of Directors will be remunerated in their capacity as such through one or more of the following concepts:

- 3.1.1 a fixed allowance for membership on the Board of Directors;
- 3.1.2 a fixed allowance for their membership on the committees;
- 3.1.3 per diem for attendance at meetings of the Board of Directors or their committees;
- 3.1.4 a fixed allowance for the performance of other duties or responsibilities; and
- 3.1.5 the savings or pension systems which, as the case may be, are deemed appropriate.

Likewise, the members of the Board of Directors may be remunerated in their capacity as such by means of other concepts which, where appropriate, are included in the bylaws during the period of validity of this policy.

The maximum amount of the annual remuneration for the group of directors in their condition as such, adding up all the concepts indicated above, totals €2,200,000. This

amount is set as a maximum limit, with no need whatsoever to fully deplete it, but it aims to cover any possible changes that may arise during the term of the policy with regard to the composition of the Board or to the remuneration considerations in relation to the responsibilities and services provided by each director.

The setting of this maximum amount is based on the size of the Board of Directors, comprising a total of ten directors. Should the number of directors be increased or decreased during the term of the policy, within the maximum and minimum number provided for in the bylaws, then the aforementioned maximum amount shall be proportionally increased or decreased.

Given that the said amount is maximum, the Board of Directors shall be responsible for deciding on the remuneration corresponding to each director and for specifying the remuneration items, as mentioned above, taking into account the duties and responsibilities of each director, the performance of specific tasks or services, other than general ones corresponding to any director, membership of Board committees, or any other objective circumstance that it may consider relevant.

In order to determine the remuneration of each director in their capacity as such, the Company's Board of Directors will take as a basis the corresponding proposal from the Appointment and Remuneration Committee.

3.2 Remuneration structure of executive directors:

3.2.1 Variable annual remuneration and life insurance

In defining the components of the remuneration system, CAF takes into account at all times the long-term interests of CAF and, in particular, to ensure that it corresponds to the evolution of the company's results and that profits are distributed appropriately to shareholders.

For this purpose, directors who are in the executive category in accordance with article 529 *duodécies* of the CCA shall receive variable remuneration governed by the terms described in this section 3.2.1 and a benefit in the form of life insurance. They may also receive, if deemed appropriate, other concepts that, if applicable, are included in the bylaws during the period of validity of this policy.

The variable remuneration should be linked to the achievement of specific economic-financial and industrial targets defined in the Strategic Plan, such as achieving a certain EBITDA level or a given sales level that are quantifiable and in line with corporate interest and with the Company's strategic objectives.

Likewise, non-financial parameters that promote sustainability and the creation of long-term value for the Company must be established, such as the level of customer satisfaction, the monitoring of corporate governance recommendations, the adoption of equality policies or measures or other parameters that promote sustainability or the Company's corporate social responsibility.

For each parameter, its weighting will be determined, as well as the objectives whose fulfillment will allow the accrual of the variable remuneration to be obtained.

One or more parameters may be granted the category of key parameters, so that the achievement of the minimum objectives associated with these parameters is an indispensable requirement for the accrual of variable remuneration in relation to the remaining parameters.

The maximum amount to which the variable remuneration may be paid will be established each year, ensuring that it is properly balanced with that of the fixed components, so that it constitutes an adequate incentive without detracting from its complementary nature with respect to the fixed amounts.

The payment of the variable remuneration will be deferred over time, so that the Board of Directors has sufficient time to verify the degree of compliance with the objectives. In the event of an error in the calculation of the variable remuneration or in the measurement of the degree of achievement of the objectives, the beneficiaries of such remuneration shall be obliged to reimburse the excess received.

The task of specifying the variable remuneration (including its amount, the parameters on which it is based, its weighting, the objectives to be achieved in relation to each parameter and the evaluation of the degree of compliance with them) will correspond each year to the Board of Directors, on the proposal of the Appointment and Remuneration Committee.

3.2.2 Remuneration provided for in the contracts signed in accordance with Article 249 of the CCA.

Company directors performing executive duties, as provided for in the contracts approved in accordance with the provisions of article 249 of the CCA, shall have the right to a remuneration comprising some or all of the following items:

- (a) A fixed annual remuneration, amounting to €460,750 for the managing director, which will operate as a maximum for other directors performing executive functions, and which may be reviewed by agreement of the Board of Directors during the period of validity of the policy up to a maximum of €650,000.
- (b) A variable annual remuneration linked to the Company's performance and its personal performance, as described in section 3.2.1. above.
- (c) A benefit consisting in life insurance; and
- (d) A long-term savings scheme.

The basic conditions of such contracts shall be as follows:

- (a) The contract is for an indefinite term.
- (b) In the event of termination of employment at the Company's decision and for no reason attributable to the director, the latter shall have the right to receive an indemnity equivalent to two years of fixed remuneration.

- (c) The director must undertake to comply with post-contractual obligations of exclusivity and non-competition for an additional two year period as of the date of termination of employment.

4. **PRINCIPLE OF FULL TRANSPARENCY**

The Company Board of Directors has drawn up this directors' remunerations policy in compliance with its commitment to apply the principle of full transparency for all remuneration items paid to directors, and to provide sufficient and fair information, issued sufficiently in advance and in line with the good governance recommendations for listed companies.

Likewise, the Board of Directors prepares the annual report on remunerations of the directors (the "ARDR"), which is reported as Other Relevant Information immediately after approval and is made available to shareholders when the annual general meeting is convened. The said ARDR is subject to a consultative vote at the General Shareholders' Meeting as a separate item on the agenda.

5. **TERM**

This policy shall be applicable for the following three financial years after its approval. That is, financial years 2021, 2022 and 2023, in accordance with article 529 novodecies of the CCA, except for any amendments, adaptations or updates, if any, which may be approved at any time by the Company's general shareholders' meeting.