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REPORT BY THE APPOINTMENTS AND REMUNERATIONS COMMITTEE OF THE COMPANY CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF), IN RELATION TO THE PROPOSAL FOR THE APPROVAL OF A NEW REMUNERATION POLICY FOR THE COMPANY'S DIRECTORS

1. PURPOSE OF THE REPORT

This report is prepared by the Appointments and Remunerations Committee of Construcciones y Auxiliar de Ferrocarriles, S.A. ("**CAF**" or the "**Company**"), to justify the proposed remuneration policy for the Company's directors (the "**Remuneration Policy**") that is due to be submitted by the Board of Directors to the Company's Shareholders in a General Meeting for approval.

In their Ordinary General Meeting held on June 13, 2020, the Company's Shareholders approved a remuneration policy for fiscal years 2021, 2022, and 2023 in accordance with the provisions of Article 529 *novodecies* of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of July 2 (the "**Capital Companies Act**" or "**CCA**").

However, Law 5/2021, of April 12, amending the revised text of the Capital Companies Act ("**Law 5/2021**"), introduced a series of amendments, among other aspects, to the minimum content of the remuneration policy, section 1 of the First Transitional Provision of which required that listed companies adapt their remuneration policy to the new wording of Article 529 *novodecies* of the CCA and submit it to the approval of their Shareholders in the first General Meeting held after the entry into force of said amendment.

In view of the foregoing and in line with the proposal by the Appointments and Remunerations Committee, the Company's Board of Directors submits the Remuneration Policy to the Shareholders in their Ordinary General Meeting for approval for application as from the date of approval and for the following three fiscal years, that is, during the remainder of fiscal year 2022 and fiscal years 2023, 2024, and 2025, with the content established in the new wording of article 529 *novodecies* of the CCA.

In accordance with article 529 *novodecies* of the CCA, the remuneration policy must be proposed to the Shareholders in a General Meeting by the Board of Directors, with reasons, and accompanied by a report from the Appointments and Remunerations Committee.

These documents will be made available to shareholders in the manner provided for in article 529 *novodecies* of the CCA, together with the rest of the relevant documentation, at the time of the calling of the General Meeting.

2. REGULATIONS APPLICABLE TO THE REMUNERATION OF DIRECTORS

The proposed Remuneration Policy has been developed taking into account mainly the following aspects:

2.1.1 The applicable legal regulations, especially the Capital Companies Act.

2.1.2 The provisions of the Company's Bylaws, the Regulations of the Company's Board of Directors, and the Regulations of the Appointments and Remunerations Committee.

2.1.3 The best practices of good corporate governance, especially the recommendations of the Code of Good Governance for Listed Companies, the most recent version of which is dated June 2020.

The CCA establishes the necessarily remunerated nature of director positions in listed companies (article 529 *sexdecies* CCA), unless the bylaws establish otherwise. CAF's Bylaws confirm the remunerative nature of these positions and establish the remuneration system applicable to directors.

The remuneration of directors, whether in their capacity as such or for the performance of executive duties, must be in accordance with the provisions of the Remuneration Policy. In addition, Article 217.4 of the CCA establishes that, in general, the remuneration of directors must be in reasonable proportion to the size of the company, its economic situation at any given time and the market standards of comparable companies. Likewise, said article determines that the remuneration system established must be aimed at promoting the long-term profitability and sustainability of the company and incorporating the necessary precautions to avoid excessive assumption of risk and the rewarding of unfavorable results.

3. JUSTIFICATION OF THE PROPOSAL

The criteria and basis for determining the remuneration of CAF's directors during the fiscal years during which the Remuneration Policy is in force are set out below.

3.1 General criteria and principles of the Remuneration Policy

The general Remuneration Policy for CAF directors is based on the following criteria:

3.1.1 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 directors and managers is a key factor that contributes to the company's business strategy and the company's interests, sustainability, and long-term creation of value, 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, therefore being in the interest of shareholders and workers alike; and

- (d) furthermore, CAF's remuneration system is in line with the provisions of the applicable legal regulations at all times, with the aim of incorporating the standards and principles of the best generally accepted national and international practices with regard to remuneration and corporate good governance at any given time.

3.1.2 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 who are neither executive nor proprietary, this remuneration shall be set at a level that in no way challenges their independence of judgment; and
- (c) the remuneration policy seeks to foster the motivation and retention of the most suitable professionals.

3.1.3 Criteria relating to executive directors

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

- (a) offering these directors a 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) having a competitive global remuneration level with regard to peer companies in the sector.

The remuneration envisaged in accordance with the aforementioned general criteria is in line with that of other listed companies, using criteria in relation to activity, size, turnover, or market capitalization similar to those of CAF for comparison.

3.2 Objectives of the directors Remuneration Policy

The objective of the Remuneration Policy, in accordance with the criteria indicated, is to ensure that the remuneration of the Board of Directors is adequate to attract and retain directors with the desired profile and to remunerate the dedication, qualification, and responsibility required by the position, without compromising the independent judgment of the non-executive directors.

In this regard, the Remuneration Policy sets out the principles and criteria applicable to the remuneration of directors in their capacity as such and for the performing of executive duties. These principles and criteria, periodically reviewed by the Board of Directors, will also be analyzed and assessed by the Appointments and Remunerations Committee, in order to keep the Company's remuneration policy in line with best practices and market trends.

3.3 Main changes to the Remuneration Policy

Section 5 of the Remuneration Policy describes the main changes it contains with respect to the remuneration policy that the Company has been implementing during the previous fiscal years. In any case, these changes are not substantial.

4. CONTENT OF THE REMUNERATION POLICY

4.1 Remuneration of directors in their capacity as such

The members of the Board of Directors shall be remunerated in their capacity as such by means of one or more of the following concepts:

- 4.1.1 a fixed allowance for membership of the Board of Directors;
- 4.1.2 a fixed allowance for their membership of the committees;
- 4.1.3 attendance fees for attendance of meetings of the Board of Directors or their committees;
- 4.1.4 a fixed allowance for the performing of other duties or responsibilities;
- 4.1.5 a benefit consisting of a life insurance policy; and
- 4.1.6 the savings or pension systems that, where appropriate, are considered relevant.

The Remuneration Policy expressly determines the maximum amount of annual remuneration to be paid to directors in their capacity as such, as required by the applicable law.

4.2 Remuneration of executive directors

As regards executive directors, the Remuneration Policy contains a detailed description of their annual variable remuneration, which is linked to the Company's performance and their personal performance. It also lists the other remuneration items to be received by them.

On the other hand, the Remuneration Policy refers to the basic conditions of the contracts of the directors who perform executive duties in accordance with article 249.3 of the CCA, which affect:

- 4.2.1 the duration of the contract and the notice periods applicable;
- 4.2.2 compensation in the event of early termination of the contractual relationship;
- 4.2.3 exclusivity agreements; and
- 4.2.4 post-contractual non-compete agreements.

5. CONFORMITY AND REASONABILITY OF THE CONTENT OF THE REMUNERATION POLICY

The Appointments and Remunerations Committee, in the exercise of its powers, considers that the Remuneration Policy to be submitted to the Shareholders in their General Meeting for approval is in line with the applicable legal regulations and the best practices and market trends, considering comparable sectors and companies.

More specifically, it is considered that the remuneration set out in the Remuneration Policy contains the appropriate remuneration structure for each type of director, in reasonable proportion to the size of the Company, its economic situation, and comparable market standards, and is aimed at promoting the Company's long-term profitability and sustainability without assuming excessive risk.

6. PERIOD OF VALIDITY

This Remuneration Policy shall be applicable from the date of its approval by the Shareholders in a General Meeting and for the following three fiscal years, i.e., for the rest of the 2022 fiscal year and the 2023, 2024, and 2025 fiscal years, in accordance with section 1 of article 529 *novodecies* of the CCA, except for any modification, adaptation, or update approved by the Company's Shareholders in a General Meeting at any given time.

7. CONCLUSION

In accordance with that set out in this report, CAF's Appointments and Remunerations Committee considers that (i) the Remuneration Policy contains the information required by the applicable legislation, in accordance with the approval of Law 5/2021; and that (ii) its content is in line with the regulations in force and good practice in the area of remuneration, complies with the criteria of prudence in assuming risk, good governance, and transparency, and is in line with the interests of the shareholders, and should therefore be submitted to the Shareholders in their General Meeting for approval.

In Beasain, on May 6, 2022.