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## **REPORT ON THE OPERATION OF THE APPOINTMENTS AND REMUNERATION COMMITTEE OF CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF) FOR FY 2020**

### **1. Report Purpose**

The purpose of this report is to disclose the functions and activities performed by the Appointments and Remuneration Committee (hereinafter the “**ARC**” or the “**Committee**”) of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (hereinafter “**CAF**” or the “**Company**”) during the financial year that ended on December 31, 2020, for which purpose it will be made available to shareholders and other stakeholders through the corporate website, pursuant to the terms set forth in Recommendation 6 of the CNMV's Code of Good Governance for Listed Companies (hereinafter the “**Code of Good Governance**” or “**CGG**”).

In preparing this report, the principles and criteria set out in the CNMV's Technical Guide 1/2019 on Appointments and Remuneration Committees, 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. Regulations for the ARC.**

The legal regime of the ARC 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 Board Regulations 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 light of the changes introduced in the CGG upon its revision on June 25, 2020, the Board of Directors approved the amendment of the ARC Regulations during its meeting on December 17 in order to: (i) adapt said text to the new wording of Recommendations 22 and 54, (ii) include certain provisions of the Technical Guide, which the Company had in fact been complying with in the Regulations, as well as (iii) include several technical improvements.

### **3. Composition of the ARC during the financial year**

In accordance with the provisions of **Article 37 ter of the Bylaws, Article 12 of the Board Regulations and Article 4 of its own Regulations**, the Committee is made up of three non-executive Directors, two of whom are independent. The Chairperson of

the Committee has been appointed from among the independent Directors who are members of the Committee.

The appointment, renewal and removal of members of the ARC are 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 “LSC”), 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 have been appointed taking into account the knowledge, skills and experience necessary for the performance of the functions entrusted to them and, in particular, in areas such as corporate governance, human resources, selection of Directors and managers, senior management functions and the design of remuneration policies and plans.

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

FY 2020 saw these changes in the composition of this Committee:

Due to the change of category of Mr. Juan José Arrieta Sudupe who—as a result of the expiry of the continuous period of twelve years as a Director of the Company—was classified as “Other External”, and pursuant to the provisions of Article 529 duodecies of the LSC, the Board of Directors, during its meeting on 6 May, unanimously adopted the following resolutions:

- i. To appoint Ms. Ane Agirre Romarate as the new Chairperson of the Appointments and Remuneration Committee.
- ii. To appoint Mr. Julián Gracia Palacín as a member of the Committee, replacing Mr. Juan José Arrieta Sudupe.

Thus, as of December 31, 2020, the composition of the ARC and the distribution of its positions is as follows:

<b>Director</b>	<b>Position</b>	<b>Category</b>	<b>Seniority</b>
Ms. Ane Agirre Romarate	Chairperson	Independent	Appointed Director on December 19, 2017. Member of the Committee since February 27, 2018. She was appointed Chairperson of the Committee on May 6, 2020.

Mr. Luis Miguel Arconada Echarri	Member	Other External	Appointed Director on January 29, 1992. Member of the Committee since February 25, 2015.
Mr. Julián Gracia Palacín	Member	Independent	Appointed Director on June 10, 2017 and has been a member of the Committee since May 6, 2020.

The following is a brief summary of the professional profiles of the current members of the Committee:

- Ms. Ane Agirre Romarate (Chairperson) holds 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.
- 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.
- Mr. Julián Gracia Palacín (Member) is an Industrial Engineer and holds a Master's degree in Business Administration and Management. He has spent his professional career working in the telecommunications, logistics and consulting sectors, holding management positions in several companies.

In the “Shareholders and Investors” section of CAF's corporate website, up-to-date information regarding the composition of the Appointments 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-junio-2020-es\\_v2.pdf](https://www.caf.net/pdf/informacion-publica-consejeros-junio-2020-es_v2.pdf) ) can be found.

#### **4. Functions and tasks performed throughout the financial year by the ARC Committee, changes thereto and reference to the regulations governing it**

**Article 37 ter of the Bylaws and Article 3 of the ARC Regulations** attribute the following minimum functions to it:

In the area of appointment and remuneration:

1. To evaluate the skills, knowledge and experience required of the Board of Directors. For this purpose, it will draw up a matrix with the powers of the Board that defines the functions and capabilities required of the candidates for a particular vacancy, updating it periodically, and evaluate the time and commitment required for them to effectively carry out their duties.

**2.** To establish a target representation for the least represented gender on the Company's Board of Directors and produce guidelines on how to reach this target.

**3.-** To submit proposals to the Board for the appointment of independent advisers through co-optation or for the consideration of the shareholders in a General Shareholders' Meeting, together with proposals for the re-election or dismissal of said board members by the shareholders in a General Meeting.

**4.** To report on proposals for the appointment of the other Board Members through co-optation or for consideration of the shareholders in a General Shareholders' Meeting, in addition to proposals for the re-election or dismissal thereof by the shareholders during a General Shareholders' Meeting.

**5.-** To report regarding the proposed appointment of the Chairperson of the Board of Directors, in addition to the Deputy Chairpersons, if applicable.

**6.-** To inform the Board of Directors of the appointment and removal of the Secretary.

**7.-** To submit to the Board of Directors the proposal for the appointment of an Independent Coordinating Director.

**8.** To report regarding proposals for the appointment or dismissal of senior management and the basic terms of their contracts.

**9.-** To examine and organize the succession of the Chairperson 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 by developing and periodically reviewing a succession plan to that effect.

**10.-** 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 their obligations in this capacity.

**11.-** To inform the Board of Directors of the measures to be adopted when Directors find themselves in situations that affect them, whether or not they are related to their actions in the Company itself, that could damage the credit and reputation of the Company and, in particular, before any criminal case in which they appear as being under investigation.

**12.** 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 evaluate whether there is just cause.

**13.** To make proposals to the Board of Directors regarding the remuneration policy for board members and general directors or those performing their senior management functions 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.

**14.** To periodically review the remuneration policy applicable to board members and senior management, including the remuneration systems through shares and the application of these, in addition to guaranteeing that the

individual remuneration is proportionate to that paid to the Company's other board members and senior management.

**15.** To ensure that any possible conflicts of interest do not compromise the independence of the external advice given to the Committee.

**16.-** 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.

In relation to the System of Corporate Governance and Sustainability:

**17.-** To supervise compliance with the Company's corporate governance rules, also ensuring that the corporate culture is aligned with its purpose and values;

**18.-**To verify compliance with the Diversity and Director Selection Policy on an annual basis, reporting on this in the annual corporate governance report.

**19.-**To periodically evaluate and review whether or not the Company's corporate governance system and Sustainability Policy adequately fulfill their mission of promoting the company's interests and takes into account, as applicable, the legitimate interests of the other stakeholder groups.

**20.-** To monitor that the Company's environmental and social practices are in line with the set strategy and policy; and

**21.-** To supervise and evaluate the relationship processes with the different stakeholders.

In relation to other subjects:

**22.-** To make proposals to the Board of Directors to modify the Board Regulations, whenever the Committee should deem this to be necessary, including the corresponding reasoning with its proposal.

**23.-** To present an annual evaluation report to the Board of Directors regarding its own performance and an annual evaluation report on the operation and activities of the Committee during the previous financial year and an annual assessment report of the performance of the Board of Directors.

**24.-** To issue an annual report on the operation and activities of the Committee during the previous financial year.

**25.-** To check that the information on the experience and professional background, as well as on 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.

**26.-** To approve an annual work plan that takes into account the annual schedule for Committee sessions, among other matters, with the goal of facilitating efficient compliance with the goals sought.

**27.-** Any other duty attributed thereto by Law, the Company's Bylaws, the Regulations 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 functions; likewise, upon the invitation of the Chairperson of the Committee, 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. Their presence should not become common practice, so they should only attend when necessary. **(Article 15 of the ARC Regulations).**

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

In FY 2020, a total of five meetings were held, attended by all the members of the Committee, whether in person or by proxy.

<b>Date of the meeting</b>	<b>Number of Committee member attendees</b>	<b>Other attendees</b>
2/27/2020	3	--
5/6/2020	3	--
10/7/2020	3	--
11/11/2020	3	• Head of the Company's Corporate Social Responsibility Forum.
12/17/2020*	3	--

(\*) At the meeting held on December 17, 2020, Madam Chairperson, Ms. Ane Agirre Romarate authorized the Director and Member of the Committee, Mr. Luis Arconada Echarri, to act as her proxy by means of a letter addressed for this purpose to the Secretary of the Committee, giving him specific voting instructions.

The Committee meetings cover matters within its competence, 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 in FY 2020.

#### **6. The most significant activities carried out this financial year**

During the financial year under review, the Committee adequately performed the functions set forth in the Bylaws (Art. 37 ter) and in its own Regulations (Art. 3). As

indicated in Section 2 of this document, in FY 2020, Articles 3 and 15 of the ARC Regulations implementing the powers and competences attributed to the Committee were amended for the purposes indicated above.

**a. Appointment activities.**

- Presentation to the Board, for submission to the General Shareholders' Meeting, of the proposal for the re-election of an independent director, as well as the preliminary reports for the re-election of an executive director and for the appointment of two proprietary directors.

The aforementioned documents were made available to shareholders on the corporate website as soon as the General Meeting was called.

- Presentation to the Board of the proposal for changes in the composition of the Committee, consisting of the appointment of Ms. Ane Agirre Romarate as Chairperson and Mr. Julián Gracia Palacín as a new member, as well as the proposed appointment of Mr. Javier Martínez Ojinaga as the new Coordinating Director.

- Review of the Board skills matrix in order to update its contents, in light of the latest changes in the composition of the Board.

- Presentation to the Board of the proposal to amend the Diversity and Director Selection Policy, in order to adapt it to the amendments introduced in the Code of Good Governance in June 2020 and to introduce other technical improvements.

**b. Remuneration activities.**

- Proposal to the Board of Directors of the Report on the Remuneration of Directors for FY 2019.

- Proposal to the Board of Directors of remuneration for the Executive Committee and for the Directors, applicable to FY 2020, and presentation of a new proposal due to the supervening circumstances arising from COVID-19.

- Presentation to the Board of Directors of the proposed new Directors' Remuneration Policy, applicable to FY 2021, 2022 and 2023, for submission to the Ordinary General Shareholders' Meeting.

**c. Activities in the area of Corporate Governance and Sustainability.**

- Review of the Corporate Social Responsibility Report for FY 2019, for approval by the Board of Directors.

- Review of the Declaration on Combating “Modern Slavery” (UK) for FY 2019, for approval by the Board of Directors.

- Supervision of the reporting process for non-financial and diversity information contained in the Non-Financial Information Statement for FY 2019.

- Supervision of the Company's practices in environmental and social matters to verify that they are in line with the strategy and Policy in force, with the assistance of the Head of the Company's Corporate Social Responsibility Forum to the Committee.

- Presentation to the Board of Directors of the proposed new Sustainability Policy, replacing the 2015 Corporate Social Responsibility Policy.

- Supervision and evaluation of the corporate governance system within the framework of the functions attributed to the Commission in Sections 17 and 19 of Article 3 of its Regulations.

**d. Other actions.**

- Proposal to the Board of Directors to modify the ARC Regulations in order to include the changes arising from the revision of the CGG and other technical improvements.
- Approval of the Operation Report of the Appointments and Remuneration Committee for FY 2019.
- Proposal to appoint the external evaluator for FY 2020, after verification of their independence.
- Preparation of the Report on the annual evaluation of its performance, within the framework of the evaluation of the Board of Directors, in accordance with the provisions of Recommendation 36 of the Code of Good Governance for Listed Companies, with the scope detailed in Section 7 below.
- Analysis of the state of the directors' and managers' insurance policies in force and their annual renewal plan.
- Annual verification of compliance with the Diversity and Director Selection Policy.
- Approval of the Plan of Activities for 2021.

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

Throughout this financial year, the Committee has continuously monitored the action plans for 2020, proposed in the Report on the annual evaluation of its own performance, approved by the Committee during its meeting on December 17, 2019, noting that they have been carried out satisfactorily.

**7. Scope of the evaluation of the operation and performance of the Board and the ARC itself, including the areas evaluated, the evaluation methods used, and the extent to which the evaluation has led to relevant changes in the organization.**

The Committee prepared the Report on the annual evaluation of its own performance in 2020, 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. Both reports have been submitted to the Board of Directors.

Following the mandate contained in Recommendation 36 of the CGG, which provides for the involvement of an external consultant in the process every three years, this financial year, the assistance of an external evaluator was required and their independence was verified by this Committee.

The evaluation process carried out by the Committee included, among others, the following aspects: i) quality and efficiency in the performance of the Board of Directors and its Committees, including the degree of effective use of the contributions of its members; ii) size, composition and diversity of such

bodies; iii) performance of the Chairperson 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 allocated to addressing the different 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 took 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 FY 2020.

For their part, the external evaluator analyzed the parameters indicated below, from the standpoint of their compliance with legal regulations and good governance recommendations:

a) On the operation of the Board:

- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| • Size                            | • Directors' Duties                 |
| • Composition                     | • Directors' Commitment             |
| • Gender Diversity                | • Information at their disposal     |
| • Director Selection Policy       | • Directors' Remuneration           |
| • Information on the<br>Directors | • Board Meetings                    |
| • Removal of Directors            | • Operation of the Board            |
| • Proprietary Directors           | • Non-delegable Powers of the Board |
| • Independent Directors           | • The Board's Work                  |

b) On the operation of the ARC:

- Composition
- Skills
- Directors Selection
- Other Functions

The result of the evaluations carried out was positive, notwithstanding some areas for improvement that were identified, which the Committee passed on to the Board for assessment, and which have been specified in specific action plans for FY 2021.

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

## **8. Information on which, if any, practical guidelines on appointments and remuneration committees are being followed and to what extent**

Since the publication of the CNMV's Technical Guide 1/2019 on February 27, 2019 on Appointments and Remuneration Committees, the ARC has followed these guidelines as a roadmap in the performance of its functions.

## **9. Significant deviations with respect to the procedures adopted or irregularities in matters within the Committee's competence which have been reported in writing to the Board**

No significant deviations with respect to the procedures adopted or irregularities in matters within this Committee's competence have been reported in writing to the Board.

## **10. Conclusions.**

As a result of the above, the Appointments and Remuneration Committee considers that its organization and operation in FY 2020 are in line with the provisions contained in the law, the Bylaws, the Board Regulations and its own Regulations.

In particular, all the recommendations of the Code of Good Governance concerning the committees in this category, 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 Appointments 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 Appointments and Remuneration Committee on February 25, 2021.

### **Approval by the Board of Directors and Dissemination:**

This report was approved by the Board of Directors of CAF during its meeting on February 25, 2021.

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 in 2020**

<b>Date</b>	<b>Issues addressed</b>
February 27, 2020	<ul style="list-style-type: none"><li>○ Review of the Annual Report on Directors' Remuneration for FY 2019.</li><li>○ Remuneration proposal for the Executive Committee and for the Directors, applicable to FY 2020.</li><li>○ Review of the Corporate Social Responsibility Report and the Declaration on Combating "Modern Slavery" (UK) for FY 2019.</li><li>○ Report on the non-financial information contained in the Management Report for FY 2019.</li><li>○ Approval of the Report on the Operation of the Committee for FY 2019.</li><li>○ Miscellaneous.</li></ul>
May 6, 2020	<ul style="list-style-type: none"><li>○ Proposals and Reports on the re-election and appointment of Directors.</li><li>○ Remuneration for the Directors and the Executive Committee for FY 2020.</li><li>○ Proposal for the Directors' Remuneration Policy for FY 2021, 2022 and 2023.</li><li>○ Changes in the composition of the Committee and proposal for the appointment of a new Coordinating Director.</li><li>○ Miscellaneous.</li></ul>
October 7, 2020	<ul style="list-style-type: none"><li>○ Proposal to appoint the external evaluator for FY 2020, after verification of their independence.</li></ul>

- Review of the Board skills matrix.

- Miscellaneous.

November 11, 2020

- Report by the Head of the CSR Forum on actions in environmental, social and sustainability matters.

- Proposal for a Sustainability Policy to replace the current Corporate Social Responsibility Policy.

- Proposal to amend the Diversity and Director Selection Policy.

- Miscellaneous.

December 17, 2020

- Proposal to amend the Appointments and Remuneration Committee Regulations.

- Report for the supervision and evaluation of the Corporate Governance System.

- Annual evaluation of the performance of the Committee and the Board.

- Approval of the Plan of Activities for 2021.

- Miscellaneous.