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



Approved at the General Meeting held on June 11, 2022

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## DIRECTORS' REMUNERATION 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 approval of the Shareholders in their General Meeting for application for a maximum period of three years.

In the Ordinary General Shareholders' Meeting held on June 13, 2020, the Company's Shareholders approved a remuneration policy for the fiscal years 2021, 2022, and 2023, in accordance with the provisions of article 529 *novodecies* of the 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 Appointment and Remuneration Committee, the Company's Board of Directors has resolved to submit a new remuneration policy for the Company's directors to the Shareholders in their Ordinary General Shareholders' 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 for fiscal years 2023, 2024, and 2025, with the content established in the new wording of article 529 *novodecies* of the CCA.

This proposed remuneration policy is accompanied by the corresponding report by the Appointments and Remunerations Committee, available to the shareholders on the Company's website from the issuance of the convening notice for the first and second sessions of the General Shareholders' Meeting on June 11 and 12, 2022, respectively, in accordance with the provisions of section 4 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.

Additionally, article 3 of the Rules of the Appointments and Remunerations Committee gives this committee certain powers with regard to the remuneration of the directors of CAF.

Both the content of CAF's bylaws and the respective regulations of its Board of Directors and of its Appointments and Remunerations Committee are available to shareholders and investors on the Company's website ([www.caf.net](http://www.caf.net)).

### 1.3 Decision-making process

As indicated above, this remuneration policy was formulated by means of a reasoned proposal by the Board of Directors dated May 6, 2022, having been the subject of a prior proposal and a specific report by the Appointments and Remunerations Committee, as provided for in article 529 *novodecies* of the CCA and article 3.13 of the regulations of CAF's Appointments and Remunerations Committee.

The reviewing of the remuneration policy is also entrusted to the Appointments and Remunerations Committee, in accordance with the provisions of article 3.14 of its regulations.

Likewise, the determination of the remuneration of each board member, as such or for the performing of their executive duties, corresponds to the Company's Board of Directors, which will decide based on the corresponding proposal from the Appointments and Remunerations Committee.

All of the above, in addition to the legal duties to avoid situations of conflict of interest, as set forth in the Board's Regulations, guarantee the absence of conflicts of interest when defining, applying, and reviewing the directors' remuneration policy.

The objective of minimizing the appearance of conflicts of interest when applying the remuneration policy is also achieved through various additional mechanisms:

- 1.3.1 The absence of guaranteed variable remuneration.
- 1.3.2 The application of "malus" and "clawback" clauses in relation to the variable remuneration of executive directors.
- 1.3.3 The introduction of non-financial parameters in the variable components of remuneration that will be measured with reference to opinions or evaluations by third parties.

## 2. GENERAL CRITERIA AND PRINCIPLES OF THE REMUNERATION POLICY

2.1 The general remuneration policy for CAF directors 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, in addition to 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 and remunerating them in line with their level of responsibility and their track record, based on internal fairness and external competitiveness;
- (c) likewise, CAF considers the remuneration system for its board members and managers to be a key factor that contributes to the company's business strategy, interests, sustainability, and creation of long-term

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.

#### 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 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.

#### 2.1.3 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 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. REMUNERATION STRUCTURE**

CAF's Board of Directors has considered it appropriate to propose a remuneration policy that takes into account the remuneration 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 creating value for its workers and shareholders.

It is considered that remuneration consisting of fixed remuneration, supplemented, in the case of executive directors, with 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 fiscal years within the term of this policy.

It is considered that the proposed remuneration scheme contributes to the business strategy and to the company's interests, sustainability, and creation of long-term value, an objective that is achieved through an appropriate balance between fixed and variable remuneration and, in the latter case, by setting parameters that address the viability and sustainability of the CAF group in both the short and long term, either because of the period of accrual of the variable remuneration itself or because the achievement of these objectives, even when measured annually, has a medium and long-term impact on the group's sustainability.

Likewise, this remuneration policy has been formulated taking into account the remuneration and employment conditions of the Company's employees, pursuing the same principles of non-discrimination for reasons of sex, age, culture, religion, or race when applying remuneration policies, remunerating its professionals in accordance with their level of performance, leadership, and responsibility, thus promoting the motivation and retention of the most suitable professionals.

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, is described below.

### **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 of the Board of Directors;
- 3.1.2 a fixed allowance for their membership of committees;
- 3.1.3 attendance fees for attendance of meetings of the Board of Directors or their committees;
- 3.1.4 a fixed allowance for the performing of certain duties or responsibilities;
- 3.1.5 a benefit consisting of a life insurance policy; and
- 3.1.6 the savings or pension systems that may be 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, may be 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, comes to €2,420,000. This amount is set as a maximum limit, with no obligation whatsoever to reach this amount, as 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 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 eleven 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 said amount is the 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 the corresponding proposal from the Appointments and Remunerations Committee as a base.

### 3.2 Remuneration structure of executive directors:

#### 3.2.1 Remunerative items

In line with the provisions of article 39 of the Company's bylaws, directors who are executive directors pursuant to the provisions of section 1 of article 529 *duodecies* of the CCA may receive remuneration consisting of one or more of the following items in addition to the items set forth in section 3.1, above:

- (a) Fixed annual remuneration, amounting to €510,000 for the managing director, which will serve as a maximum for other directors performing executive functions, and which may be revised by agreement of the Board of Directors during the period of validity of the policy up to a maximum of €650,000.
- (b) Variable remuneration with indicators or parameters linked to their performance and that of the Company or its group, as described in section 3.2.2, below.
- (c) A benefit consisting of a life insurance policy.
- (d) A long-term savings system, with defined contributions and covering the following causal events: retirement, death, absolute permanent disability, and severe disability.
- (e) Deverance payments, provided the termination was not due to a failure to comply with their duties as a director; and
- (f) Compensation for the assuming of post-contractual non-compete and exclusivity obligations.

The Board of Directors is responsible for the individual determination of the remuneration of each Director for the performance of the executive duties

assigned to them within the framework of the remuneration policy and in accordance with the provisions of their contract, following a proposal and report issued by the Appointments and Remunerations Committee.

### 3.2.2 Annual variable remuneration

In defining the components of the remuneration system, CAF always takes into account its own long-term interests and, in particular, ensures that these are in line with the evolution of the company's results and that profit is 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.

The variable remuneration must be linked to the achievement of economic and financial objectives defined in the Strategic Plan, such as the obtaining of a specific, quantifiable level of contracting, sales, EBITDA, or cash-flow in line with the Company's interests and strategic goals.

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 index for organizational health, the results of independent sustainability evaluations, and other ESG parameters or indicators that promote the sustainability or corporate social responsibility of the Company.

Although the accrual period of the variable remuneration is one fiscal year, it contributes to the achievement of the Company's results and sustainable performance, both in the short and long term, given that (i) the achievement of the objectives on which it is based has an impact on the Group's performance both in the short term (as is the case with the level of cash flow or sales) and in the long term (as is the case with the level of contracting and sustainability indicators, such as customer satisfaction), and (ii), due to the nature of CAF's business, the achieving of the objective in relation to various parameters, such as the level of contracting or customer satisfaction, is the result of prior dedication of resources and efforts over a significantly longer period of time.

The weighting of each parameter will be determined, as well as the objectives the fulfillment of which will allow the accrual of the variable remuneration to take place.

The methods for assessing the degree of compliance shall be those that are appropriate in each case to determine the extent to which the performance criteria have been met. Thus, it is foreseeable that compliance with the economic and financial parameters will be measured on the basis of the financial statements prepared each year by the Board. The measurement of non-financial parameters may be carried out by means of satisfaction surveys, evaluations carried out by independent third parties, or other procedures that are suitable for this purpose, at the discretion of the Board of Directors.

One or more parameters may be classed as key parameters, which means that the achieving of the minimum objectives associated with these parameters will be an indispensable requirement in order for variable remuneration in relation to the remaining parameters to be earned.



The maximum amount of variable remuneration payable will be established each year, ensuring that this 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 shall be deferred in time and shall be paid from two months after the end of the fiscal year, so that the Board of Directors has sufficient time to verify the degree of compliance with the objectives and assess whether there are any circumstances that make it advisable to reduce the variable remuneration to be received by the executive directors, such as serious breaches of their obligations, the inclusion of a qualified opinion in the audit report, or the need to restate the Company's financial statements.

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 after payment, 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, based on the proposal by the Appointments and Remunerations Committee.

### 3.2.3 Conditions of the contracts signed in accordance with Article 249 of the CCA

In accordance with the provisions of section 3.g) of article 529 *novodecies* of the CCA, the basic conditions of the contracts entered into or to be entered into with directors who perform executive duties pursuant to the provisions of article 249 CCA or in virtue of any other regulation are indicated below:

- (a) The contract shall be for an indefinite period, and may provide for the need to give notice in the event of termination.
- (b) In the event of termination of the position by decision of the Company for reasons not attributable to the director, or by voluntary decision of the director due to a serious and culpable breach by the Company of the obligations assumed in the contract, or in the event of a substantial reduction or modification of the duties, powers, or conditions of their performance for reasons not attributable to the director, the latter shall be entitled to receive compensation equivalent to two years of their fixed remuneration.
- (c) The contract may foresee the assuming of post-contractual exclusivity and non-compete obligations for an additional period of up to two years after leaving the position.

## 4. PRINCIPLE OF FULL TRANSPARENCY

The Company's Board of Directors has drawn up this director remuneration 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 remuneration 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. Said ARDR is subject to a consultative vote at the General Shareholders' Meeting as a separate item on the agenda.

## 5. TERM

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.

Given that the previous remuneration policy was approved by a high vote (72.10% of those in attendance), this remuneration policy continues on from the previous one, although the changes and improvements indicated below have been included, in addition to the aforementioned expansion of its content in accordance with the new wording of article 529 *novodecies* of the CCA:

- 5.1.1 The inclusion of life insurance among the remuneration items for directors in their capacity as such, in view of the amendment of article 39 of the bylaws approved by the Shareholders in the General Meeting held on June 5, 2021.
- 5.1.2 The inclusion of a long-term savings plan for all executive directors.
- 5.1.3 The expansion of the non-financial parameters to which the accrual of variable remuneration is linked, including other ESG indicators that contribute to the long-term sustainability of the Company.
- 5.1.4 The inclusion of a more specific mention of the possibility of applying the “malus” clause before paying variable remuneration to executive directors.
- 5.1.5 Update of the annual fixed remuneration of the Chief Executive Officer.