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REPORT BY THE APPOINTMENT AND REMUNERATION COMMITTEE OF THE COMPANY CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. (CAF), IN RELATION TO THE PROPOSAL FOR THE APPROVAL OF THE REMUNERATION POLICY FOR BOARD MEMBERS

1. PURPOSE OF THE REPORT

This report is prepared by the Appointment and Remuneration Committee of Construcciones y Auxiliar de Ferrocarriles, S.A., ("**CAF**" or the "**Company**"), pursuant to the provisions of Article 529 *novodecies* of the revised text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of July 2 (the "**Capital Companies Act**"), to justify the proposed new remuneration policy for the Company's board members (the "**Remuneration Policy**") which is expected to be submitted by the Board of Directors for the approval of the Company's Shareholders in their next Ordinary General Meeting. The full text of the Remuneration Policy is attached to the Board of Directors' reasoned proposal, which will be made available to shareholders together with this report.

In the exercise of the duties attributed to it, the Appointment and Remuneration Committee has analyzed the board member remuneration policy applicable to date and has submitted a proposal to the Board for the approval of a new Remuneration Policy in order to update its content, taking into account the highest standards of corporate governance and best market practices.

The proposed developments are, in part, a reflection of a dialog process with shareholders and institutional investors, as well as proxy advisors, initiated as a result of the dissent observed with respect to the current remuneration policy, which highlighted the need for a review of the policy to align CAF's remuneration practices more closely with the expectations of shareholders and institutional investors and reinforce their confidence.

In the proposed new Remuneration Policy, particular emphasis has been placed on the further development of the characteristics of the variable remuneration system, both in the short and long term. In addition, the possibility has been introduced of remunerating executive directors by means of shares, stock options, or remuneration indexed to the value of shares, whether of the Company or of companies belonging to its group. In addition, the option of combining these concepts to offer a more flexible compensation package that is aligned with the interests of CAF and its shareholders is also contemplated.

In order to ensure that the remuneration structure is as competitive and in line with best market practices as possible, an exhaustive analysis of comparable companies has been carried out with the support of specialized external advisors. This analysis has allowed for a more accurate and contextualized assessment of remuneration in relation to mid-cap companies that are comparable to CAF in terms of turnover and size.

Pursuant to Article 529 *novodecies* of the Capital Companies Act, the reasoned remuneration policy should be proposed to the Shareholders in their General Meeting by the Board of Directors, accompanied by a report from the Appointment and Remuneration Committee. These documents will be made available to shareholders in the manner provided for in Article

529 *novodecies* of the Capital Companies Act, 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 BOARD MEMBERS

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 Appointment and Remuneration 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 Capital Companies Act establishes the necessarily remunerated nature of board member positions in listed companies (Article 529 *novodecies* of the Capital Companies Act), unless the bylaws establish otherwise. CAF's Bylaws confirm the remunerative nature of these positions and establish the remuneration system applicable to board member.

The remuneration of board members, whether in their capacity as such or for the performance of executive duties, shall comply with the provisions of the Remuneration Policy. In addition, Article 217.4 of the Capital Companies Act establishes that, in general, the remuneration of board members 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. This article also determines that the remuneration system established should be aimed at promoting the long-term profitability and sustainability of the company, 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 board members during the fiscal years in 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 board members 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 board members 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) CAF similarly considers that the remuneration scheme for its board members and directors 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

- (d) CAF's remuneration system is also 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 board members

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

3.1.3 Criteria relating 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 board members 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
- (b) having a competitive global remuneration level with regard to peer companies in the sector.

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

3.2 **Aims of the Director Remuneration Policy**

The aim of the Remuneration Policy, pursuant to 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 and more closely aligning CAF's remuneration practices with the expectations of the shareholders and institutional investors.

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 Appointment and Remuneration 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 1.4 of the Remuneration Policy sets forth the main changes it contains with respect to the remuneration policy that the Company has been implementing during the previous fiscal years.

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 concepts indicated in Article 39 of the Company's Bylaws:

The Remuneration Policy expressly determines the total maximum amount of annual remuneration to be paid to all directors in their capacity as such, as well as the criteria for its distribution according to the duties and responsibilities attributed to each of them, as required by the Capital Companies Act and the maximum amounts corresponding to each of the items that make this up.

4.2 **Remuneration of executive directors**

With regard to executive directors, the Remuneration Policy contains a detailed description of their fixed and variable remuneration, both short and long term, which is linked to the Company's performance and their personal performance. It also lists the other items of remuneration to be received by them, including the maximum limits of each item of remuneration.

The Remuneration Policy meanwhile refers to the basic conditions of the contracts of the board members who perform executive duties in accordance with Article 249.3 of the Capital Companies Act, 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
- 4.2.4 post-contractual non-compete agreements.

4.3 **Other disclosures**

In addition to the foregoing, the Appointment and Remuneration Committee notes that the proposed Remuneration Policy contains the rest of the mandatory disclosures required by Article 529 *novodecies* of the Capital Companies Act.

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

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

More specifically, it is felt 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, compared through rigorous analyses carried out by specialized external advisors and is aimed at promoting the Company's long-term profitability and sustainability without assuming excessive risk or rewarding unfavorable results.

6. **PERIOD OF VALIDITY**

The Remuneration Policy shall be applicable from the date of its approval by the Shareholders in a General Meeting which shall be called to be held on June 15 and 16, 2024, in its first and second call respectively and for the following two fiscal years, i.e., for the rest of the 2024 fiscal year and for the 2025 and 2026 fiscal years, coinciding with the duration of the Strategic Plan, in accordance with Section 1 of article 529 *novodecies* of the Capital Companies Act, except for any modification, adaptation or update approved by the Company's Shareholders in a General Meeting at any given time.

If approved, as of the date of its approval, the proposed Remuneration Policy will replace and render ineffective the remuneration policy for the Company's board members that was approved by the Shareholders in their General Meeting on June 11, 2022, under Item Six of the agenda.

7. **CONCLUSION**

In accordance with this report, CAF's Appointment and Remuneration Committee considers that (i) the proposed Remuneration Policy contains the disclosures required by the applicable regulations; and that (ii) its content is adapted to the regulations in force and to 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 San Sebastian, May 8, 2024.