



GENERAL SHAREHOLDERS' MEETING 18 June 2021

Report of the Board of Directors *Director Remuneration Policy*



REPORT OF THE BOARD OF DIRECTORS OF IBERDROLA, S.A. REGARDING THE PROPOSED APPROVAL OF A NEW *DIRECTOR REMUNERATION POLICY* INCLUDED IN ITEM NUMBER SIXTEEN ON THE AGENDA FOR THE 2021 GENERAL SHAREHOLDERS' MEETING

1. Object of the report

This explanatory report is prepared by the Board of Directors of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**") in accordance with the provisions of Section 529 *novodecies* of the *Companies Act (Ley de Sociedades de Capital)* in relation to the proposed approval of the *Director Remuneration Policy* and, pursuant to the provisions of the Act, includes the corresponding report of the Remuneration Committee and the text of the proposed policy as an annex.

2. Purpose and main principles of the new *Director Remuneration Policy*

The Board of Directors believes that success in strategic decision-making and a clear commitment to corporate values are two of the main factors capable of differentiating Iberdrola's performance from that of other companies in the electricity sector, with the main distinguishing elements being talent, effort, creativity, leadership and the ability to achieve the commitment to its purpose and values.

The new *Director Remuneration Policy*, proposed by the Remuneration Committee, seeks to contribute decisively to the attraction, retention, motivation and development of the best talent, on fair and competitive terms.

To this end, the policy for which approval is submitted to the shareholders at the General Shareholders' Meeting is based on the following principles:

- a) **Market remuneration, which captures and retains talent:** it must provide adequate remuneration for the dedication and responsibility assumed by the directors, in line with what is paid in the market by comparable companies. The Company performs regular comparative analyses for these purposes.
- b) **Focused on maximising the creation of value and committed to the *Purpose and Values of the Iberdrola group* and to long-term sustainability:** it must be aligned with the *Purpose and Values of the Iberdrola group* and be a lever to maximise the social dividend and shareholder return and to achieve the long-term sustainability of the Company, all within the framework of the Iberdrola group's commitment to all of its Stakeholders.
- c) **Focused on objectives:** it must ensure that the remuneration helps to achieve the strategic objectives of Iberdrola, which are regularly published and updated by the Board of Directors.
- d) **Aligned with the long-term strategy and sustainability:** it must seek the attraction, retention, motivation and development of the best talent, on fair and competitive terms, which is the best way to contribute to the business strategy and to the long-term interests and sustainability of the Company and of the Iberdrola group.



3. General terms of the new *Director Remuneration Policy*

Law 5/2021, of 12 April amending the restated text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, and other financial regulations, as regards the encouragement of long-term shareholder engagement at listed companies ("Law 5/2021") which among other things amends Sections 529 *sexdecies* to 529 *novodecies* of the *Companies Act* regarding the remuneration of directors of listed companies, was published in the Spanish Official Government Bulletin (*Boletín Oficial del Estado*) on 13 April 2021.

The amendments of Section 529 *novodecies* of the *Companies Act* regarding director remuneration policy will enter into force on 14 October 2021. However, the new *Director Remuneration Policy* proposed by the Remuneration Committee fully conforms to the new requirements of Section 529 *novodecies* following its amendment by *Law 5/2021*, which highlights the Company's ongoing effort to remain at the forefront of best corporate governance practices and its desire to strengthen its leadership on corporate governance matters.

The general lines of the new *Director Remuneration Policy* are similar to the policy currently in force, although certain issues are included to conform to Section 529 *novodecies* of the *Companies Act*, as well as technical improvements, which include the following:

- a) **Group strategy:** the proposed policy includes the establishment of objective criteria relating to the Iberdrola group's strategy as one of the basic principles governing the remuneration of executive directors.
- b) **New parameters in the variable remuneration of the executive directors:** they combine long-term environmental and sustainability parameters, including those relating to the energy transition, with the mitigation of and adaptation to climate change, and others relating to the Sustainable Development Goals (SDGs) approved by the United Nations, along with the financial and operational/industrial parameters already established in the current policy.
- c) **Labour conditions within the Iberdrola group:** the Remuneration Committee has taken into account the employment terms and remuneration levels of the Iberdrola group's professionals, particularly with respect to the remuneration of the executive directors, in the review and update of the policy it proposes.

Specifically, the principles of the remuneration system for executive directors are aligned with the general remuneration programmes of the Iberdrola group, seeking in all cases to foster the commitment of all professionals to the *Purpose and Values of the Iberdrola group*, personal and corporate ethics, excellence in performance and the promotion of the strategic and sustainable development goals of the Company.

- d) **Maximum annual amount:** the proposed policy revises the maximum amount of annual remuneration to be paid to all directors in their capacity as such, which may be revised by the Board of Directors based on the circumstances.

The policy also establishes the amounts of the fixed remuneration of the directors, taking into account the positions held on the Board of Directors. The fixed remuneration amounts may be revised by this corporate body up to the maximum annual amount established in the policy, which shall be reported in the annual director remuneration report.

- e) **Non-competition:** the new policy proposes to update the terms of the commitment not to compete without changing the duration thereof or the calculation of the compensation, if any.



In particular, a director who ends the term of office to which the director was appointed or who ceases to act as such for any other reason may not be a director or member of the management team of, or provide services to, any entity whose object is similar, in whole or in part, to that of the Company or which is a competitor of the Company, for a term of two years, although the Board of Directors may, if it deems appropriate, release the outgoing director from this obligation or shorten the duration thereof.

In the case of cessation of office prior to the end of the period for which they were appointed, non-executive directors who are not proprietary directors shall have the right to receive compensation for the commitment not to compete unless their cessation is voluntary or due to a breach of the duties of director attributable thereto or to the provisions of the succession plan included in the *General Corporate Governance Policy*, or to the sole decision thereof.

- f) **More information about the structure of executive director remuneration:** the policy includes greater detail regarding fixed remuneration, variable remuneration (short term (annual bonus) and long-term (strategic bonus)) of the executive directors, designing the remunerative mix in order to attract and retain the best talent and align their performance with the interests of the Iberdrola group and the achievement of its business strategy, promoting its long-term sustainability.

Certain factors must be taken into account in order to revise fixed remuneration, including the Company's financial status, market standards, the value and merits of the executive director, retention risks and general salary updates within the Iberdrola group.

Short-term variable remuneration is limited to a maximum of 200% of the executive director's fixed remuneration during the corresponding financial year. It shall be determined by the Board of Directors, payable in cash and linked to the achievement of specific economic/financial, operational/industrial and other objectives relating to the Sustainable Development Goals (SDGs) approved by the United Nations that are predefined and quantifiable and aligned with the *Purpose and Values of the Iberdrola group*, the achievement of the business strategy, and the long-term interests and sustainability of the Company.

The policy includes the parameters to which the short-term variable remuneration of the chairman & CEO and other executive directors will be linked. The annual director remuneration report will identify the specific objectives for each financial year to which said annual variable remuneration will be linked and will report on the level of achievement thereof.

Long-term variable remuneration is linked to the Outlook 2020-2025. The parameters and specific weightings thereof are set out in the 2020-2022 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting held on 2 April 2020. Executive directors who are beneficiaries of incentive plans may not transfer ownership of the shares received for a period of three years unless they maintain a net financial exposure to changes in the share price based on the market value as set out in the policy.

- g) **New executives:** the proposed policy provides that special and extraordinary remuneration or incentives can be established to attract talent and compensate the new executive directors for variable remuneration or contractual rights lost upon leaving their previous position.
- h) **Temporary exceptions:** the Board of Directors, after a favourable report from the Remuneration Committee, may apply temporary exceptions to the variable components



of executive directors' remuneration if necessary to serve the long-term interests and sustainability of the Company as a whole or to ensure the viability thereof in accordance with the new Section 529 *novodecies.6.* of the *Companies Act*.

The *Director Remuneration Policy* proposed by the Remuneration Committee shall be in effect from the financial year of its approval and during financial years 2022, 2023 and 2024.

4. Proposed resolution

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

“ITEM NUMBER SIXTEEN ON THE AGENDA

Director Remuneration Policy.

RESOLUTION

To approve the Director Remuneration Policy, the full text of which, together with the required report of the Remuneration Committee, is included in the explanatory report of the Board of Directors made available to the shareholders as part of the documentation relating to the General Shareholders' Meeting as from the date of publication of the announcement of the call to meeting.»

In Bilbao, on 11 May 2021



ANNEX

REPORT OF THE REMUNERATION COMMITTEE REGARDING THE PROPOSED NEW *DIRECTOR REMUNERATION POLICY*

1. Introduction

Pursuant to the provisions of Article 3, paragraph a) of the *Regulations of the Remuneration Committee* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), the Remuneration Committee (the "**Committee**") proposes the director remuneration policy to the Board of Directors to be submitted for the approval of the shareholders at the General Shareholders' Meeting.

Law 5/2021, of 12 April amending the restated text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, and other financial regulations, as regards the encouragement of long-term shareholder engagement at listed companies ("Law 5/2021") which among other things amends Sections 529 *sexdecies* to 529 *novodecies* of the *Companies Act* regarding the remuneration of directors of listed companies, was published in the Spanish Official Government Bulletin (*Boletín Oficial del Estado*) on 13 April 2021.

The transitional rules of *Law 5/2021* provide that amendments to Section 529 *novodecies* of the *Companies Act* regarding director remuneration policy, which governs, among other things, the requirements to be met by the director remuneration policy, will enter into force on 14 October 2021, and companies must submit the remuneration policy conforming to such changes for approval at the first general shareholders' meeting held after that date.

The new *Director Remuneration Policy* submitted to the Board of Directors fully conforms to the new requirements of Section 529 *novodecies* of the *Companies Act* following its amendment by *Law 5/2021*, which highlights the Company's ongoing effort to remain at the forefront of best corporate governance practices and its desire to strengthen its leadership on corporate governance matters.

The proposed *Director Remuneration Policy* prepared by the Committee seeks the attraction, retention, motivation and development of the best talent, on fair and competitive terms, which considered the best way to contribute to the business strategy and to the long-term interests and sustainability of the Company and of the Iberdrola group, which in turn helps to further develop the *Purpose and Values of the Iberdrola group*.

The Committee proposes that the new *Director Remuneration Policy* apply from the financial year of its approval and during financial years 2022, 2023 and 2024.

The text of the *Director Remuneration Policy* that the Committee proposes to the Board of Directors is as follows:



“Director Remuneration Policy

1. Purpose and Main Principles

1.1. Purpose and Values

The Purpose and Values of the Iberdrola group seeks to promote a culture based on ethics and on the commitment to sustainable development and the creation of value for all stakeholders.

This commitment governs the day-to-day activities of the Company, channels its leadership role in its various areas of activity, focuses its strategy of maximising the social dividend and guides the ethical behaviour of all personnel participating in the daily construction of Iberdrola’s business enterprise, starting with its management body.

In this regard, the ultimate goal of the Director Remuneration Policy is to help develop the Purpose and Values, such that the remuneration of the Company’s directors is commensurate with the dedication and responsibility assumed, taking into consideration the Company’s desire to lead the energy sector. This desire is based on aspects like the provision of a high-quality service through the use of environmentally-friendly energy sources, innovation, digital transformation in its area of activity, the fight against climate change, and commitment to a social dividend and the generation of employment and wealth in its surroundings.

1.2. Main principles

The Board of Directors has found that proper strategic decision-making and a clear commitment to the corporate values are two of the main factors determining the performance of companies, particularly in the energy sector: all of them can choose similar businesses, markets and technologies, but their performance is different, based on the principal differentiating elements of talent, effort, creativity, leadership and the ability to give shape to the commitment to one’s Purpose and Values.

Therefore, the ultimate goal of this Policy, like that of the other remuneration programmes for the Iberdrola group’s professionals, is to contribute decisively to the attraction, retention, motivation and development of the best talent, on fair and competitive terms, which is the best way to contribute to the business strategy and to the long-term interests and sustainability of the Company and of the Iberdrola group.

Within this context, the basic principles governing this Director Remuneration Policy are the following:

- a) *Provide suitable remuneration for the dedication and responsibility assumed by the directors, in line with the market remuneration paid at companies of comparable capitalisation, size, ownership structure and international scope. This will be essential for recruiting and retaining the best candidates.*

To this end, the Remuneration Committee periodically engages in a benchmark analysis of remuneration systems applicable to comparable companies at the international level.

- b) *Align the remuneration policy of the Company as a whole with its Purpose and Values, with its commitment to maximise its social dividend and with shareholder return, as these terms are defined in the By-Laws, and with the achievement of the long-term*



sustainability of the Company, all within the framework of the Iberdrola group's commitment to all of its Stakeholders.

- c) *Ensure that the remuneration helps to achieve the strategic goals of Iberdrola, which are regularly published and updated.*

1.3. Principles governing the remuneration of the executive directors

Furthermore, the Director Remuneration Policy follows the same standards regarding the executive directors as the Senior Management Remuneration Policy and shares the same principles and guidelines as the remuneration policy for all professionals of the Company: a commitment to the Purpose and Values, personal and corporate ethics, excellence in selection, continuous training, inclusion and gender equality, meritocracy and recognition of talent, reconciliation, and relevancy of the variable component of the remuneration package.

In particular, the main principles governing the remuneration of the executive directors are the following:

- a) *Ensure that the remuneration, in terms of structure and total amount, is in line with best practices, as well as competitive vis-à-vis that of comparable entities at the domestic and international level, taking into account the situation of the markets in which the group operates.*
- b) *Establish the remuneration based on objective standards relating to the group's strategy, individual performance and the achievement of business goals.*
- c) *Include a significant annual variable component tied to performance and to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest and goals of the Company. For these purposes, the application of this Director Remuneration Policy shall take into account long-term financial, operational/industrial, environmental and sustainability parameters, including those relating to the energy transition, to the mitigation of and adaptation to climate change, and others relating to the Sustainable Development Goals.*
- d) *Foster and encourage the attainment of the strategic goals of the Company through the inclusion of long-term incentives, strengthening continuity in the competitive development of the group, of its directors and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.*
- e) *Set appropriate maximum limits to any variable remuneration as well as suitable mechanisms in order for the Company to be able to obtain reimbursement of the variable components of remuneration if the payment has not conformed to the terms of performance or if such variable components have been paid based on information later shown to be inaccurate.*



1.4. Consideration of working conditions within the Iberdrola group

Pursuant to Article 3 of its Regulations, the duties of the Remuneration Committee include regularly reviewing the general remuneration programmes for the Iberdrola group's professionals, evaluating the adequacy and results thereof.

In this regard, the Remuneration Committee has taken into account the employment terms and remuneration levels of the Iberdrola group's workforce in its review and update of this Policy and, in particular, with respect to executive directors, in accordance with the knowledge acquired in the performance of said duty of review.

Specifically, the Remuneration Committee has sought to ensure that the principles of the remuneration system for executive directors are aligned with the general remuneration programmes of the Iberdrola group, seeking in all cases to foster the commitment of all professionals of the Iberdrola group to the Company's Purpose and Values, personal and corporate ethics, excellence in performance and the promotion of the strategic and sustainable development goals of the Iberdrola group.

2. Overall By-Law Limitation on Director Remuneration

Pursuant to Article 48.1 of the By-Laws, the amount that the Company allocates annually to the directors as remuneration is limited to a maximum amount equal to 2% of the consolidated group profits obtained during the financial year, after covering legal and other mandatory reserves and the issuance to the shareholders of a dividend of at least 4% of the share capital.

This limit includes the amount corresponding to the executive directors for the performance of executive duties, as well as the endowment of funds to meet the obligations of the Company regarding pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation in favour of the directors, and the operational costs of the Board of Directors and the committees thereof.

For the purpose of establishing such limit, the quoted price of shares or options thereon or remuneration indexed to the listing price of the shares shall not be calculated, which remuneration shall in all cases require the approval of the shareholders at a General Shareholders' Meeting.

3. Competent Bodies

3.1. Approval of the Director Remuneration Policy

Within the by-law framework referred to above, the shareholders acting at a General Shareholders' Meeting are vested with the power to approve this Director Remuneration Policy, which constitutes the Company's highest-level set of rules on director remuneration after the By-Laws.

In this regard, pursuant to the provisions of Article 3 of its Regulations, the Remuneration Committee proposes to the Board of Directors the policies on remuneration of the directors and members of senior management and regularly reviews them, proposing any amendment and update thereof to the Board of Directors.

The Remuneration Committee submits the proposed Director Remuneration Policy to the Board of Directors for approval and subsequent submission to the shareholders at the



General Shareholders' Meeting, issuing the corresponding specific explanatory report required by Section 529 novodecies of the Companies Act.

If the services of an external advisor are used to prepare the Director Remuneration Policy, the Remuneration Committee must properly assess the independence of said advisor.

The Remuneration Committee also has the duty of proposing to the Board of Directors the system and amount of annual director remuneration, as well as the individual remuneration of executive directors and other basic terms of their contracts, including any compensation or severance amounts payable in the event of removal, in any event pursuant to the provisions of the Governance and Sustainability System and this Policy.

3.2. Implementation and application of the Director Remuneration Policy

Within the overall limit established in the By-Laws and in accordance with the provisions of law and this Director Remuneration Policy, the Board of Directors, upon a proposal of the Remuneration Committee, specifies the remuneration of the directors, except for remuneration consisting of the delivery of shares of the Company or of options thereon, or remuneration indexed to the listing price of the shares of the Company, which must be approved by the shareholders acting at a General Shareholders' Meeting.

4. Structure of the Remuneration of Directors in their Capacity as such

The remuneration to which directors are entitled in their capacity as such is structured in accordance with the following standards within the framework of legal and by-law provisions:

4.1 Amount

Directors receive a fixed annual amount that is commensurate with market standards, in keeping with the positions they hold on the Board of Directors and in the committees on which they sit.

The fixed remuneration of the directors in their capacity as such is included within the limit established in section 2 of this Policy, which also includes the remuneration of the executive directors for the performance of their executive duties, as well as the funding of pensions, the payment of life and casualty insurance premiums, coverage for and payment of severance compensation in favour of the directors, and the operational costs of the Board of Directors and the committees thereof.

The maximum amount of the annual remuneration to be paid to all directors in their capacity as such (excluding any compensation for the undertaking not to compete established in section 4.3 below) is 9,000 thousand euros during each financial year in which this Policy is in effect.

This overall amount may be updated by the Board of Directors in the light of the circumstances at any given time. If the update occurs, the update and the circumstances in justification thereof shall be reported in the corresponding annual director remuneration report.

The Board of Directors is responsible for determining the fixed remuneration of the directors in their capacity as such, within the aforementioned overall limit, taking into account the positions held by the director on the Board of Directors, the membership thereof on delegated or consultative bodies of the Board of Directors, and the duties and responsibilities attributed thereto, as well as their dedication to the Company.



For financial year 2021, the annual fixed remuneration of the directors for membership on the Board of Directors and the committees thereof, depending on the position held in each case, is as follows:

- Director holding the position of chairman of the Board of Directors: 567,000 euros.
- Directors holding the position of vice-chair of the Board of Directors or chair of any of the consultative committees: 440,000 euros.
- Directors holding the position of member of any of the committees: 253,000 euros.
- Directors only holding the position of member of the Board of Directors: 165,000 euros.

In addition, the chairman and the vice-chair of the Board of Directors shall receive a bonus of 4,000 euros per meeting for attending meetings of the Board of Directors. The chairs of the committees shall also receive a bonus of 4,000 euros per meeting for attending meetings of the relevant committee. The attendance bonus for members of the Board of Directors and the committees thereof shall be 2,000 euros per meeting.

The fixed remuneration described above may be updated by the Board of Directors, which shall be reported in the annual director remuneration report, in any case within the maximum annual limit for the entire Board of Directors stated above.

The fixed remuneration for membership on the Board of Directors and the committees thereof and the holding of positions on such bodies is compatible with and independent from the remuneration to which the executive directors are entitled for the performance of their executive duties as provided in section 5 of this Policy.

4.2 Risk coverage benefits

The Company pays the premiums under insurance policies that it has taken with certain insurance companies for the coverage of benefits for the death or disability of directors caused by accidents, and the Company itself assumes coverage of benefits for the death or disability of directors due to natural causes.

Furthermore, the Company pays the premiums under insurance policies providing coverage against civil liability deriving from holding the office of director.

4.3 Non-competition

A director who ends the term of office to which the director was appointed or who, for any other reason, ceases to act as such, may not be a director or officer of, or provide services to, any entity whose object is similar, in whole or in part, to that of the Company or which is a competitor of the Company, for a term of two years. The Board of Directors may, if it deems it appropriate, relieve the outgoing director from this restriction or reduce it to a shorter period.

In the case of cessation of office prior to the end of the period for which they were appointed, non-executive directors who are not proprietary directors shall have the right to receive compensation for the commitment not to compete described in the paragraph above unless their cessation is due to a breach of the duties of director attributable thereto or to the provisions of the succession plan included in the General Corporate Governance Policy, or to the sole decision thereof.



For purposes of clarification, cessation of office shall not be considered to be due exclusively to the decision of the director if resignation occurs on occasion of the acceptance of a public office that is incompatible with the holding of the position of director.

The compensation for the commitment not to compete, if applicable, shall be equal to 90% of the fixed amount that the director would have received for the remainder of the director's term (assuming that the annual fixed amount that the director receives at the time of cessation of office is maintained), with a maximum equal to two times 90% of such annual fixed amount.

5. Structure of the Remuneration of Executive Directors for the Performance of Executive Duties

The remuneration that executive directors are entitled to receive for the performance of executive duties at the Company (i.e. other than the duties inherent in their status as members of the Board of Directors) is structured around fixed remuneration, short-term and long-term variable remuneration, and applicable benefits, as described below.

The purpose of fixed remuneration is to attract and retain talent and reward the work of the executive directors, based on their level of responsibility, dedication, track record and professional experience, such that the necessary professionals are available to achieve the objectives of the Iberdrola group.

Short-term variable remuneration (annual bonus) is intended to incentivise the achievement of the group's annual objectives and those specific to the position, aligning the dedication and efforts of the executive directors with the business strategy.

Finally, long-term variable remuneration (Strategic Bonus) is intended to encourage the commitment of the executive directors to the Iberdrola group's business enterprise over the long term, linking a portion of their remuneration to the creation of value for the shareholders as well as to the sustainable achievement of the strategic objectives of the Company and the maximisation of its social dividend and shareholder return.

In this way, the remunerative mix of the executive directors, consisting of short- and long-term fixed and variable elements, is designed in such a way as to attract and retain the best talent and align their performance with the interests of the Iberdrola group and the achievement of its business strategy, promoting its long-term sustainability, in accordance with best practices at the domestic and international level.

5.1 Fixed remuneration

This portion of the remuneration shall be in line with the remuneration paid in the market by companies with comparable capitalisation, size, ownership structure and international scope.

In 2021, the chairman & CEO will have the right to receive annual fixed remuneration of 2,250 thousand euros, and the Business CEO will have the right to receive 1,000 thousand euros.

The remuneration of the executive directors may vary based on the specific responsibilities and nature of the functions performed and will be reviewed annually by the Board of Directors upon a proposal of the Remuneration Committee, particularly taking into account, without limitation, the following factors: the financial position of the Company, market standards, the calibre and merits of the executive director, the risks of retention and general



salary updates within the Iberdrola group. For these purposes, this Committee may rely on external advisors to perform the market studies and analyses that it deems appropriate.

Any change shall be explained in the corresponding Annual Director Remuneration Report.

5.2 Short-term variable remuneration (annual bonus)

A portion of the annual remuneration of the executive directors (and that of the members of the management team and of the professionals of the group) is variable, in order to strengthen their commitment to the Purpose and Values and to the goals of the group, as well as to incentivise the best performance of their duties.

Annual variable remuneration shall be linked to the achievement of specific economic/financial, operational/industrial and other objectives relating to the Sustainable Development Goals that are predefined and quantifiable and aligned with the Purpose and Values, the achievement of the business strategy, and the long-term interests and sustainability of the Company.

The maximum annual variable remuneration for each financial year shall be limited to 200% of the fixed remuneration of the executive director for that financial year, and shall be specified in the annual director remuneration report.

The objectives to which the short-term variable remuneration of the chairman & CEO shall be linked will be those relating to parameters such as:

- Net profit, gross operating profit (EBITDA), cash flow, etc.
- Investments.
- Shareholder remuneration compared to other securities and indices.
- Financial strength.
- Development and application of the Stakeholder Engagement Policy and commitment to the social dividend.
- Development of the Equality, Diversity and Inclusion Policy.
- Results in the fight against climate change.
- Management of corporate reputation, measured by the Company's presence on sustainability and ethics indices.
- Training of the group's professionals.

The targets to which the short-term variable remuneration of other executive directors shall be linked will be those relating to parameters such as:

- Net profit, gross operating profit (EBITDA), cash flow, etc.
- Efficiency level of the group.
- Selection and implementation of investments.



- *Project portfolio.*
- *Levels of occupational safety and labour climate.*

Each annual director remuneration report shall describe the implementation of this Policy, shall identify the specific parameters for each financial year to which the annual variable remuneration of the executive directors shall be linked, and shall report on the level of achievement of the objectives.

The Remuneration Committee shall evaluate the performance of each of the executive directors, for which purposes it may rely on the advice of an independent expert, and shall submit a reasoned proposal to the Board of Directors for approval thereof.

The Board of Directors shall have a margin of discretion in evaluating compliance with the indicators, based on a proposal made by the Remuneration Committee, taking into account regulatory uncertainty and the occurrence of exceptional circumstances during the financial year, among other factors. Any use of this margin of discretion must be justified and explained in the Annual Director Remuneration Report.

Annual variable remuneration shall be entirely payable in cash.

5.3 Long-term variable remuneration (Strategic Bonus): share delivery plans

The Company applies a long-term share-based incentive plan (Strategic Bonus) directed to executive directors, members of senior management and professionals who are considered to contribute decisively to the creation of value due to their position or responsibility within the group, consisting of the delivery of shares linked to the performance of the group in relation to the Outlook 2020-2025, updated on the Capital Markets Day held on 5 November 2020.

Share delivery plans are subject to approval by the shareholders at a General Shareholders' Meeting, who establish the maximum number of shares to be delivered to the executive directors and also set the objective and quantifiable parameters determining the accrual thereof as well as their relative weighting. The plan currently in force (2020-2022 Strategic Bonus) was approved by the shareholders at the General Shareholders' Meeting held on 2 April 2020.

The parameters include financial variables (increase in net profit, comparative increase in total shareholder return and financial strength) and others relating to the environment and sustainability (reduction of CO₂ emissions, increase in number of suppliers subject to sustainable development policies and standards, and elimination of the wage gap). Each parameter is assigned a specific weighting as well as a minimum level above which it is considered to be achieved and another level above which it is considered fully achieved, which shall be reported in the director remuneration report.

The Remuneration Committee evaluates performance and determines the level of achievement of the pre-established parameters. The committee may seek the advice of an independent expert for this purpose. A reasoned proposal thereof shall be submitted to the Board of Directors for approval.

The plans typically have a duration of six years, of which the initial three-year period is the period for evaluating the performance level compared to the parameters to which the plan is linked, and the next three financial years are the payment period during which the shares are delivered on a deferred basis.



In order to engage in a proper overall evaluation of performance, circumstances occurring after the approval of each of the plans having a significant impact, either positive or negative, on the Outlook 2020-2025 or on the main financial variables of the Company (corporate transactions, mergers, split-offs, acquisitions, extraordinary dividends, significant regulatory and/or tax changes in the markets in which the group operates, etc.) shall be taken into account.

At the end of the evaluation period for each of the incentive plans, the plan shall accrue annually in equal parts. In the case of the 2020-2022 Strategic Bonus, the accrual shall occur during the first half of 2023 and during the first quarter of 2024 and 2025. Each annual accrual and the corresponding payment thereof must be approved by the Board of Directors, after a report from the Remuneration Committee.

In this connection, during each of the three years of the accrual and payment period and for each delivery of shares, it is expected that there will be an evaluation whether to confirm or totally or partially cancel the corresponding payment and, if applicable, to claim the total or partial reimbursement of the shares already delivered (or the amount thereof in cash) under certain circumstances. The shares shall be delivered along with the remuneration corresponding to said shares that has accrued since the initial allocation thereof to the beneficiaries.

Executive directors who are beneficiaries of incentive plans may not transfer ownership of the shares received for a period of three years unless they maintain a net financial exposure to changes in the share price having a market value equivalent to at least twice their annual fixed remuneration through the ownership of shares, options or other financial instruments.

5.4 Remuneration for holding the position of director at other companies of the group that are not wholly owned

Executive directors and officers of the group who hold the position of director at companies that are not wholly owned, either directly or indirectly, by the Company, may receive remuneration corresponding to the position from said companies in accordance with their corporate governance rules on the same terms as the other external directors.

5.5 Neutrality

The Board of Directors shall ensure that the accrual of variable remuneration of any kind is not based merely on the general performance of the markets, of the industry in which the Company operates or other similar circumstances.

5.6 Benefits

The remuneration system for executive directors may be supplemented by health and life insurance, in line with practices in the market by companies with comparable capitalisation, size, ownership structure and international scope.

The Company may implement long-term employee benefit systems for its executive directors.

5.7 Malus and claw-back clauses

The Board of Directors, with due regard to any proposal made by the Remuneration Committee, has the power to totally or partially cancel the payment of long-term variable remuneration (malus clauses) or to request the return of remuneration already paid (claw-



back clauses) under special circumstances. These circumstances include fraud, serious violation of the law, and a material restatement of the financial statements on which the Board based the evaluation of the performance level, provided that said restatement is confirmed by the external auditors and is not due to a change in accounting rules.

In the case of the Strategic Bonus, the power to demand a return of shares delivered shall be governed by a resolution of the shareholders acting at a General Shareholders' Meeting and by the rules implementing said resolution and approved by the Board of Directors, after a report from the Remuneration Committee.

The proportion of the amounts to be withheld or recovered shall be determined in the discretion of the Board of Directors, after an opinion of the Remuneration Committee, based on the specific circumstances giving rise to the demand.

5.8 Severance clauses

Since the end of the 1990s, the executive directors, as well as a group of members of the management team, have the right to receive severance compensation in the event of termination of their executive relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or of the sole decision thereof. For purposes of clarification, termination shall not be deemed to be the consequence of the sole decision of the executive director if resignation is due to a breach by the Company or a material change in the duties of the executive director or other similar circumstances. In the case of the chairman & CEO, he is entitled to three times annual salary. Any reduction in the number of annual salary payments to this group might entail a high cost for the Company, for which reason the Board of Directors has decided not to change the current status quo, given the average age of the affected group and the practically non-existent execution of these types of guarantees. Each Annual Director Remuneration Report describes the ongoing reduction in the number of affected persons and any payment of this type of severance in each financial year. Since 2011, a severance limit of two times annual salary applies to new contracts with executive directors and members of senior management, as happens with the group's Business CEO.

5.9 Appointment of new executive directors

To the extent possible, the remuneration of new executive directors shall be in line with the Remuneration Policy for those who are then holding the position. The fixed remuneration of the new executive directors shall be set on the date of their appointment, particularly taking into account their level of remuneration prior to their promotion or hiring, market terms and terms applicable to comparable positions, their experience and qualification level, and the duties assigned and responsibilities assumed. New executive directors shall participate in annual and long-term incentives based on the same principles as those applicable to directors holding the position at the time of their appointment, and may receive special or extraordinary remuneration or incentives to attract talent and compensate the new executive directors for variable remuneration or contractual rights lost upon leaving their previous position.

The Board of Directors, after taking account of the proposal of the Remuneration Committee, shall have the ability to modify established practice to the extent necessary to ensure the hiring of suitable candidates, in furtherance of the corporate interest.



6. Adjustment to Economic Situation and International Environment

The application of this Policy shall be appropriately adjusted to conform to the economic situation and international environment, upon a proposal of the Remuneration Committee, which may rely on the advice of an independent expert to this end. If appropriate, all the details of and reasons for any adjustment shall be provided to the shareholders in the next published annual director remuneration report.

7. Basic Terms of the Contracts with Executive Directors

a) Indefinite duration

The contracts with executive directors of the Company are of indefinite duration, and financial compensation is contemplated therein, as set out in Sections 5.8 and 7.d), in the event of termination of the contractual relationship with the Company, provided that such termination does not occur exclusively due to the decision of the executive director to withdraw or as a result of a breach of their duties. There is a three-month advance notice period for termination of the contracts.

b) Applicable legal provisions

The contracts with executive directors are governed by the legal provisions applicable in each case.

c) Compliance with the Governance and Sustainability System.

Executive directors have the duty to strictly observe the rules and provisions contained in the Company's Governance and Sustainability System, and especially, given the significance thereof, the principles and guidelines set out in the Preamble and in the Preliminary Title of the By-Laws, as well as in the Code of Ethics, which in any case shall be the reference point for the proper interpretation of the provisions of this Policy.

d) Non-competition

Given the scope of their knowledge of the design and execution of the Company's strategy and business plans, the contracts with executive directors in all cases establish a duty not to compete with respect to companies and activities that are similar in nature during the term of their relationship with the Company, as well as for a period of between one and two years thereafter. As compensation for this post-contractual commitment not to compete, the executive directors are entitled to a severance payment equal to the remuneration for such periods.

e) Confidentiality and return of documents

There is a rigorous duty of confidentiality both during the term of the contracts and after the relationship has terminated. In addition, upon termination of their relationship with the Company, the executive directors must return to the Company any documents and items in their possession relating to the activities carried out thereby.

8. Principle of Full Transparency

The Board of Directors of the Company assumes a commitment to enforce the principle of the fullest transparency of all the items of remuneration received by all directors, providing clear and adequate information as much in advance as required and in line with the good



governance recommendations generally recognised in international markets in the area of director remuneration. In this respect, the Board of Directors has taken into account the information received from constant two-way contact with retail and institutional shareholders and proxy advisors.

For such purpose, the Board of Directors establishes this Policy and endeavours to ensure the transparency of director remuneration by including in the notes to the Company's annual financial statements a detailed breakdown, according to positions and classification, of all remuneration received by the directors, whether as such, in their capacity as executives, if applicable, or in any other capacity, and whether such remuneration has been paid by the Company or by other companies of the group.

In addition, the Board of Directors prepares the Annual Director Remuneration Report on an annual basis, which is submitted to a consultative vote as a separate item on the agenda.

9. Temporary Exceptions

Pursuant to the provisions of Section 529 novodecies.6. of the Companies Act, the Board of Directors, after a favourable report from the Remuneration Committee, may apply temporary exceptions to the variable components of executive directors' remuneration if necessary to serve the long-term interests and sustainability of the Company as a whole or to ensure the viability thereof.

10. Effectiveness

This Director Remuneration Policy shall be in effect from the financial year of its approval and during financial years 2022, 2023 and 2024."

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In Bilbao, on 11 May 2021.