



# TÉCNICAS REUNIDAS, S.A. DIRECTORS' REMUNERATION POLICY FOR FISCAL YEARS 2020-2022

## **Justification for and scope of the proposal**

- **Without prejudice to the immediate transposition of** Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, **certain provisions in this Directive may be considered to have direct effect in accordance with European jurisprudence, since the transposition period has passed and the matters are clearly defined and specified in the Directive.** In this respect, the Directive entails **the need to revise** certain aspects of the current **Técnicas Reunidas Directors' Remuneration Policy.**
- At the same time, and in line with the Company's expectations for the Annual Report on Directors' Remuneration for fiscal year 2019, which was sent to the National Securities Market Commission on 28 February 2020, the Company intends to submit a **long-term variable remuneration plan ('LTIP') for executive directors** for consideration at the 2020 AGM. This **also entails amending the Técnicas Reunidas Directors' Remuneration Policy** to include this LTIP.
- The final proposed amendment to the Directors' Remuneration Policy concerns **remuneration for directors with executive and delegated functions**, within the framework of **increasing the flexibility of the scheme introduced in relation to remuneration for chairing the Board of Directors.**

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# TÉCNICAS REUNIDAS, S.A. DIRECTORS' REMUNERATION POLICY

## FOR FISCAL YEARS 2020-2022

### I. INTRODUCTION

- In accordance with Article 529.novodecies.1 of the Consolidated Text of the Companies Act (the '**Companies Act**'), it is the responsibility of the Annual General Meeting of listed companies to approve the remuneration policy for their directors, at least once every three years, as a separate item on the agenda.
- In compliance with this provision and in accordance with the proposal by the Appointments and Remuneration Committee dated May 5, 2020, at its meeting on May 22, 2020, the Board of Directors of Técnicas Reunidas, S.A. ('**Técnicas Reunidas**' or the '**Company**'), agreed to propose the Técnicas Reunidas Directors' Remuneration Policy for fiscal years 2020-2022 (the '**Remuneration Policy**') for approval at the Company's Annual General Meeting on June 25, 2020. In accordance with the provisions of Article 529.novodecies.2 of the Companies Act, the proposal for the Remuneration Policy must be accompanied by a supporting report by the Appointments and Remuneration Committee.
- The Remuneration Policy has been drawn up in accordance with Article 22 of the Articles of Association, Article 25 of the Regulations of the Board of Directors of the Company, Articles 217, 249 and 529.sexdecies onwards of the Companies Act and the recommendations of the Good Governance Code for Listed Companies followed by the Company.

### II. BASIC PRINCIPLES OF THE REMUNERATION POLICY

- The Técnicas Reunidas Remuneration Policy adheres to the **principle of proportionality in directors' remuneration** as provided for in Article 25.3 of the Regulations of the Board of Directors and Article 217.4 of the Spanish Companies Act. Consequently, the Remuneration Policy:
  - (i) ensures that remuneration is in reasonable proportion to the Company's importance, taking into account factors including its size, turnover, number of workers and economic significance; and
  - (ii) seeks to promote the Company's long-term profitability and sustainability, with the aim of avoiding excessive risk-taking and the rewarding of unfavourable results.
- Also, in accordance with Article 25 of the Regulations of the Board of Directors of the Company and Recommendation 56 of the Good Governance Code for Listed Companies, the Company's Remuneration Policy seeks, (i) on the one hand, to **attract and retain Company directors**; and (ii) on the other hand, to **reward each director's dedication, competence and assumption of responsibility**, without compromising the external directors' independence of judgement under any circumstance.

- At the same time, the Remuneration Policy aims to ensure that directors' remuneration is **aligned with Técnicas Reunidas' strategies and the interests of the Company and its shareholders**, taking into account the Company's economic situation and sustainability, the market standards of comparable companies and the remuneration and employment conditions of the Company's employees.
- In addition, with particular regard to external directors and in accordance with the provisions of Article 25.4 of the Regulations of the Board of Directors, directors' remuneration:
  - (i) will aim to appropriately reward their dedication, competence and assumption of responsibilities;
  - (ii) will not include the opportunity to participate in pension schemes financed by the Company for cases of termination of service, death or other reasons; and
  - (iii) will offer incentives to external directors for their dedication, although this must in no case compromise their independence of judgment.
- Finally, the Company's Board of Directors undertakes to apply the **principle of transparency** to all items of remuneration included in the Remuneration Policy, providing transparent, sufficient and timely information.

In this regard, the Board of Directors will prepare an **Annual Report on Directors' Remuneration**, which will be made available to the Company's shareholders for the Annual General Meeting and which will be submitted to an advisory vote as a separate item on the Agenda.

### III. COMPETENT BODIES FOR THE DRAWING UP AND APPROVAL OF THE REMUNERATION POLICY

- The Remuneration Policy must be submitted for approval at the Annual General Meeting at least once every three years and its approval will require the participation of the bodies outlined below.
  - (i) **Appointments and Remuneration Committee**: In addition to drawing up the proposal for the Remuneration Policy for submission to the Board of Directors, the Appointments and Remuneration Committee, which comprises only external directors (and therefore no executive directors), must approve a specific supporting report on the Remuneration Policy, which the Board of Directors will then submit to the Annual General Meeting for approval. This report, together with the proposed Remuneration Policy, must be made available to the Annual General Meeting as of the notice of meeting and shareholders may request the free delivery of both documents.
  - (ii) **Board of Directors**: The Board of Directors will propose and provide justification for the Remuneration Policy to the Annual General Meeting. The proposal of the Board of Directors will be made available to the Annual General Meeting as of the notice of meeting.

The Board of Directors is also the competent body for determining and approving the terms and conditions of the contracts of the Company's executive directors, within the framework of the Remuneration Policy approved at the Annual General Meeting (Articles 249 and 529.octodecies of the Companies Act). Executive directors must abstain from participating in the deliberations and voting on these resolutions.

- (iii) **Annual General Meeting:** The Annual General Meeting will approve, as appropriate, the Company's Remuneration Policy, which will remain in force for a maximum period of three years. It will also be the body responsible for determining the maximum amount of remuneration that directors are entitled to receive for each fiscal year. In order to avoid possible conflicts of interest, any directors who have been appointed as proxies for shareholders at the Annual General Meeting may not exercise the voting rights attached to the corresponding shares in connection with any resolutions concerning the Remuneration Policy. Any amendment or replacement of the Policy will also require prior approval at the Annual General Meeting, subject to the provisions of Article 529.novodecies.5 of the Companies Act.

#### **IV. REMUNERATION SCHEME APPLICABLE TO DIRECTORS FOR THEIR SERVICE IN THEIR CAPACITY AS DIRECTORS**

- In accordance with Article 22 of the Articles of Association and Article 25.1 of the Regulations of the Board of Directors of the Company, remuneration for directors for their service in their capacity as directors comprises the following items of remuneration:
  - (i) fixed annual remuneration for membership of the Board of Directors;
  - (ii) an additional annual fixed allocation for chairing the Committees;
  - (iii) expenses for attending meetings of the Board of Directors and the Committees, as appropriate.
- The **maximum total amount of annual remuneration** for all directors is set at 5,000,000 euros, and this amount will remain valid unless any changes are approved at the Annual General Meeting. This amount must be approved at the Annual General Meeting, in accordance with the Company's Articles of Association.
- Each year, the **Company's Board of Directors will determine the overall amount of remuneration for directors** for their service in their capacity as director, within the maximum limit set at the Annual General Meeting, and will distribute this amount among the directors taking into account their membership of the Committees, the positions they hold, their work in the service of the Company, as well as the specific contributions that directors make by virtue of their qualifications and professional experience.

## V. REMUNERATION SCHEME APPLICABLE TO DIRECTORS PERFORMING DELEGATED OR EXECUTIVE FUNCTIONS

- In accordance with Articles 249 and 529.octodecies of the Companies Act, directors who have been assigned delegated or executive functions are entitled to receive remuneration for these functions, in addition to the remuneration to which they are entitled for their service in their capacity as directors.

In accordance with the provisions of Article 22 of the Articles of Association and Article 25.5 of the Regulations of the Board of Directors, Company directors who perform delegated or executive functions are entitled to receive remuneration comprising the items of remuneration detailed below.

- (i) Fixed annual remuneration of 850,000 euros for executive directors serving as Chairperson.

Depending on the level of responsibility assumed by the director and the analysis of the market, and within the limits set out in Article 217.4 of the Companies Act, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may agree to **update the amounts of fixed remuneration**, justifying these updated amounts in the corresponding Annual Report on Directors' Remuneration, which is made available to shareholders at the time of the notice of the Annual General Meeting.

- (ii) Annual variable remuneration, which is intended to strengthen the director's commitment to the Company and to act as a performance incentive, linking part of their remuneration to the Company's performance and their individual performance.

The annual variable remuneration will consist of an annual premium or bonus system amounting to a **maximum** of 550,000 euros for the fulfilment of objectives, which may be adjusted by 10% upward or downward, based on the director's individual performance.

The variable remuneration will be paid after year end and determined taking into account the year end results.

Variable remuneration is dependent on **basic parameters** such as the director's professional performance and the evaluation of the Company's performance, taking into consideration both quantitative objectives, such as the order book and project portfolio, the margin (EBITDA) and consolidated revenue, and non-financial objectives, which include criteria related to safety and the environment.

In specific terms, the annual variable remuneration for fiscal year 2020 is linked to the following targets and weighting:

- financial targets - consolidated income (20%), order book (30%) and margin (EBITDA) (30%)

- non-financial targets - safety (10%) and environment (10%).

The above targets are linked to an achievement scale that includes a minimum threshold below which variable remuneration will not be paid. The Company will assess minimum weighted compliance of between 50% and 70% of the total targets.

The setting of targets and their weighting for future years during which this Remuneration Policy is in force, as well as the 10% adjustment for performance evaluation and the amount to be received in each year, will be the responsibility of the Board of Directors, at the proposal of the Company's Appointments and Remuneration Committee.

The Company's Annual Report on Directors' Remuneration will provide details of the implementation of the specific objectives for each fiscal year and the corresponding degree of compliance.

In all cases, the determination of the variable remuneration **will take into account any qualified opinions** included in the external auditor's report that might reduce the Company's results.

**Variable remuneration is deferred and paid only after fiscal year end**, in order that the Company can evaluate and verify compliance with the parameters established for the determination of the corresponding remuneration. The evaluation will be based on the annual results of the Company and its consolidated group, among other aspects which will be analysed by the Audit and Control Committee. After this analysis, the Appointments and Remuneration Committee will submit the proposal for variable remuneration to the Board of Directors, who will approve the corresponding amount of variable remuneration as appropriate.

- (iii) Long-term variable remuneration with the aim of promoting reciprocal value creation for the Company, its shareholders and beneficiaries, strengthening the commitment of the latter and rewarding the creation of sustainable value for shareholders over the long term.

While this Remuneration Policy is in force, executive directors will be entitled to participate in all the long-term variable remuneration schemes, whether cash-based, share-based or linked to share prices, which are approved at the Annual General Meeting, at the proposal of the Board of Directors and drawn up subject to a report from the Appointments and Remuneration Committee.

In this regard, and subject to a favourable report from the Appointments and Remuneration Committee, the Company's Board of Directors has agreed to propose a long-term variable remuneration plan ('LTIP') for executive directors, which will be applicable under the terms set out below and incorporated into the Remuneration Policy and which will be applicable in accordance with any implementing rules approved by the Board of Directors.

Designed as a long-term incentive and linked to the objectives of the Business Plan,

it will allow the **beneficiaries of this Plan, the executive directors**, to receive a specific amount in cash.

The LTIP has been designed in accordance with the precautionary principle and has taken into account current trends in comparable companies and the best practices of various actors in the market.

The **aim** of the LTIP is to: (i) promote mutual value creation for the Company, its shareholders and beneficiaries; (ii) guide the management team toward the achievement of business plan objectives; (iii) strengthen the dedication and commitment of the beneficiaries in the performance of their duties; (iv) incentivise the professional performance of executive directors over the long term; and (v) promote the Company's sustainability for the creation of long-term value.

The LTIP will have a timeframe of three years, applicable to fiscal years 2020, 2021 and 2022, and will be paid out, as appropriate, in fiscal year 2023, after the approval of the annual financial statements and once the Board of Directors has ascertained the degree of compliance with the objectives.

The **maximum annual amount** which may be awarded under the LTIP will be equivalent to 75% of the executive director's annual fixed remuneration.

The LTIP's **fundamental parameters will include at least two financial objectives** representing long-term value creation and/or Company profitability.

In particular, the following objectives and weighting will be taken into account:

- total shareholder return in relation to the comparison group (30%);
- cumulative EBITDA for the period (60%);
- qualitative factors linked to the strategic plan (10%).

The above targets are linked to an achievement scale that includes a minimum threshold below which the LTIP will not pay out. In particular, a minimum of 80% of the EBITDA target will be required.

The setting of targets and their weighting for future years during which this Remuneration Policy is in force will be the responsibility of the Board of Directors, at the proposal of the Company's Appointments and Remuneration Committee. The Company's Annual Report on Directors' Remuneration will provide details of the implementation of the specific objectives for each fiscal year and the corresponding degree of compliance.

**Payment under the LTIP will be linked to the director remaining with the Company**, without prejudice to the fact that, in cases of death, invalidity, retirement, withdrawal and cases of termination of the business relationship that do not involve a breach of obligations or responsibilities, the executive director will retain the right to receive a share of the LTIP proportional to the time served until termination of the relationship. In all other cases of



termination of the executive director's relationship with the Company, the director will not be entitled to receive any amount from the LTIP.

In addition, in the event of a change of control, when a new shareholder becomes the holder of more than 30% of the Company's voting rights, the beneficiary will retain the right to receive pay-out from the LTIP as if the objectives had been fully met.

- (iv) A long-term savings scheme linked to retirement, permanent disability in cases of total, long-term and near-total disability, and death, for the purpose of supplementing public social security benefits.

Specifically, executive directors will be entitled to benefit from the Company's general social benefits system, which the Company implements in the form of a contracted pension plan. Where appropriate, a supplementary contribution is paid specifically for a Chairperson with executive functions or a director with executive functions who does not hold this position, in addition to that paid by the executive director, whose amount depends on various factors, such as seniority in the Company.

Without prejudice to the above, while this Remuneration Policy is in force, executive directors will be entitled to participate in all long-term savings schemes approved at the Annual General Meeting, at the proposal of the Board of Directors, drawn up on the basis of a report by the Appointments and Remuneration Committee.

- (v) Compensation for early termination and post-contractual non-compete agreements:

- a. **Compensation for early termination** in the event of removal from their position as director, or any other form of termination of the legal relationship with the Company that serves as the basis for the remuneration of delegated or executive functions, which is not due to non-compliance attributable to the director, for a maximum amount equivalent to the sum of the last two yearly payments of (a) fixed remuneration, (b) variable remuneration, and (c) amounts received by virtue of any Social Security Special Agreements which have been entered into.
- b. **Post-contractual non-compete agreements:** for a period of two years from the termination of the contract with the Company, executive directors may not provide professional services or carry out administrative or managerial functions in companies or entities with a corporate purpose wholly or partly analogous to the Company's, unless expressly approved by the Board of Directors, at the proposal of the executive director.

Financial compensation for this post-contractual non-compete agreement will be understood to be included in the compensation for termination of the contract described in paragraph (a) above.

- (vi) Welfare benefit consisting of a life and accident insurance policy within the framework of the conditions in force under the collective policy taken out by the Company for all its workers:
- a. **Life policy:** the sum insured for death or total permanent disability will amount to two yearly payments of the annual fixed remuneration that directors who perform delegated or executive functions are entitled to receive.
  - b. **Accident policy:** the sum insured for accidental death or total disability as a result of an accident will amount to four yearly payments of the annual fixed remuneration that directors who perform delegated or executive functions are entitled to receive.
- (vii) A company car provided by Técnicas Reunidas and a parking place near the head office, for the director's continued service to the Company, in accordance with corporate policy. The Company will be responsible for the payment of all expenses inherent to the use of the vehicle and the corresponding parking place.

## **VI. BASIC CONTRACTUAL CONDITIONS FOR DIRECTORS WHO PERFORM DELEGATED OR EXECUTIVE FUNCTIONS**

- In accordance with the provisions of Article 249.4 of the Companies Act, all items of remuneration awarded to directors for the performance of delegated or executive duties, as well as the basic terms and conditions of the performance of their duties, **must be stipulated in a signed contract between the Company and the director, which must have the prior approval of the Board of Directors**, excluding the participation of the director concerned and agreed by a two-thirds majority of its members. The Director may not receive any remuneration for the performance of executive functions which does not correspond to the items or amounts stipulated in this contract.
- The **basic terms and conditions** of the contracts between the Company and directors who perform delegated or executive functions will include the following:
  - (i) **Remuneration:** executive directors' contracts include the remuneration package that they are entitled to receive for the performance of their delegated or executive functions.
  - (ii) **Indefinite duration:** the contracts of directors performing delegated or executive functions will be of indefinite duration.
  - (iii) **Notice periods:** the contracts of directors who perform executive functions will stipulate a three-month notice period for cases in which both the Company and the director wish to terminate the contract without mediation for just cause.
  - (iv) **Compensation for early termination:** in the amount equivalent to the last two yearly payments of (a) fixed remuneration, (b) variable remuneration and (c) the amounts received by virtue of any Social Security Special Agreements which have been entered into.

- (v) **Post-contractual non-compete agreements:** for a period of two years from the termination of the contract with Técnicas Reunidas, executive directors must not enter into competition with the Company under the terms described above. Financial compensation for this post-contractual non-compete agreement will be understood to be included in the compensation for termination of the contract described in paragraph (iii) above.
- (vi) **Non-competition:** executive directors' relationship with the Company is exclusive and they may not therefore provide services to other entities during the term of their contracts unless expressly authorised to do so by the Board of Directors, at the proposal of the executive director, with the exception of any positions that they may hold in companies from the Técnicas Reunidas Group.
- (vii) **Duty of confidentiality:** directors performing senior-management duties must ensure that any information, data, reports or background knowledge that they acquire in the performance of their duties is kept confidential, and this confidentiality must be maintained even when they no longer serve on the Board.

#### **VII. REMUNERATION POLICY APPLICABLE TO NEW DIRECTORS**

- In the event that new non-executive members are incorporated into the Board of Directors while this Policy is in force, the remuneration scheme described in Section IV above will apply.
- At the same time, the remuneration scheme described above will apply to any director who is assigned the performance of delegated or executive functions while this Policy is in force.
- To this end, the Appointments and Remuneration Committee's proposal to the Board of Directors will take into account, in particular, their assigned functions, the responsibilities they have assumed, their professional experience, the market rate of remuneration for this position, and any other aspect which it considers appropriate in determining the components and amounts of the remuneration scheme applicable to the new executive director, which will be duly reflected in the corresponding contract between the Company and the new executive director.
- In exceptional cases, and to facilitate the recruitment of an external candidate, the Appointments and Remuneration Committee may propose that the Board of Directors decide on whether to establish a special incentive to compensate for the loss of incentives which will not be earned due to the candidate's resignation from their previous position and consequent acceptance of the Company's offer.

#### **VIII. REMUNERATION POLICY ENFORCEMENT PERIOD**

- In accordance with the provisions of Article 529.novodecies.3 of the Companies Act, the Company will implement this Remuneration Policy from 1 January 2020 to 31 December 2022.

- Any amendment or replacement of the Remuneration Policy during this period will require prior approval at the Annual General Meeting, subject to the provisions of Article 529.novodecies.5 of the Companies Act.

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