



FOR INFORMATIONAL PURPOSES ONLY. SPANISH VERSION PREVAILS

## REPORT BY THE APPOINTMENTS AND REMUNERATION COMMITTEE OF INMOBILIARIA COLONIAL SOCIMI, S.A ON THE PROPOSAL FOR THE APPROVAL OF THE DIRECTORS' REMUNERATION POLICY FOR YEARS 2020, 2021 AND 2022.

### 1. PURPOSE OF THE REPORT

Pursuant to the Recast Spanish Limited Liability Companies Law approved by Royal Legislative Decree 1/2010 of 2 July (the "**Spanish Limited Liability Companies Law**"), listed public liability companies must approve a Directors' Remuneration Policy at least once every three years. Accordingly, the Ordinary General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. ("**Colonial**" or the "**Company**") held on 28 June 2016 approved the Company's remuneration policy for 2017, 2018 and 2019.

Pursuant to the Spanish Limited Liability Companies Law, the Appointments and Remuneration Committee proposes to Colonial's Board of Directors the policy for the remuneration of Colonial's Directors for the years 2020, 2021 and 2022 (the "**Remuneration Policy**"), which is attached as **Annex I** to this report (the "**Report**") so that the Board of Directors may, as appropriate, put it to vote at the Ordinary General Meeting of Shareholders of the Company to be held in 2019, as a separate item on the agenda.

In accordance with article 529.19 of the Spanish Limited Liability Companies Law, the proposed Remuneration Policy of the Board of Directors must be reasoned and attach a specific report of the Appointments and Remuneration Committee, which shall be made available to the shareholders on the Company website on account of the call for the General Meeting, along with other relevant documentation. For these purposes, the Appointments and Remuneration Committee of the Company has prepared this Report.

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

The primary purpose of the Remuneration Policy is to ensure that the remuneration received by Directors is reasonably proportional to the Company's status, its economic position at the time and the market standards of similar companies in Spain and abroad.

The Remuneration Policy also aims to boost profitability for Colonial and its shareholders and the long-term sustainability of the Company, and to furnish the necessary precautions to discourage excessive risk-taking and rewarding poor results. To this end, the Remuneration Policy seeks to ensure that Directors' remuneration is a reflection of the professional performance of its beneficiaries, so that it serves to remunerate their activity and commitment to the Company, and does not depend excessively on other circumstances such as general trends in markets or in Colonial's area of business.

Remuneration must therefore be adequate to attract and retain Directors with the desired profile, and remunerate the engagement, qualifications and responsibility that the post demands, without compromising the independent criterion of the non-executive Directors.

### 3. PROCESS TO DETERMINE THE REMUNERATION POLICY

Pursuant to the applicable regulations and the Company's corporate governance documentation, the Appointments and Remuneration Committee is the body charged with submitting proposals to the Board of Directors concerning the policy for Directors' remuneration, and individual remuneration and

other contractual conditions of executive Directors, ensuring that these are adhered to, and tabling proposals, as the case may be, for any amendments it may deem advisable.

The Company's Appointments and Remuneration Committee has reviewed Colonial's remuneration policy for the years 2017, 2018 and 2019 as its term comes to an end, mostly taking into consideration the following: (i) applicable legislation and, in particular, the Spanish Limited Liability Companies Law; (ii) the best practices of good corporate governance and, in particular, the recommendations of the code of good governance of listed companies published by the Spanish Securities Market Commission (CNMV) in February 2015; and (iii) the Company Bylaws and Regulations of the Board Of Directors.

In addition, the Appointments and Remuneration Committee has carried out a review of the remuneration package of its Directors with a view to determining its suitability and alignment with the market scenario of similar companies and with the Company's current economic scenario.

#### **4. DETERMINATION OF REMUNERATION POLICY**

Based on this analysis, the Appointments and Remuneration Committee of Colonial considers the Directors' remuneration policy for the years 2017, 2018 and 2019 to be consistent with the remuneration system envisaged in article 30 of Colonial's Bylaws and in line with the aforementioned general principles, which the Company considers to be relevant for the remuneration of Colonial's Directors.

Colonial's Remuneration Policy stipulates the maximum annual remuneration to be paid to all its Directors, pursuant to the provisions of Articles 217 and 529p of the Spanish Limited Liability Companies Law. Specifically, the Remuneration Policy stipulates the maximum amount to be paid to Directors for all specific items of remuneration or, where applicable, the parameters employed to determine this. In any case, the amounts set out in the Remuneration Policy are maximum amounts that are appropriate for the Company, and will come into force as of 1 January 2020 under the terms indicated in the Remuneration Policy, unless amended by the Company's General Meeting of Shareholders.

Therefore, the Remuneration Policy being proposed to the Board of Directors of Colonial follows the same lines set out in the remuneration policy of the aforementioned period, which was approved as a separate item of the agenda at the Ordinary General Meeting of Shareholders held in 2016 and which was addressed in a specific report of the Appointments and Remuneration Committee that is available on the Company's website.

No changes have been made to the amounts of remuneration that are paid to the Directors of the Company established in the Remuneration Policy with respect to the Colonial Directors' remuneration policy for the years 2017, 2018 and 2019:

- With respect to non-executive Directors, the maximum amount of annual remuneration for all of Colonial's Directors as a whole, in exchange for sitting on the Board of Directors and its committees, remains at 1,900,000 euros. Nevertheless, should the number of members of the Board of Directors rise, such sum will be increased by 10% for every new member of the Board of Directors that involves an increase in the number of members, as envisaged in the remuneration policy of Colonial's Directors for the years 2017, 2018 and 2019.
- With respect to the executive Directors, the current fixed remuneration set in their respective contracts remains unchanged, although it is automatically revised every year based on the

Consumer Price Index (CPI) as published by Spain's National Institute of Statistics, as the sole fixed remuneration for their status as Directors and for the performance of their executive functions. In addition, an annual variable remuneration is recognised that may amount to up to 100% of the fixed remuneration, linked to predefined and measurable performance criteria and, for special cases, an additional annual variable remuneration of up to 200% of their fixed remuneration. In addition, the policy still provides for the participation of executive Directors in the Company's share allocation plans, share options or similar schemes, which aims to observe the principle of aligning executive Directors' interests with those of the Company, thus giving Directors a stake in its performance and results. At present, the Chairman of the Board of Directors and the CEO of Colonial are the beneficiaries of a plan consisting of the conditional and restricted allocation of Colonial shares which was approved at the General Meeting of Shareholders on 21 January 2014 and extended for a further 2 years (until 2021) by resolution at the General Meeting of Shareholders on 29 June 2017. Lastly, executive Directors' contracts contain clauses relating to severance payments for termination and a clawback clause for certain cases to claim the reimbursement of the variable remuneration, in line with the recommendations of good corporate governance.

Therefore, the Appointments and Remuneration Committee considers that the Remuneration Policy is compliant with the overall provisions of article 217.4 of the Spanish Limited Liability Companies Law, in that Directors' remuneration should be reasonably proportional to the Company's status, its economic scenario at the time and market standards of similar companies, where the remuneration system should be aimed at promoting the Company's long-term profitability and sustainability and include the necessary precautions to avoid excessive risk taking and rewarding poor results. Furthermore, the Appointments and Remuneration Committee considers that the Remuneration Policy also furthers the objective of seeking to recruit and retain Directors with the desired profile and reward the engagement, qualification and responsibility required for the post without compromising the independent judgement of non-executive Directors.

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This report was drawn up and approved by the Appointments and Remuneration Committee of Colonial at a meeting on 30 April 2019.

**Annex I**  
**Proposed Remuneration Policy**



FOR INFORMATIONAL PURPOSES ONLY. SPANISH VERSION PREVAILS

## DIRECTORS' REMUNERATION POLICY FOR YEARS 2020, 2021 AND 2022

### INMOBILIARIA COLONIAL, SOCIMI, S.A.

#### 1. INTRODUCTION

Pursuant to the Recast Spanish Limited Liability Companies Law approved by Royal Legislative Decree 1/2010 of 2 July (the "**Limited Liability Companies Law**"), listed public liability companies must approve a Directors' Remuneration Policy. In this regard, the Ordinary General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. ("**Colonial**" or the "**Company**") held on 28 June 2016 approved Colonial's Directors' Remuneration Policy for the years 2017, 2018 and 2019.

Pursuant to the Spanish Limited Liability Companies Law, at the behest of the Appointments and Remuneration Committee, Colonial's Board of Directors submits this policy for the remuneration of Colonial's Directors in 2020, 2021 and 2022 (the "**Remuneration Policy**") to the Ordinary General Meeting of Shareholders of the Company to be held in 2019, as a separate item on the agenda.

The Company's Remuneration Policy follows the same lines as the remuneration policy for the previous period, and is in accordance with the remuneration system stipulated in Article 30 of Colonial's Bylaws. No changes have been made to the amounts of remuneration that are paid to the Directors of the Company established in this Remuneration Policy with respect to the Colonial Directors' remuneration policy for the years 2017, 2018 and 2019.

Colonial's Remuneration Policy stipulates the maximum annual amount of remuneration to be paid to all its Directors, pursuant to the provisions of Articles 217 and 529 septdecies of the Spanish Limited Liability Companies Law. Specifically, the Remuneration Policy stipulates the maximum amount to be received by Directors for all items of remuneration or, where applicable, the parameters employed to determine this. The amounts will come into force as of 1 January 2020 under the terms indicated in the Remuneration Policy, unless they are amended by the Company's General Meeting of Shareholders.

Any amendment or replacement of the Remuneration Policy during its term must first be approved by Colonial's General Meeting of Shareholders. The Company will report each year on the application of the Remuneration Policy in the annual report on Directors' remuneration, which will be submitted to an advisory vote as a separate item on the agenda at the Company's General Meeting of Shareholders.

The Remuneration Policy does not include any remuneration that Directors of the Company may receive, where appropriate, from other companies in the Colonial Group, and a breakdown of this will be provided in the aforementioned annual report on Directors' remuneration.

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

The primary purpose of the Remuneration Policy is to ensure that the remuneration received by Directors is reasonably proportional to the Company's importance, its economic position at any given time and the market standards of similar companies in Spain and abroad.

The Remuneration Policy also aims to boost profitability for Colonial and its shareholders and the long-term sustainability of the Company, and to furnish the necessary precautions to discourage excessive risk-taking and rewards for adverse results. To this end, the Remuneration Policy seeks to ensure that Directors' remuneration is a reflection of the professional performance of its beneficiaries, so that it serves to remunerate their activities and commitment to the Company, and does not depend excessively on other circumstances such as general trends in markets or in Colonial's area of business.

Remuneration must therefore be adequate to attract and retain Directors with the desired profile, and remunerate the engagement, qualifications and responsibility that the post demands, without compromising the independent criterion of the Directors.

Colonial's Board of Directors undertakes the commitment to render effective the principle of full transparency of all items of remuneration paid to the Directors, furnishing transparent information in good time and in due observance of the good governance recommendations generally acknowledged on international markets concerning Directors' remuneration. To this end the Board of Directors will strive to guarantee the transparency of the Directors' remuneration, indicating on an annual basis, in a detailed and individual format, depending on their positions and categories, all the remuneration earned by Directors in the annual report on Directors' remuneration, which will be submitted to an advisory vote as a separate item on the agenda at the Company's General Meeting of Shareholders.

### **3. PROCESS TO DETERMINE THE REMUNERATION POLICY**

Pursuant to the provisions of the regulations applicable and the Company's corporate governance documentation, the Appointments and Remuneration Committee is the body charged with submitting proposals to the Board of Directors concerning the policy for Directors' remuneration, and individual remuneration and other contractual conditions of executive Directors, ensuring these are adhered to, and tabling proposals, as the case may be, for any amendments it may deem advisable.

The Board of Directors, in turn, is the body charged with submitting proposals to the General Meeting concerning the Board's remuneration policy, which will be motivated and must be accompanied by a specific report by the Appointments and Remuneration Committee. Both documents will be made available to the shareholders on the corporate website as soon as the General Meeting has been convened.

Pursuant to the foregoing, at the behest of the Appointments and Remuneration Committee and exercising the powers conferred to it, Colonial's Board of Directors has resolved to submit the Remuneration Policy for approval at the Company's Ordinary General Meeting of Shareholders in 2019.

### **4. REMUNERATION OF THE DIRECTORS OF THE COMPANY**

#### **4.1. Remuneration of Directors in respect of membership of the Board of Directors and its Committees.**

Pursuant to the provisions of Article 217.2 of the Spanish Limited Liability Companies Law and Article 30 of Colonial's Bylaws, the annual remuneration of the Company's Directors in respect of their membership of the Board of Directors and its Committees will consist of (i) a fixed annual remuneration; (ii) attendance fees for meetings of the Board of Directors and its committees; and (iii)

remuneration linked to Colonial's share price or entailing the allocation of shares or options on shares of the Company.

For the purposes of determining the maximum amount of annual remuneration for all the Directors of Colonial in respect of their membership of the Board of Directors and its Committees, consideration will be given, among other objective circumstances, to the remuneration established by similar companies in terms of their capitalisation, size and international deployment.

The maximum amount of annual remuneration for all the Directors of Colonial in respect of their membership of the Company's Board of Directors and its Committees is established at €1,900,000. In this regard, the referred maximum amount has not been changed with respect to the Colonial Directors' remuneration policy for the years 2017, 2018 and 2019. Unlike non-executive Directors, executive Directors of Colonial do not receive any specific remuneration in respect of their membership of the Company's Board of Directors or of its Committees. Any annual fixed remuneration that may be established for executive Directors in their respective contracts will remunerate all the functions that they may carry out at Colonial, i.e. their executive functions and also those arising from their membership and attendance of meetings of the Board of Directors and its Committees. For further information concerning the remuneration of executive Directors, see section 4.2 of the Remuneration Policy.

The Board of Directors, following a proposal by the Appointments and Remuneration Committee, is tasked with the distribution of fixed remuneration and attendance fees for the Board of Directors' meetings for each Director in respect of their membership of the Company's Board of Directors and of its Committees. For the purposes of estimating the fixed remuneration for each Director, consideration will be given to the functions and responsibilities assigned to each of the Directors, their membership of Committees of the Board of Directors and their engagement, in addition to any other objective circumstances that may be deemed relevant, ensuring that this is competitive with the remuneration at other similar companies in terms of their capitalisation, size and international deployment. In this regard, the Board of Directors may assign to one or more of its Directors as part of their fixed remuneration, within the maximum amount of the annual remuneration for all the Directors of Colonial in respect of their membership of the Company's Board of Directors and its Committees, a specific remuneration for a particular year based on the functions, responsibilities, dedication as well as other objective circumstances which may be considered relevant that had occurred in a given year.

Each year the Company will report the amount paid to each Director in respect of their membership of the Company's Board of Directors and its Committees in the annual report on Directors' remuneration, which will be submitted to an advisory vote as a separate item on the agenda at the Company's General Meeting of Shareholders.

Moreover, as stipulated in Colonial's Bylaws, the Company may establish remuneration that is linked to Colonial's share price or entails the allocation of shares or options on shares of the Company, although at the present time no such remuneration system is in place for non-executive Directors.

Finally, Directors (executive and non-executive), like other senior officers at the Company, will be the beneficiaries of a collective third-party liability insurance policy taken out by Colonial that covers liability for the actions and conduct of members of the Board of Directors and executives of the Company as a result of the discharge of their duties, and any losses arising from cyber attacks or failures in cybersecurity.

- *Current distribution of fixed remuneration and of attendance fees for Directors in respect of their membership of the Company's Board of Directors and its Committees.*

The current distribution of fixed remuneration and of attendance fees for Directors in respect of their membership of the Company's Board of Directors and its Committees, as agreed by the Board of Directors, is as follows:

ITEM	AMOUNT
<i>BOARD OF DIRECTORS</i>	
Member .....	Annual fixed amount of €50,000
Attendance fees for members .....	€3,000 per meeting and per member
Independent Lead Director .....	Additional annual fixed amount of €75,000
Attendance fees for the independent Lead Director .....	€3,000 per meeting
<i>EXECUTIVE COMMITTEE</i>	
Attendance fees for members .....	€3,000 per meeting and per member
<i>APPOINTMENTS AND REMUNERATION COMMITTEE</i>	
Chairman .....	Additional annual fixed amount of €50,000
Attendance fees for the Chairman .....	€4,800 per meeting
Member .....	Additional annual fixed amount of €25,000
Attendance fees for members.....	€3,000 per meeting and per member
<i>AUDIT AND CONTROL COMMITTEE</i>	
Chairman .....	Additional annual fixed amount of €50,000
Attendance fees for the Chairman .....	€4,800 per meeting
Member.....	Additional annual fixed amount of €25,000
Attendance fees for members.....	€3,000 per meeting and per member

Internal distribution among Directors will remain invariable until such time as the Board of Directors approves a different distribution, which it may do by virtue of the powers assigned by the Spanish Limited Liability Companies Law and Colonial's Bylaws.

#### **4.2. Remuneration of the Company's executive Directors**

The annual remuneration of the executive Directors will consist of (i) annual fixed remuneration; (ii) annual variable remuneration; and (iii) inclusion in Company share allocation plans, share options or similar schemes. Executive Directors will also be entitled to a number of social benefits, mainly welfare and assistance.

As mentioned in section 4.1 above, unlike non-executive Directors, executive Directors of Colonial will not receive any specific remuneration in respect of their membership of the Company's Board of Directors or of its Committees nor for their attendance to the meetings. Any annual fixed remuneration that may be established for executive Directors in their respective contracts will remunerate all the functions that they may carry out at Colonial, i.e. their executive functions and also those arising from their membership and attendance of meetings of the Board of Directors and its Committees.

The contracts drawn up by each of Colonial's executive Directors with the Company, which must be approved by the Board of Directors, will set out the circumstances for which they may obtain remuneration in the course of their executive functions. These contracts will be in accordance with



the parameters established in the Remuneration Policy in force at any given time. For further information concerning the remuneration of executive Directors, see section 5.

At the present time, the Chairman of the Board of Directors and the CEO of the Company hold executive Director status and, pursuant to the provisions of the Spanish Limited Liability Companies Law, they have signed contracts with the Company that have been approved by the Board of Directors. These contracts are in accordance with the principles, conditions and contents of the Remuneration Policy, and thus they do not need to be amended following approval of the Policy by the Company's General Meeting of Shareholders.

#### **4.2.1. Fixed remuneration of the executive Directors**

The annual fixed remuneration of the executive Directors of the Company will remunerate all the functions that they may carry out at Colonial, both executive functions and those arising from their membership and attendance of meetings of the Board of Directors and its Committees. In this regard, the annual fixed remuneration will take account of the specific characteristics of each post, the level of responsibility and engagement required of the executive Directors, and it will strive to make it competitive with that applied by other similar companies in terms of their capitalisation, size and international deployment.

It is established that the annual fixed remuneration of the executive Directors cannot under any circumstances exceed €1,400,000.

- *Fixed remuneration of the current executive Directors*

The annual fixed remuneration of the Chairman of the Board of Directors and the CEO for the year 2019 is €571,726 and €665,282 respectively. In accordance with their respective contracts, these amounts are updated automatically on an annual basis by applying the Consumer Prices Index (CPI) published by Spain's National Statistics Institute relating to the calendar year immediately preceding the date of the update, or any another official benchmark that may ultimately replace it.

#### **4.2.2. Variable remuneration of the executive Directors**

The annual variable remuneration of Colonial's executive Directors will consist of (i) annual variable remuneration; and (ii) inclusion in Company share allocation plans, share options or similar schemes. In both cases, precise limits and technical safeguards will be established to ensure that remuneration reflects the professional performance of the recipients and does not only arise from general trends in markets or in Colonial's area of activity or other similar circumstances.

Any variable remuneration that may be agreed by the Board of Directors at the behest of the Appointments and Remuneration Committee will be reflected in the respective contracts of the executive Directors.

In particular, the variable components of remuneration:

- Will be linked to performance criteria that are predetermined and measurable, and these criteria will take account, among other aspects, of the risk undertaken to obtain a result; and

- Will promote the sustainability of the Company and include non-financial criteria that are suitable for creating long-term value, such as compliance with internal rules and procedures of the Company and its policies for controlling and managing risk.

Any remuneration established in relation to the Company's results will take account of any reservations in the external auditor's report that reduce these results.

The contracts of executive Directors should contain a clawback clause that enables the Company to claim, in certain cases, total or partial return of their variable remuneration. The decision will be taken by the Company's Board of Directors, at the behest of the Appointments and Remuneration Committee.

In relation to the procedure employed to determine the variable remuneration, Colonial's Appointments and Remuneration Committee will assess the level of achievement of any targets established in the variable remuneration approved, and will submit a proposal to the Board of Directors for each executive Director, with the amount of variable remuneration they will be entitled to, as applicable.

*a) Annual variable remuneration*

Executive Directors may receive, by way of annual variable remuneration, an amount of up to 100% of the annual fixed remuneration of each Director.

Variable remuneration will be determined annually by the Board of Directors following a proposal by the Appointments and Remuneration Committee, based on quantitative and qualitative targets. The targets or parameters to which variable remuneration is subject will be personal, such as professional engagement and excellence, or of an economic or budgetary nature, such as the level of achievement of annual budget targets, investment targets or property occupancy targets, and will take account of the outcome of the assessment of the performance of specific duties, supervision of corporate governance and the contribution to improving Colonial's corporate reputation.

Executive Directors may also receive each year, having fulfilled the exceptional conditions stipulated in this paragraph, additional variable remuneration, the maximum amount of which may be up to 200% of their annual fixed remuneration. This additional variable remuneration may be agreed in exchange for the participation of each executive Director in corporate transactions involving acquisitions, investments, restructuring or any other transactions or actions that, due to its nature, complexity, amount and results, may create significant added value for Company shareholders or give rise to an economic benefit or a significant increase in equity to strengthen Colonial's sustainability.

Following a proposal by the Appointments and Remuneration Committee, the Board of Directors will be responsible for agreeing, as appropriate, and setting for each of the executive Directors the amount and the settlement date of this additional variable remuneration pursuant to the criteria laid down in the preceding paragraph. Payment of the additional variable remuneration will not be considered salary or remuneration for inclusion in the applicable basis for calculation of any severance payments as might arise from the termination of employment or retirement of executive Directors.

*b) Entitlement to Company share allocation plans, share options or similar schemes.*

Executive Directors may be entitled to one or more Company share allocation plans, share options or similar schemes that are linked to strategic targets and conditions and payable in shares. The purpose of this kind of remuneration is to foster the alignment of the interests of the beneficiaries with the main interest of the shareholders, which is to maximise profits.

Pursuant to the Spanish Limited Liability Companies Law, the application of remuneration for Directors that is linked to Colonial's share price or entails the allocation of shares or options on shares of the Company must be approved by the Company's General Meeting of Shareholders. Thus the maximum amount of Company share allocation plans, share options or similar schemes will be, where applicable, determined by the General Meeting of Shareholders.

The number of shares to be allocated to the beneficiaries of Company share allocation plans, share options or similar schemes will depend on the fulfilment of certain conditions concerning developments at Colonial.

- *Entitlement of the current executive Directors to Company share allocation plans, share options or similar schemes.*

At the present time, the Chairman of the Board of Directors and the CEO of Colonial are the beneficiaries of a plan consisting of the conditional and restricted allocation of Colonial shares (the "**Share Allocation Plan**"), which was approved by the General Meeting of Shareholders on 21 January 2014 and extended for a further 2 years (until 2021) through a resolution at the General Meeting of Shareholders on 29 June 2017.

#### **4.2.3. Welfare and assistance and other social benefits**

Executive Directors will be entitled to a number of social benefits, mainly welfare and assistance, which are normal practice in the sector and are appropriate to their professional status, such as entitlement to a company car, life insurance, family medical insurance to cover health, incapacitation and accidents, or any other social welfare packages that may generally be offered by the Company to its senior officers.

The maximum amount of welfare and assistance and other benefits to which executive Directors may be entitled is established at €400,000.

Notwithstanding the foregoing, any expenses incurred by executive Directors while providing their services for the Company, such as, among others, travel expenses or business expenses will not be considered remuneration, and will be borne by the Company, provided they can be fully justified, and the same applies to the use and enjoyment of any facilities provided for them for the appropriate exercise of their functions (including where applicable, any security measures required).

Finally, Directors (executive and non-executive), like other senior officers at the Company, will be the beneficiaries of a collective third-party liability insurance policy taken out by Colonial that covers liability for the actions and conduct of members of the Board of Directors and executives of the Company as a result of the discharge of their duties, and any losses arising from cyber attacks or failures in cybersecurity.

- *Welfare and assistance and other social benefits of the current executive Directors.*

At the present time Colonial's CEO is entitled to welfare and assistance and other social benefits, and also to a company car, family medical insurance to cover health, incapacitation and accidents, and life insurance.

The Chairman of the Board of Directors and the CEO of Colonial are the beneficiaries of a defined-contribution welfare scheme covering retirement, disability and death. In this regard, the annual contributions for the defined-contribution welfare scheme in 2019 will be €77,963 for the Chairman of the Board of Directors and €103,950 for the CEO. These sums will be updated automatically on an annual basis by applying the Consumer Prices Index (CPI) published by Spain's National Statistics Institute relating to the calendar year immediately preceding the date of the update, or any another official benchmark that may ultimately replace it.

The executive Directors' welfare scheme recognises the vesting of financial rights should the professional relationship be terminated prior to the occurrence of the eventualities covered, unless such termination occurs with just cause. Furthermore, these long-term savings systems are compatible with any severance packages that may be applicable.

## **5. MAIN TERMS AND CONDITIONS OF THE CONTRACTS OF EXECUTIVE DIRECTORS.**

Pursuant to the Spanish Limited Liability Companies Law, when a member of the Board of Directors is appointed CEO or is assigned executive functions by virtue of another title, a contract must be entered into by the Director and the Company, which must be approved by the Board of Directors with a vote in favour by two thirds of its members.

Each of the contracts will stipulate the concepts whereby they may obtain remuneration for the exercise of executive functions, including, where applicable, compensation for premature removal from these functions. Executive Directors may not receive any remuneration for the exercise of executive functions if the amounts or concepts are not stipulated in their contracts. These contracts will be in accordance with the parameters established in the Remuneration Policy in force at any given time.

Any variable remuneration that may be approved by the Board of Directors at the behest of the Appointments and Remuneration Committee and be established in the contracts of executive Directors must include the precise limits and technical safeguards to ensure it reflects the professional performance of the recipients, and does not only arise from general trends in markets or in the Company's area of activity or other similar circumstances.

The contracts of executive Directors will contain a clawback clause that enables the Company to claim, in certain cases, total or partial return of their variable remuneration. The decision will be taken by the Company's Board of Directors, at the behest of the Appointments and Remuneration Committee.

At the present time, the Chairman of the Board of Directors and the CEO of Colonial hold executive Director status and, pursuant to the provisions of the Spanish Limited Liability Companies Law, they have signed contracts with the Company that have been approved by the Board of Directors. These contracts are in accordance with the principles, conditions and contents of the Remuneration Policy, and thus they do not need to be amended following approval of the Policy by the Company's General Meeting of Shareholders.

The contracts entered into with each of the executive Directors stipulate their respective remuneration, rights and economic compensation. The terms and conditions of the contracts of the executive Directors may be amended during the term of validity of the Remuneration Policy, as per the limits and procedures established in the Spanish Limited Liability Companies Law and in the Remuneration Policy. In any case, any change to the concepts and amounts of the components of the executive Directors' remuneration will be stipulated in the annual report on Directors' remuneration, which will be submitted to an advisory vote as a separate item on the agenda at the Company's General Meeting of Shareholders.

The essential terms and conditions of the contracts of the Chairman of the Board of Directors and the CEO, in addition to those already set out in the Remuneration Policy, are as follows:

- *Term:* For both the Chairman of the Board of Directors and the CEO it has been stipulated that the term of the contract will be subject to the term of their appointment as Chairman of the Board of Directors or as CEO, in each case. If the appointment of the Chairman of the Board of Directors and/or CEO is renewed, the contract will be understood to have been automatically renewed for the period relating to such renewal of office, unless the Board of Directors resolves otherwise, in which case a new contract must be approved.
- *Post-contractual non-compete agreement, continuance agreement or loyalty agreement:* Not considered.
- *Severance payments for termination of the contractual relationship:* Executive Directors will receive additional special remuneration by way of severance payment in the event of unjustified removal or non-renewal of their terms, or a substantial reduction of their respective functions. The severance payment will also accrue (i) if they depart or resign from their posts as a result of a loss of control in the Company or a major change in the composition of the Board of Directors; (ii) in the event of an amendment to the conditions agreed in their contracts without their consent; and (iii) in any other scenarios established by the Board of Directors.

For the purposes of calculating this severance payment, consideration will be given to the average of the amounts received in respect of fixed and variable remuneration over the last 2 years, excluding any amounts that may have been received as additional variable remuneration, and any amounts that may accrue in their favour from the Share Allocation Plan.

In particular:

- The Chairman will receive from the Company, by way of severance payment for termination of contract, a gross amount equal to 2 years' fixed and variable remuneration, with a minimum sum of €1,650,000, which will be updated each year automatically by applying the Consumer Prices Index (CPI) published by Spain's National Statistics Institute relating to the calendar year immediately preceding the date of the update, or any another official benchmark that may ultimately replace it.
- The CEO will receive from the Company, by way of severance payment for termination of contract, a gross amount equal to 2 years' fixed and variable remuneration, with a minimum sum of €1,920,000, which will be updated each year automatically by applying the Consumer Prices Index (CPI) published by Spain's National Statistics Institute relating to the calendar year immediately preceding the date of the update, or any another official benchmark that may ultimately replace it.

In the event of a change of control at the Company, a significant change in the composition of the Board of Directors or a substantial amendment to the respective functions of each of the beneficiaries or amendment of the conditions agreed in their contracts without their consent, the parties concerned will have a 3-month period from the effective date of these resolutions or changes to notify the Board of Directors of their resignation or departure, in which case they will be entitled to the aforementioned severance payment. For the purposes of applying the foregoing, the effective date of the change of control or a significant change in the composition of the Board of Directors will be understood as the date on which such circumstances are published as a regulatory announcement on the CNMV website. In the event that the Board of Directors resolves to substantially reduce the duties of the beneficiary or amend the conditions agreed in their employment contracts without the beneficiary's consent, the effective date will be the time when the party concerned receives due notice of the resolution.

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

If the present number (11) of members of the Board of Directors increases, the maximum amounts stipulated in each of the sections of the Remuneration Policy concerning the remuneration of Directors in respect of their membership of the Board of Directors and its Committees will be increased by 10% for each new member of the Board of Directors bringing about an increase in the number of its members.