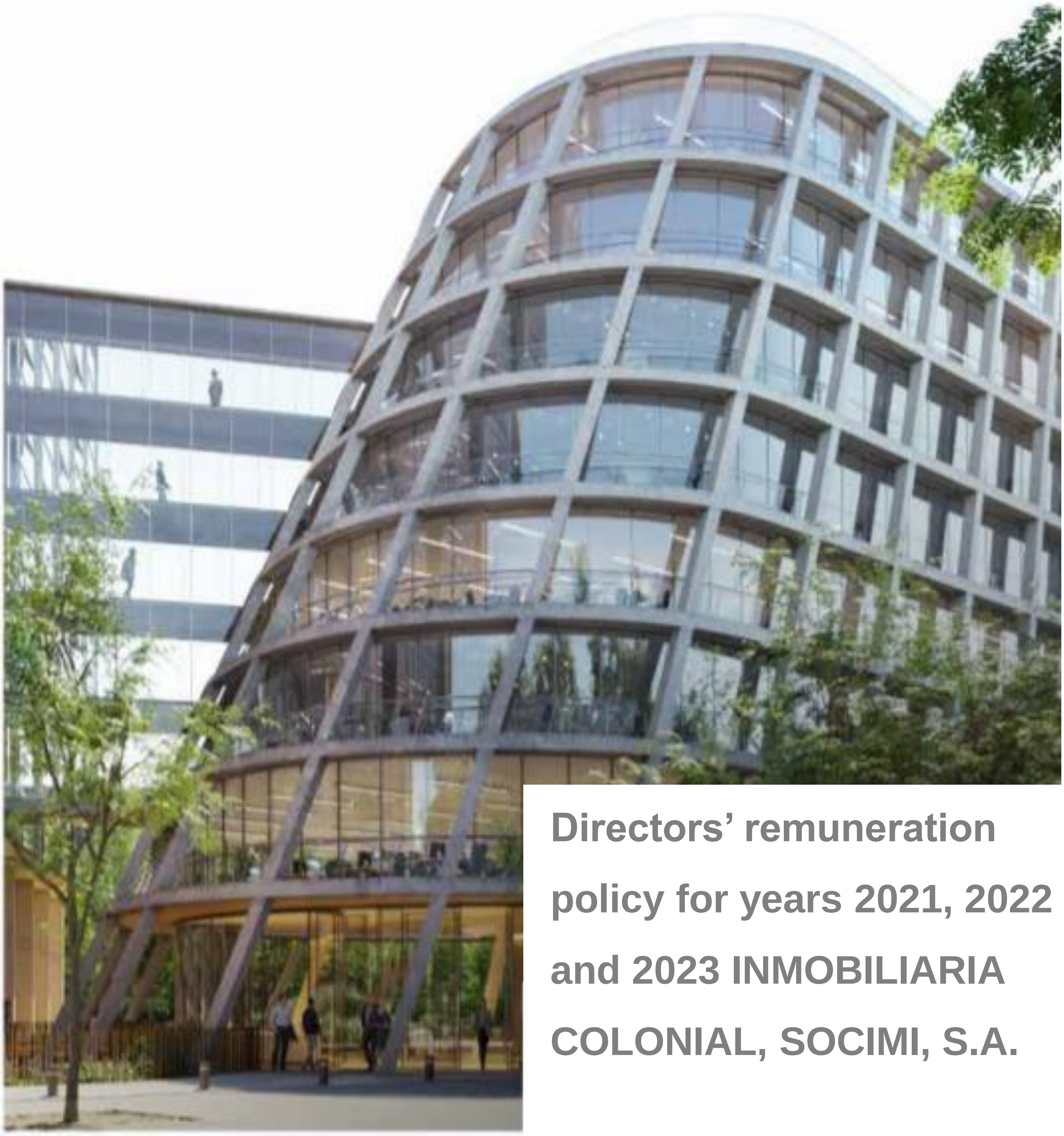


# Directors' remuneration policy for years 2021, 2022 and 2023 INMOBILIARIA COLONIAL, SOCIMI, S.A.

# Introduction

This document sets out the new Directors' Remuneration Policy of INMOBILIARIA COLONIAL, SOCIMI, S.A. ("Colonial" or the "Company"), which has been prepared by the Board of Directors ("the Board"), on the Nomination and Remuneration Committee's ("the Committee") proposal. While it continues our existing policy principles, it includes some material changes with the objectives of enhancing the alignment with our strategic priorities, investor sentiment and industry market practice.

One of the main principles maintained by the new Director's Remuneration Policy of Colonial, ("Remuneration Policy") is the alignment with the stakeholders' interests, specifically, with our shareholders. Consequently, the Board of Directors and, in particular, the Committee has consulted Colonial's main shareholders and has considered the information gathered from institutional investors and proxy advisors in the regular engagement process conducted by Colonial. In addition, the Board of Directors and the Committee have also given full consideration to the provisions of the Spanish Corporate Governance Code relating to Directors' remuneration.

Our new Remuneration Policy has been considered in the context of the wider workforce pay. The different remuneration elements for Executive Directors follow the same set of principles than those of the Group's executive team.

In addition, based on external benchmark data and internal projections, the Board of Directors, on the Committee's proposal has assessed the appropriateness and relevance of the Company's remuneration arrangements and evaluate the proposed changes to ensure its implementation fits for purpose. In particular, the Committee has considered the impact of the COVID-19 pandemic in Colonial's business and stock market movements and has ensured the new Remuneration Policy remains aligned with the interest of the business for the coming period. Section 3 provides the rationale for the changes from the existing Remuneration Policy.

The Board of Directors, on the Nomination and Remuneration Committee's proposal, presents this new Remuneration Policy for approval of shareholders at the 2021 Ordinary General Meeting, which is expected to be held on 30 June 2021, and is included as item eighth of the agenda and, if approved, will apply from financial year 2021 and will replace the existing remuneration policy, approved by the General Shareholders' Meeting held on 14 June 2019, in its entirety. It is intended that this new Remuneration Policy will apply for three financial years (2021, 2022 and 2023), even though the Board of Directors, on the Committee's proposal, may seek approval for a new policy at an earlier point if it is considered appropriate.

The Directors' Remuneration Policy (hereinafter referred to as the "Remuneration Policy") contains the following sections:



## 01. Our remuneration philosophy

We believe our remuneration philosophy promotes an equitable and well governed, long-term approach to remuneration, including pay-for-performance practices that attract and retain top talent, are responsive to and aligned with shareholders.

Our remuneration philosophy provides the guiding principles that drives remuneration-related decisions across all levels of the Company:

### PAY-FOR-PERFORMANCE

Ensure that the remuneration received by Executive Directors is commensurate with the overall performance of the Company and their individual performance.

In making remuneration-related decisions, we focus on risk-adjusted performance and reward behaviours that generate sustained value for the Company. This means that remuneration should not be overly formulaic, rigid or focused on the short-term.

### ALIGNMENT WITH STAKEHOLDERS' INTERESTS

Align the interests of our Executive Directors with our shareholders by tying a significant portion of total compensation to our overall financial and operating performance and the creation of long-term shareholder value. At-risk remuneration is also based on achievement of designated ESG objectives linked to our sustainability strategy.

Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as taking account of the external climate.

### COMPETITIVENESS

Our long-term success depends on the talents of our employees. Our remuneration philosophy plays a significant role in our ability to attract, properly motivate and retain top talent.

Market-competitive total remuneration with an appropriate balance of reward and upside opportunity allows us to attract and retain the best talent.

Decisions on the design of the Remuneration Policy takes into consideration the remuneration practices of peer companies based on an objective set of criteria.

### TRANSPARENCY

Transparency to shareholders regarding our Remuneration Policy is important. We disclose material terms of our pay plans and any actions on our part in response to significant events.

## 02. Our remuneration practices benefit our shareholders

Our executive Remuneration Policy has strong governance processes that further strengthen our pay-for-performance remuneration philosophy, including the following:

### WHAT WE DO

- **Pay at risk**: The majority of executive director remuneration is variable and tied to our financial results or the performance of our stock price, or both.
- **Long-term equity incentive based on a multi-year performance period**: A majority of incentive compensation should be in equity that vests over multiple years to align with sustained performance. Equity awards may be earned fundamentally based in value creation metrics. Earned shares may not be sold until at least one year has elapsed from delivery thereof.
- **Minimum shareholding policy**: Executive Directors are expected hold Colonial shares worth 2 times base salary.
- **Proportionality and management of risks**: Our Remuneration Policy ensures that Executive Directors have a vested interest in delivering performance over the short and long term. It has provisions to mitigate undue risk, including caps on the maximum level of payouts, deferral of the portion of the bonus in shares if payout exceeds target, clawback provisions, multiple performance metrics and Board and management processes to identify risk.
- **Robust engagement with shareholders on governance and remuneration**.
- **Malus and clawback clauses**.
- **Retain external advisors**.

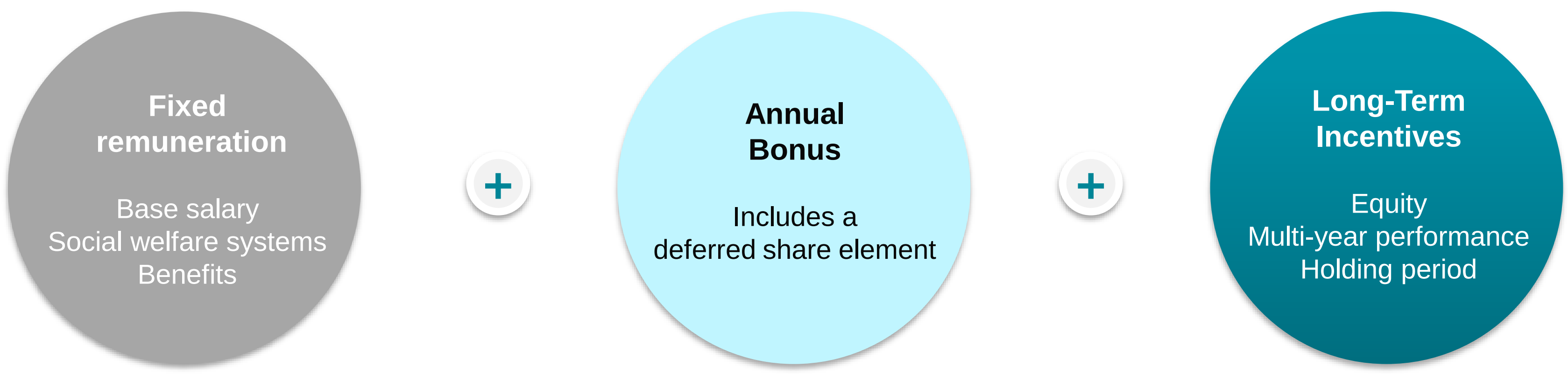
### WHAT WE DON'T DO

- **No** contracts with multi-year **guaranteed** salary increases or non-performance bonus arrangements.
- **No hedging, pledging, short sales or derivative transactions in the Company shares** received during the retention period.
- **Non-Executive Directors** are **not** included in the remuneration formulae or systems **linked** to the individual or Company's **performance**. They do not participate in any pension plans or any other welfare systems.
- **No above-market excessive perquisites**.

# 03. Remuneration Policy for Executive Directors

## I. Remuneration components

The three major elements of our Executive Directors' regular total remuneration are: (i) fixed remuneration, (ii) annual bonus, and (iii) long-term equity-based incentive awards.




## II. Scenarios for future total remuneration: Our emphasis on performance-related pay

The majority of remuneration value we deliver to our Executive Directors is in the form of remuneration that is variable, "at-risk" and based on performance.

The charts opposite provide illustrations of the potential future total remuneration for each of the Executive Directors in respect of the remuneration opportunity to be granted to each of them in 2021 under the new Remuneration Policy. A range of potential outcomes is provided for each Executive Director and the underlying assumptions are set out below.

| | | |
|---|---|---|
| **Fixed remuneration**[1] | All scenarios | Includes the following elements:<br>• Base salary<br>• Social Welfare Systems |
| **Annual bonus** | Minimum | No annual bonus would be paid |
| | Target | Target performance is achieved |
| | Maximum[2] | 132.5% of target bonus |
| **Long-Term incentive (LTI)**[2] | Minimum | No incentive would be paid |
| | Target | Amounts reflects 2/3 of maximum LTI |
| | Maximum | The maximum LTI would vest |

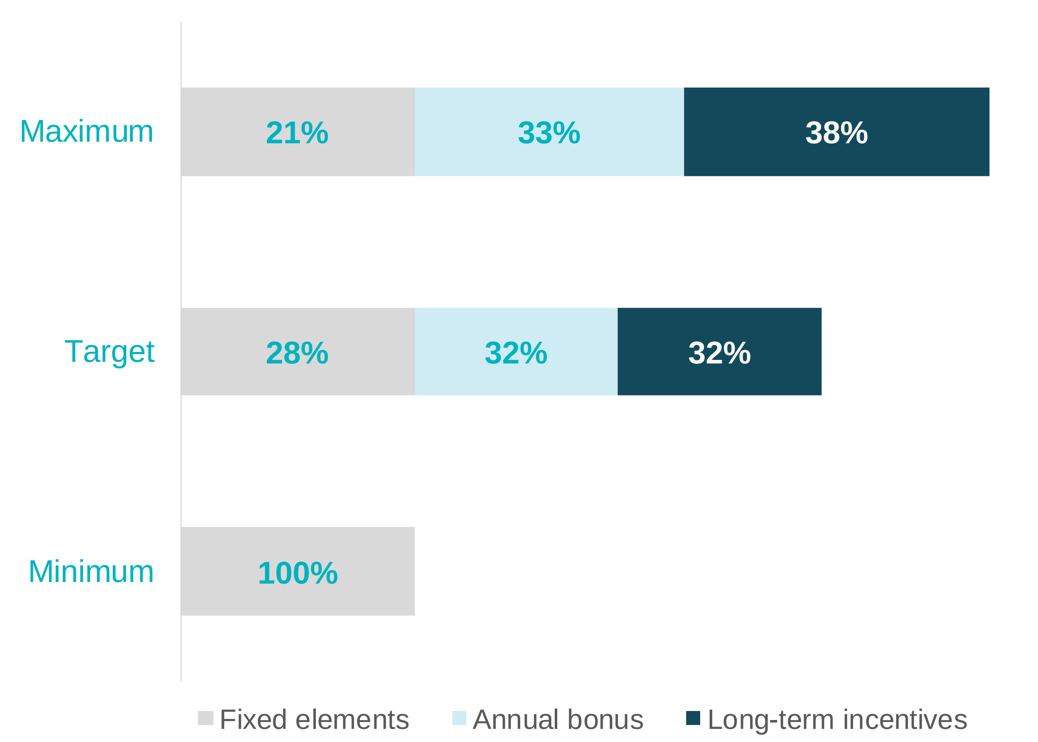
[1] Benefits are not included as the premiums for insurance may vary each year and the total is not significant in the aggregate remuneration package.

[2] The amounts shown under the value of the long-term incentive do not include the potential changes in the share price.

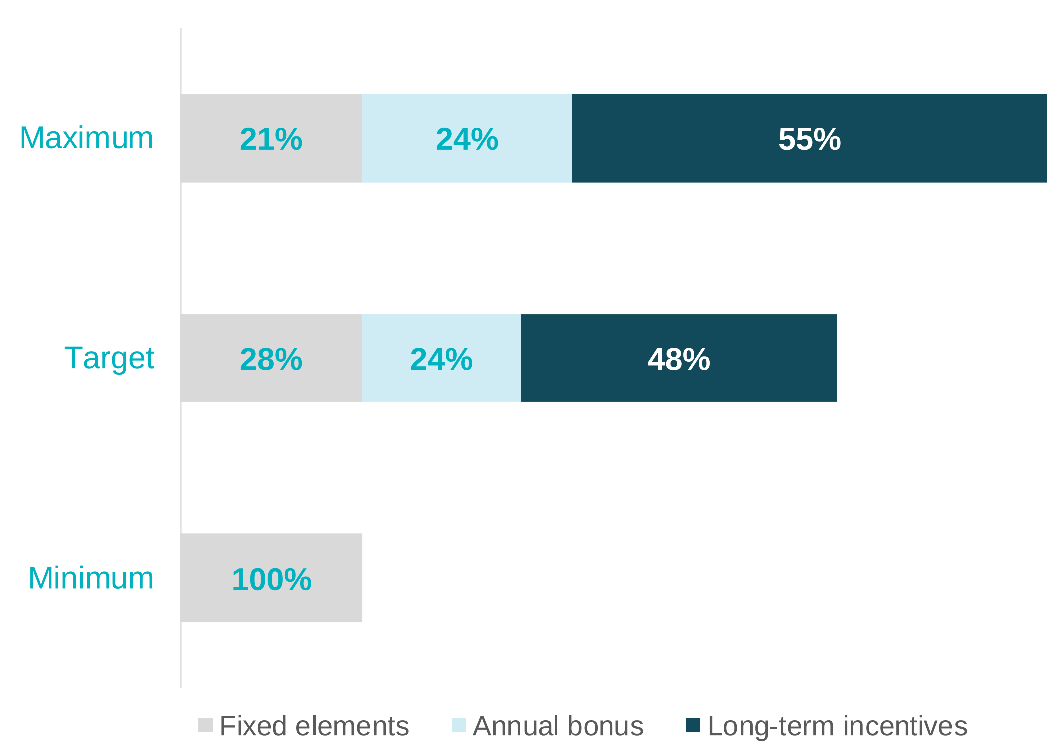
Equity remuneration constitutes the most significant component of the remuneration opportunity for the Executive Directors:

- In the target scenario, equity remuneration would mean 32% of total for the Executive Chairman and 48% of total for the CEO.
- In the maximum scenario, since the portion of the annual bonus that exceeds the target award would be delivered in shares, equity remuneration would stand for 38% of total for the Executive Chairman and would exceed 55% of total for the CEO.

**EXECUTIVE CHAIRMAN**




**CEO**

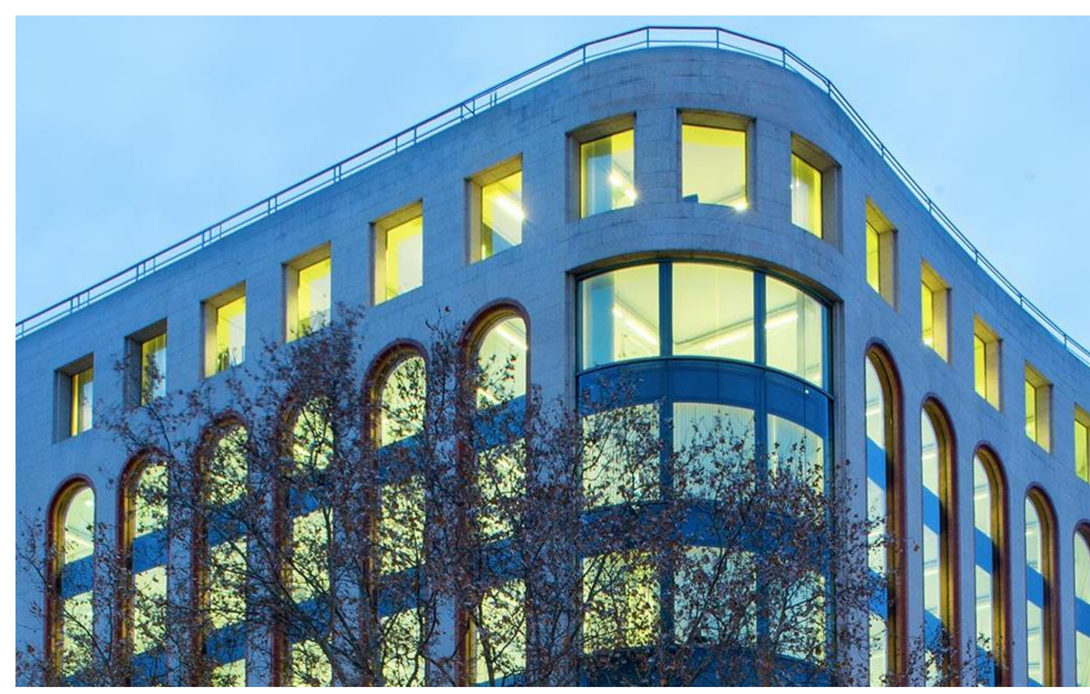


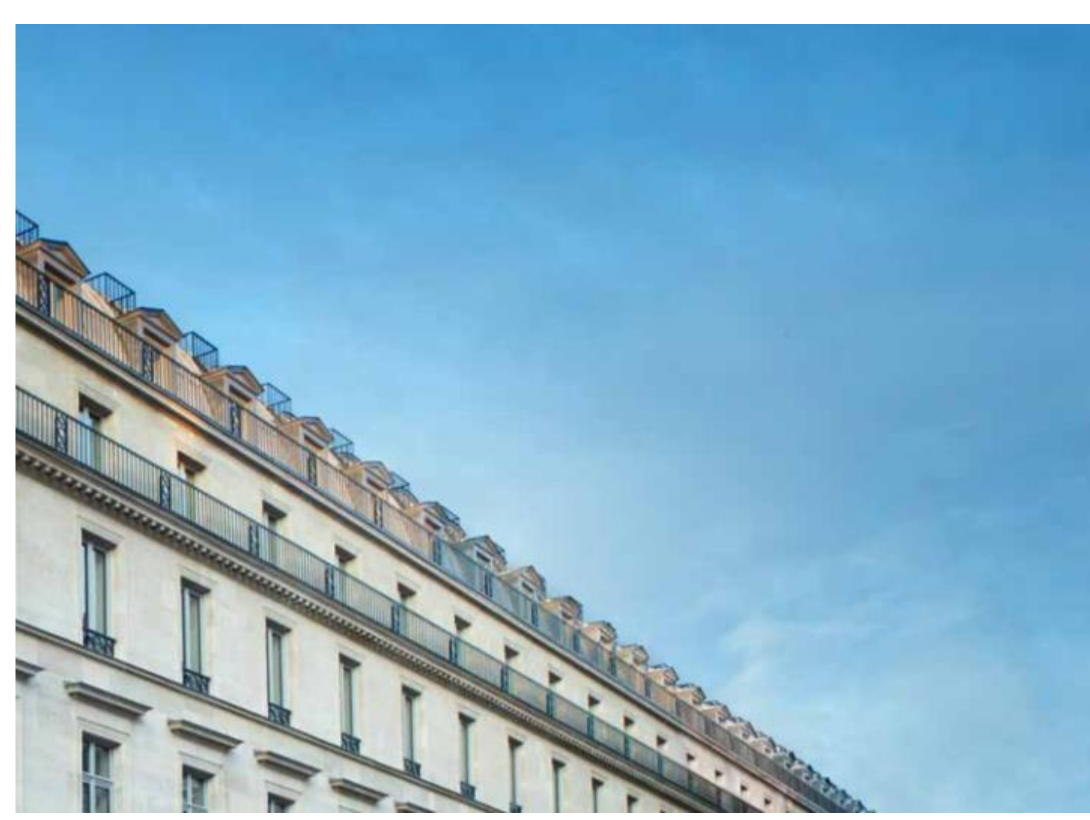
# 03. Remuneration Policy for Executive Directors (cont'd.)

## III. Overview of the main changes proposed in the new Remuneration Policy

The material changes, included in the Remuneration Policy compared to the previous policy, with the objective of enhancing the alignment with our strategic priorities, investor sentiment and industry market practice are the following:

- **Simplification** of the **fixed elements** structure.
- **Removal** of **automatic updates** of fixed elements according to CPI, as published by the *Instituto Nacional de Estadística* for the previous immediate year to the update.
- **Clarification** of the definition of the **contribution** to the **welfare system**.
- Higher weighting of pre-determined **quantitative objectives** linked to annual and multi-year variable remuneration and higher weighting of metrics related to shareholder value creation.
- Non-financial objectives in variable remuneration could be linked to ***ESG*** priorities.
- Possibility to **defer** a portion of annual **variable** remuneration in **shares**.
- Definition of a **long-term incentive** linked to a **multi-year performance** period of 3 years, at least
- Clarification of the **malus and clawback clauses** definition.
- Inclusion of a **minimum shareholding requirement**, in addition to the holding period for net shares derived, if applicable, from long-term incentives.
- **Simplification** of the **severance payment** definition.
- Inclusion of a **post-termination non-compete agreement** in the event the Executive Director's **voluntary terminates the relationship** with Colonial without cause (this is not applicable if the termination is decided by the Company).
- **Reduction** of the **extraordinary** remuneration (from 200% to 100% of Executive Directors' base salary) and clarification of the exceptional cases when this could be applicable



# 03. Remuneration Policy for Executive Directors (cont'd.)

## IV. Remuneration elements for performing executive duties: Fixed remuneration

| Base salary | | |
|---|---|---|
| **Purpose** | To attract and retain Executive Directors of the calibre required to deliver our strategic goals. | |
| **Opportunity** | • Executive Chairman: €750,000.<br>• CEO: €750,000. | These amounts could be reviewed during the validity of the current Remuneration Policy in certain circumstances such as (but not limited to) material changes to the business, remit or responsibilities and exceptional Company performance. In these circumstances, the Board, at the proposal of the Nominations and Remuneration Committee, may decide to apply an increase. This would be detailed and explained in the corresponding Annual Directors' Remuneration Report. |
| **Operation** | Set by the Board, on the proposal of the Committee, taking in to account:<br>• The specific characteristics of each post, the level of responsibility and engagement required of the Executive Directors.<br>• The individual's skills and experience.<br>• The evolution of the contribution of the position and the individual.<br>• Pay and conditions across the wider organisation.<br>• Market data in other companies of a similar financial size and complexity to Colonial.<br>Unlike Non-Executive Directors, Executive Directors do not receive any specific remuneration in respect of their membership of the Company's Board of Directors or of its Committees.<br>Any fixed amount received for membership in the subsidiaries' governance bodies will be deducted from the base salary received in Colonial. | |

| Social welfare systems | |
|---|---|
| **Purpose** | To provide competitive post-retirement benefits. |
| **Opportunity** | • Executive Chairman: 15% of base salary.<br>• CEO: 15% of base salary. |
| **Operation** | The Executive Directors are the beneficiaries of a defined contribution welfare scheme covering retirement, disability and death.<br>The Executive Directors' social welfare system 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 social welfare systems are compatible with any severance packages that may be applicable. |

| Other benefits | |
|---|---|
| **Purpose** | To provide market-competitive benefits. |
| **Opportunity** | • Executive Chairman: €100,000.<br>• Chief Executive Officer: €100,000. |
| **Operation** | Benefits include mainly provision of welfare and assistance, which are normal practice in the sector, such as Company car, death, disability and medical insurance cover. This is aligned with the benefit policy for senior management.<br>Where appropriate, the Executive Director may also receive relocation benefits or other benefits reflective of normal market practice in the territory in which the Executive Director is employed. In addition, the Committee may propose to the Board that Colonial will pay certain allowances linked to repatriation on termination of employment.<br>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).<br>Executive Directors (like Non-Executive Directors and other senior officers at the Company) are beneficiaries of a collective third-party liability insurance policy underwritten 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. |

# 03. Remuneration Policy for Executive Directors (cont'd.)

## V. Remuneration elements for performing executive duties: Performance-related remuneration

| Annual bonus | |
|---|---|
| Purpose | To drive and reward performance against annual financial, nonfinancial and individual objectives, which are consistent with the strategy and aligned to shareholder interests. |
| Opportunity | **Target** annual bonus (this is achieved for on-target performance):<br>• Executive Chairman: 100% of base salary.<br>• Chief Executive Officer: 100% of base salary.<br>**Maximum** annual bonus: 140% of base salary (140% of target annual bonus). |
| Operation | Performance measures, weightings and targets are set by the Board, on the Committee's proposal, at the beginning of each year. Appropriately targets are set by reference to the business plan and historical and projected performance for the Company and may also consider its peers. The level of award is determined with reference to Colonial's overall financial and strategic performance and individual performance. The Board, on the Committee's proposal, retains the discretion to review the performance measures, weightings and targets from year to year to ensure continued alignment with Company strategy.<br>Payout levels are determined by the Board, on the Committee's proposal, after the year end, based on performance against the targets. The vesting schedule related to the levels of performance between threshold and maximum will be determined by the Board, at the proposal of the Committee, on an annual basis and disclosed in the relevant remuneration report for that year. The Board, on the Committee's proposal, may use its discretion to ensure that a fair and balanced outcome is achieved, taking into account the overall performance of the Company and the experience of shareholders.<br>The evaluation of performance and the determination of payout levels are done based upon the data and the results provided by the management and which are previously audited. In this evaluation, the Committee also considers any associated risks. In this respect, any positive or negative economic effects arising from any extraordinary events which might introduce distortions into the results of the evaluation, may be removed upon proposing the level of achievement of the quantitative objectives.<br>The annual bonus is paid in cash after the end of the financial year to which results is linked. If the earned award exceeds the target bonus, the Board of Director, on the Committee's proposal, may decide to defer the excess over target into shares for one year. In this case, the shares will be subject to forfeiture if the executive leaves Colonial Group during the one-year deferral period, except if the executive is granted good leaver status. Beneficiaries will be entitled to receive dividend equivalents on deferred bonus share awards which are generated during the deferral period. These will be paid in cash on the same date the deferred bonus share award is delivered.<br>The Board, at the proposal of the Committee, has the discretion to apply malus or clawback to bonus (see specific section on *malus* and clawback). |
| Performance conditions | Annual bonus awards are normally based economic-financial, operational and/or value creation targets (e.g. net rental, EPS, NAV/share, Loan to Value, etc.). Non-financial objectives (e.g. ESG) may be included, but the weight of such objectives will not exceed 30% of the target bonus opportunity.<br>Some of the metrics may be measured relative to a comparator group consisting of competitor companies or with a similar activity. |

# 03. Remuneration Policy for Executive Directors (cont'd.)

## V. Remuneration elements for performing executive duties: Performance-related remuneration

| Long-term incentives | |
|---|---|
| Purpose | Provides focus on delivering superior long-term total returns to shareholders. |
| Opportunity | **Maximum** annualised incentive (grant share price, excluding the evolution of the share price):<br>• Executive Chairman: 150% of base salary.<br>• Chief Executive Officer: 300% of base salary. |
| Operation | Grant of performance shares and/or market-price share options which vest subject to a performance test and continued employment, over a period of 3 years, at least.<br>Measures, weightings, targets and the comparator group (if applicable) are reviewed by the Committee and propose for the Board approval for each new grant to ensure continued alignment with Company strategy.<br>Payout levels are determined by the Board, on the Committee's proposal, after the performance period end, based on performance against the targets. The vesting schedule related to the levels of performance between threshold and maximum will be determined by the Board, at the proposal of the Committee, and disclosed in the relevant remuneration report for that year. The Board, on the Committee's proposal, may use its discretion to ensure that a fair and balanced outcome is achieved, taking into account the overall performance of the Company and the experience of shareholders.<br>The evaluation of performance for some metrics could be done based upon the data and the results provided by external advisors. In this evaluation, the Committee also considers any associated risks. In this respect, any positive or negative economic effects arising from any extraordinary events which might introduce distortions into the results of the evaluation, may be removed upon proposing the level of achievement of the quantitative objectives.<br>Beneficiaries must hold the earned shares, net of taxes, during one year following the delivery, notwithstanding the minimum shareholding requirement equivalent to 2x base salary.<br>Beneficiaries will have the right to receive in cash the dividends equivalents on the earned performance share awards and which are generated during the holding period. These will be paid on the same date shares are released.<br>The Board, at the proposal of the Committee, has the discretion to apply clawback to the incentive (see specific section on *malus* and clawback). |
| Performance conditions | The vesting of awards is normally based financial and value creation measures (e.g. total shareholder return, portfolio management, etc.). Non-financial objectives (e.g. ESG) may be included, but the weight of such objectives will not exceed 30% of the incentive maximum opportunity.<br>Some of the metrics may be measured relative to a comparator group consisting of competitor companies or with a similar activity. |

### Evaluation of performance in annual bonus and long-term incentives

The Board of Directors, on the Nomination and Remuneration Committee's proposal, retains discretion to revaluate and amend the established performance-related arrangements in the event of significant external or internal changes which lead to a need to review them. Included in the situations that could lead to an amendment of the remuneration arrangements are those listed below:

- Any Company restructuring due to a purchase, sale, merger, spin-off, share swap, capital increase or reduction or reorganisation of any kind that leads to a significant change in the size, activity or kind of business of Colonial, as well as any financial transactions that automatically change the share price of Colonial (for example, payment of dividends, split or counter-split of shares, capital increases with a discount, etc.,).
- Significant changes in the companies included in the comparator group which are considered for measuring the total shareholder return.
- Significant changes in the macroeconomic environment that could substantially alter the current economic situation.
- And ultimately, any other situation that, in the opinion of the Board of Directors, requires the adaptation of the remuneration arrangements or could affect the Company, the value of its shares or the determination of the level of achievement of the objectives in the incentive plans.

# 03. Remuneration Policy for Executive Directors (cont'd.)

## VI. Provisions of previous policy that will continue to apply

The Executive Directors were beneficiaries of the share delivery plan, which was approved by Colonial's General Meeting of Shareholders on 21 January 2014, and the term of which was extended for a period of two additional years in a resolution by Colonial's General Meeting of Shareholders on 29 June 2017 and finally extended for two additional years in a resolution by Colonial's General Meeting of Shareholders on 30 June 2020. The last grant of this share delivery plan was done in 2020. The details of this plan as well as the number of shares allocated are outlined in the Directors' Annual Remuneration Reports. This plans is replaced by the new share-based plan, which is presented submitted, under item nineth of the agenda, for approval of the 2021 Ordinary General Shareholders' Meeting, which is expected to be held on 30 June 2021.

## VII. *Malus* and clawback provisions

The Board of Directors, on the Nominations and Remunerations Committee's proposal shall have the competence to propose to the Board of Directors the cancellation (*malus*) and/or refund (clawback) of the payment of the annual bonus and/or the long-term incentives in the following events:

- Significant losses and the Committee considers there is reasonable evidence to prove such downturn arises from significant failure of risk management committed by the Company or by a business unit, to which the wilful misconduct or gross negligence of the Executive Director was a contributing factor;
- Serious breach of the Company's internal regulations and policies by the relevant beneficiary;
- Material restatements of the Company's financial statements, when determined by the external auditor, it is not due to a regulatory change or revision of the accounting legislation and provided that the restatement results in variable compensation to be settled that is lower than that initially accrued or no compensation should have been paid in accordance with the Company's variable compensation system;
- The remuneration has been paid on the basis of data subsequently shown to be manifestly inaccurate and provided that the restatement results in variable compensation to be settled that is lower than that initially accrued or no compensation should have been paid in accordance with the Company's variable compensation system.

The clawback clause can be applied by the Board up to 2 years after the corresponding payment.

## VIII. Minimum shareholding requirement

Our Executive Directors are required to build and retain a personal shareholding in Colonial (within five years from the date of appointment with extra time granted if requirements increase significantly) to align their interests with those of Colonial's long-term shareholders. The requirement is 2x base salary.

The shareholding guidelines do not count unvested share-based incentives.

The Committee regularly reviews compliance with this requirement.

## IX. Main terms and conditions of the contracts

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 Nomination 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.

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 will be amended in 2021 to adjust the definition of the new proposed severance payment for termination of the contractual relationship to this Remuneration Policy once approved by the General Meeting of Shareholders, as indicated below.

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 Executive Chairman and the CEO, in addition to those already set out in this Remuneration Policy, are as follows:

- Term: For both the Executive Chairman 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 Executive 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.
- 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 2 years' base salary and target annual bonus, excluding any other remuneration and the rights derived from the long-term incentive at any given time.

# 03. Remuneration Policy for Executive Directors (cont'd.)

## IX. Main terms and conditions of the contracts (cont'd.)

In the event of a change in control, significant change in the composition of the Board of Directors or a substantial amendment to the respective functions of each of the directors or amendment of the conditions agreed in their contracts without their consent, the parties concerned will have a period (6 months in the event of a change in control and 3 months in the rest of cases) 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 under the denomination "privileged information" or "relevant facts". 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.

- Non-compete agreement: Each Executive Director will be subject to a non-compete commitment for a period of 6 months from the date of termination of their relationship with Colonial if such termination is voluntary without cause.

  The non-competition agreement will be remunerated with a gross amount equivalent to 6 months of the annual base salary, which will be paid on a pro-rata basis during the months of the non-competition agreement.

  In case the directors notify their resignation or departure in the event of a change in control, a significant change in the composition of the Board of Directors or a substantial amendment to the respective functions of each of the directors or amendment of the conditions agreed in their contracts without their consent, the remuneration for the non-competition agreement will be considered absorbed (and therefore no additional payment will be made) by the amount of the severance payment received.

## X. Extraordinary remuneration

The Board of Directors, on the Committee's proposal, reserves the right to award special incentives to Executive Directors under extraordinary corporate transactions involving acquisitions, investments, restructuring or any other transaction which generates significant shareholders' value.

In order for the Nomination and Remuneration Committee to propose the appropriateness of the incentive and its amount to the Board, the corporate transaction must generate an economic benefit or a significant increase in equity and, in any case, significant shareholders' value. The Nomination and Remuneration Committee will also consider the relevance, complexity and uniqueness of the corporate transaction as well as the extraordinary effort made by the Executive Director to the successful completion of the corporate transaction.

The Board, on the Committee's proposal, will be responsible for agreeing, as appropriate, and setting for each of the Executive Directors the amount, the currency of payment and the settlement date of this extraordinary remuneration.

When proposing the specific amount to be awarded, the Nomination and Remuneration Committee will evaluate, additionally, among others, if the achieved results have already been rewarded with ordinary remuneration elements. Notwithstanding, the maximum amount of any extraordinary incentive per annum is capped at 100% of the Executive Director's annual base salary. Full disclosure would be provided in the relevant Directors' annual remuneration report.

# 04. Remuneration Policy for Non-Executive Directors

Non-Executive Directors are remunerated with respect to their effective dedication, qualification and responsibility. As such, the amount of remuneration of Non-Executive Directors is calculated so that it offers incentives to dedication, but at the same time without constituting an impediment to their independence.

Pursuant the Spanish Limited Liability Companies Law and 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; and (ii) attendance fees for meetings of the Board of Directors and its committees. Non-Executive Directors do not participate in any incentive or social welfare systems. Only verified travel and overnight accommodation expense incurred in attending Board meetings and/or any Board committee meetings are reimbursed, upon request from the Director.

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 €2,200,000. If the present number (11) of members of the Board of Directors increases, the maximum amount will be increased by 10% for each new member of the Board of Directors bringing about an increase in the number of its members.

The Board of Directors, following a proposal by the Nomination 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.

The distribution for financial year 2021 of annual 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:

| | | Member | Chair | Other roles |
|---|---|---|---|---|
| **Board** | Fixed fee | €50,000 | -- | -- |
| | Attendance fee per meeting | €5,000 | -- | -- |
| **Executive Committee** | Attendance fee per meeting | €3,000 | -- | -- |
| **Nomination and Remuneration Committee** | Fixed fee | €25,000 | €50,000 | -- |
| | Attendance fee per meeting | €3,000 | €4,800 | -- |
| **Audit and Control Committee** | Fixed fee | €25,000 | €50,000 | -- |
| | Attendance fee per meeting | €3,000 | €4,800 | -- |
| **Sustainability Committee** | Attendance fee per meeting | €3,000 | €4,800 | -- |
| **Independent Lead Director** | Fixed fee | -- | -- | €75,000 |

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

These amounts could be reviewed during the validity of the current Remuneration Policy in certain circumstances such as (but not limited to) material changes to the business or to the Board of Directors' structure remit or responsibilities and exceptional Company performance. In these circumstances, the Board, at the proposal of the Nominations and Remuneration Committee, may decide to apply an increase. This would be detailed and explained in the corresponding Annual Directors' Remuneration Report.

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 Director's annual remuneration report, which will be submitted to an advisory vote as a separate item on the agenda at the Company's General Meeting of Shareholders.

Non-Executive Directors shall hold office during the term provided by the Bylaws (four year term) and may be re-appointed one or more times for periods of equal duration.

Non-Executive Directors (as the Executive Directors and other senior officers at the Company) are beneficiaries of a collective third-party liability insurance policy underwritten 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.

# 05. Remuneration Policy for new hires

New Executive Directors will be paid in accordance with the approved Remuneration Policy. In addition, the recruitment policy below permits the Board, on the Committee's proposal, to take the following actions, as appropriate, in the best interests of Colonial and its shareholders. For internal promotions, any variable remuneration element awarded in respect of a prior role may be paid out according to its original terms. The remuneration arrangements for any newly appointed Executive Director will be disclosed as soon as practicable after the appointment.

| | |
|---|---|
| **Base salary** | Base salary would be set an appropriate level to recruit the best candidate based on their skills, experience and current remuneration. |
| **Benefits** | Benefits provision would be in line with the approved relevant Remuneration Policy. Where appropriate, the Executive Director may also receive relocation benefits or other benefits reflective of normal market practice in the territory in which the Executive Director is employed. In addition, the Board, on the Committee's proposal, may agree that Colonial will pay certain allowances linked to repatriation on termination of employment. |
| **Incentive awards** | It is expected that new Executive Directors will participate in short and long-term incentive plans on the same basis as existing directors. However, additional awards may be made to align the joiner as quickly as possible with Colonial's long-term goals, and to reflect value forfeited through an individual leaving their current employer.<br><br>In the event that we were to appoint a new Executive Director, the Board of Directors preferred approach would be to align the incoming Executive Director with our own performance-based policy by requiring them to invest in Colonial shares and aligning them fully with our inflight performance cycles and targets, recognising that no other long-term incentive will be vesting in their first years of employment at Colonial.<br><br>However, there are clearly circumstances where this approach would not be effective. The Board, on the Committee's proposal, reserves discretion to make appropriate joining arrangements with the intention that in aggregate these should normally be no more valuable than the awards foregone. If a buy-out award is required, the Committee would aim to reflect the nature, timing, and value of awards foregone in any replacement awards.<br><br>Incoming Executive Directors will be required to retain all shares vesting from any share awards until their minimum shareholding requirements have been met in full. |

In the event of hiring a new Non-Executive Director, the remuneration package will be align aligned with the Remuneration Policy as set out in the previous section.

In the event of a Non-Executive Director with a different role and responsibilities being appointed, fee levels will be benchmarked and set by reference to comparable roles in companies of equivalent size and complexity.

# 06. Setting the Remuneration Policy

### Consideration of shareholder views

During the preparation of the Remuneration Policy, the Board of Directors considers both the external environment in which the Company operates and the guidance issued by organisations representing institutional shareholders. In particular, the Board considers the information from institutional investors and proxy advisors gathered in the regular engagement process conducted by Colonial. To shape our proposed new Remuneration Policy, the Committee has consulted Colonial's main shareholders. The Company's shareholders are encouraged to attend the AGM and any views expressed will be considered by Committee members.

### Consideration of the wider workforce pay conditions and management views

The Committee proposes its decisions to the Board of Directors about specific executive remuneration arrangements in the broader context of employee remuneration throughout the Group.

The structure of the reward package for the wider employee population is based on the principle that it should be sufficient to attract and retain the best talent and be competitive within our broader industry, remunerating employees for their contribution to our holistic performance. It is driven by local market practice as well as level of accountability, reflecting the nature of Colonial's business. There is clear alignment in the pay structures for executives and the wider workforce, in the way that remuneration principles are followed as well as the mechanics of the salary review process and incentive design, which are broadly consistent throughout the organisation.

The type of performance measures under the annual incentive plan and long-term incentive plan are aligned for executives and other eligible employees. There is a strong focus on performance-related pay, with appropriate levels of differentiation to ensure that reward is invested in the talent that will make the biggest contribution to the execution of Colonial's strategy.

The remuneration approach for Executive Directors is consistent with the reward package for members of the Executive Committee and the senior management population. Generally speaking, a much higher proportion of total remuneration for the Executive Directors is linked to business performance, compared to the rest of the employee population, so that remuneration will increase or decrease in line with business performance and to align the interests of Executive Directors and shareholders.

Each year the Committee and the Board of Directors are briefed on the structure and quantum of the all-employee remuneration framework. The Board of Directors, on the Nominations and Remunerations Committee's proposal also considers the annual salary increase budgets for employees as well as pay for the senior management population.

### Involvement of other Committees

The Committee connects with other committees to ensure that the Group's remuneration policies and practices achieve the right balance between appropriate incentives to reward performance and management of the risks linked to remuneration.

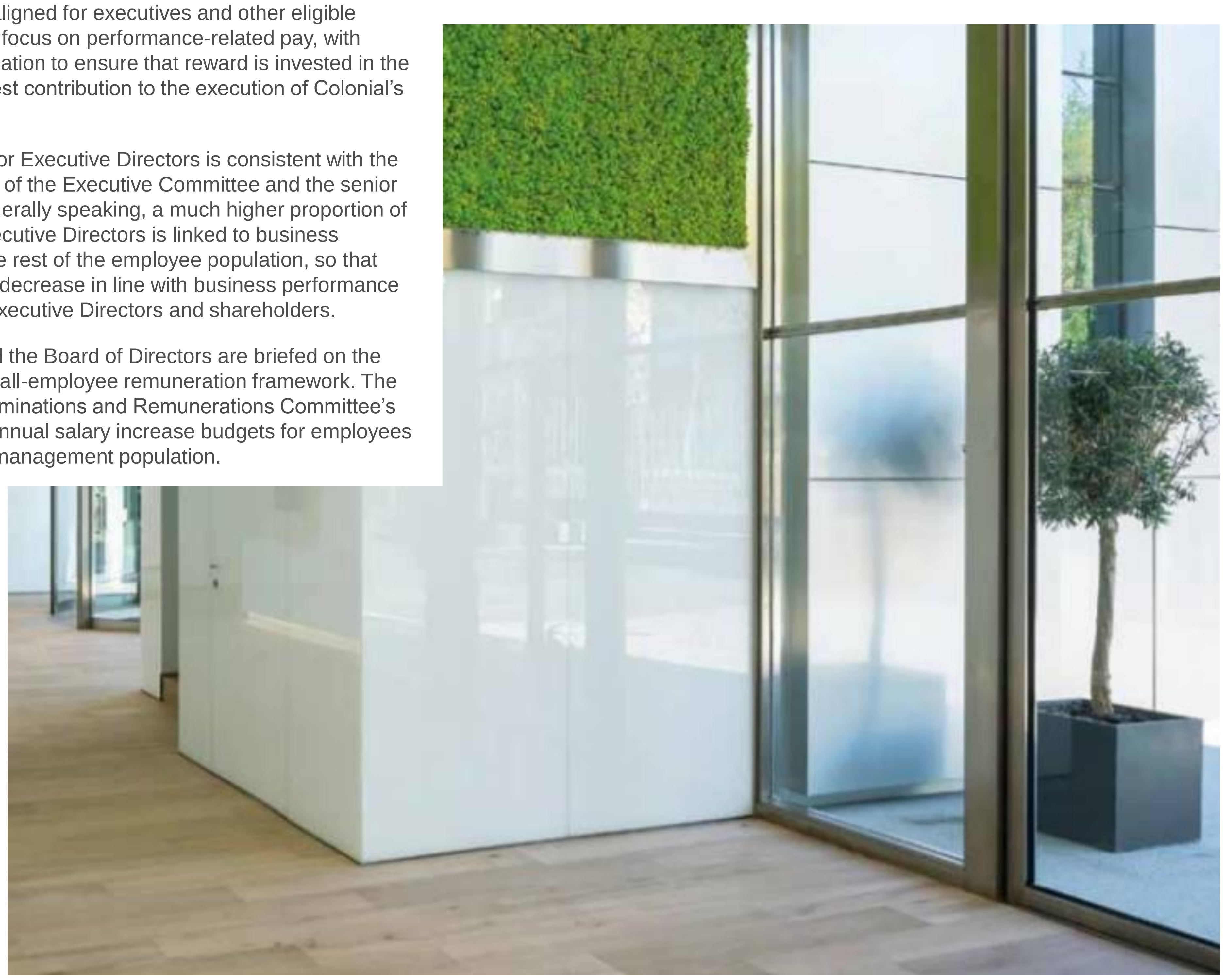
### Consideration of market conditions

Remuneration for directors is benchmarked against that for comparable roles in similar organisations. Non-Executive Directors' remuneration is benchmarked against the Ibex-35. Executive Directors' remuneration is benchmarked against a European real estate peer group and the Ibex-35.

### Consideration of independent external advice

In setting, reviewing and implementing the Remuneration Policy, the Committee seeks independent advice and ensures that no Director makes decisions relating to their own remuneration.

*The functions developed by the Nomination and Remuneration Committee are described in the Regulations of the Board of Directors*



## 07. Integrating risks with remuneration

The Committee periodically reviews HR and remuneration practices in order to make the corresponding proposals to the Board of Directors always in the best interest for the company, including:

- How we integrate risk, controls and conduct considerations into key HR practices including performance development, remuneration, promotion and succession planning.
- Measures designed to discourage imprudent risk-taking:
  - Caps to variable remuneration
  - Deferral of the portion of bonus above the target award
  - Multiple performance metrics, some of which may be adjusted by different risks
  - Multi-year vesting
  - Retention and minimum shareholding requirements
  - Malus and clawback clauses
  - Prohibition on hedging, pledging, short sales or derivative transactions in the Company shares received during the retention period
- Regulatory updates which have impacted or may impact HR practices in the future

The Committee is also provided with information to monitor performance and a summary of risk, controls and conduct feedback.

The specific measures to identify and manage any potential conflict of interest are set in the Regulations of the Board of Directors. These also determine the code of conduct for the members of the Board of Directors.

## 08. Competent bodies

Within the Company Bylaws framework, the shareholders acting at a General Shareholders' Meeting are vested with the power to approve this Remuneration Policy, which constitutes the Company's highest-level rules on remuneration after the Bylaws.

The Board of Directors, upon a proposal of the Nominations and Remuneration Committee, is vested with the power to implement, develop, formalize, execute and specify the remuneration of the directors under this Remuneration Policy at the time and in the manner that it deems appropriate, adopting such resolutions and signing such public or private documents as are necessary or appropriate in order for it to be fully effective, provide the corresponding delegations and, in general, to adopt such resolutions and perform such actions as are necessary or merely appropriate for the successful implementation, execution and settlement of this Remuneration Policy.

Finally, the Board of Directors will be the competent body for the interpretation of the Remuneration Policy.

## 09. Effectiveness

The Board of Directors, on the Nomination and Remuneration Committee's proposal, will present this new Remuneration Policy for approval by shareholders at the 2021 Annual General Meeting and, if approved, will apply from financial year 2021 and will replace the existing remuneration policy, approved by the General Shareholders' Meeting held on 14 June 2019, in its entirety.

It is intended that the new Remuneration Policy will apply for three financial years (2021, 2022 and 2023), although the Committee may seek approval for a new policy at an earlier point if it is considered appropriate.