

## **ANNUAL GENERAL SHAREHOLDERS MEETING**

**15 MARCH 2022**

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### **PROPOSAL OF THE BOARD OF DIRECTORS OF NATURGY ENERGY GROUP, S.A. IN RELATION TO THE DIRECTORS' REMUNERATION POLICY**

#### **1.- Justification**

This Report has been drawn up by the Board of Directors of NATURGY ENERGY GROUP, S.A. in compliance with article 529.19.2 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital or "LSC").

Law 5/2021 of 12 April incorporated important amendments regarding the remuneration of the members of the Board of Directors of listed companies. Among them, article 529.19.1 of the LSC, states that the General Shareholders' Meeting is responsible for approving, at least every three years, the remuneration policy for directors.

The Policy proposal is a continuation of the one approved by the General Shareholders' Meeting in 2021, proposing two specific adaptations to it: i) to adapt to new legislative developments and ii) to take into account the new 2021-2025 Strategic Plan, which translates in particular into the adaptation of the multi-year variable remuneration scheme for the executive director already authorized by the 2019 General Shareholders' Meeting.

The Board of Directors has approved an adaptation of the incentive, aligning the incentive with the new Strategic Plan 2021-2025, which now ends in December 2025. To this end, the Board of Directors has approved a new Regulation identical to the previous one except for the duration and the powers of the Board of Directors in the management of the Incentive Plan.

The Board has carried out all the necessary preparatory work, including the consent to the extension of the term by all affected executives, establishing also a liquidity amount for such extension, and subjecting them to the condition precedent that the amendment be approved by the Naturgy Shareholders' Meeting in 2022.



In the event that the General Meeting decides not to approve the modification of the incentive or if 30 June 2022 arrives without approval, the Executive Chairman will not receive the amounts for modification of the scheme and will maintain his multi-year variable remuneration rights in accordance with the ILP approved at the 2019 Shareholders' Meeting, without modifications and expiring in July 2023. In the event that the shareholders' meeting does approve the amendment, such amounts will be deducted from the final settlement of the incentive, if any.

In view of the above, the Board of Directors of Naturgy Energy Group, S.A. proposes to the General Shareholders' Meeting the following:

## **NATURGY ENERGY GROUP, S.A. DIRECTORS' REMUNERATION POLICY.**

### **1. Purpose and principles of remuneration policy.**

The purpose of this Remuneration Policy (hereinafter the Policy) is to establish the remuneration framework applicable to the Directors of NATURGY ENERGY GROUP, S.A. (hereinafter "NATURGY", "the Company") from the date of its approval and for the following three financial years .

The Policy is based on the following principles:

#### **a) General principles**

- i. Long-term value creation: Alignment with the strategic plan, the interests of shareholders and other stakeholders and the long-term sustainability of the Company.
- ii. Transparency: Clear and sufficient information will be provided, in line with the good governance recommendations for listed companies.
- iii. Equality: Ensure that there is no discrimination on the grounds of gender, age, religion or race.
- iv. Suitability: It shall be competitive and sufficient to attract and retain the best professionals, without compromising the independence of the Directors.



## b) Principles applicable to the remuneration of executive directors

The remuneration policy for directors for their executive or delegated functions shall take into consideration, additionally and specifically, the following principles:

- i. Fostering a culture of commitment to the Company, in which both personal and team contributions are fundamental.
- ii. Systematically assess the results of the performance and the degree of adaptation to the competencies required at any given time.
- iii. Remunerate in a fair and competitive manner by recognising the responsibilities and criticality of the position and applying a flexible market positioning adapted to the specifics in order to attract and retain the best professionals.
- iv. Periodically review the remuneration system and, if necessary, ratify or modify it in accordance with its performance.
- v. To have an overall competitive level of remuneration in relation to comparable entities within and outside the sector with similar capitalisation, complexity, shareholder structure and international presence, allowing the Company to access the best talent available at any given time and incorporating sufficient motivational elements for its retention.

## 2. Contribution to the corporate strategy and to the long-term interests and sustainability of the Company.

The remuneration framework developed in the Policy, in addition to being aligned with the principles of the current Strategic Plan, is aimed at promoting the long-term profitability and sustainability of the Company.

To this end, a remuneration scheme has been established that incorporates a combination of fixed and variable elements, both short and long term.

In this respect, variable remuneration will include:

- An annual component linked to the achievement of measurable



objectives aligned with the interests of shareholders, with control and measurement systems, which determine the perception of variable remuneration based on evaluations that measure performance at the individual level and for the entity as a whole. For this purpose, the annual budget of the Company or of the group of which it forms part, or other relevant indicators, shall be taken as a reference. This is without prejudice to the incorporation of components that affect the way in which these objectives are achieved (quality, efficiency, safety, etc.) or objectives specifically linked to issues related to sustainability.

- A multi-year variable component that encourages the achievement of sustained objectives over time, aligned with the interests of shareholders.

Mechanisms shall be established in the variable remuneration to guarantee its reimbursement when it has been paid on the basis of data whose inaccuracy is accredited, thus preserving the interests of the company over those of the director himself.

In a scenario of meeting standard targets, the proportion between the components of executive directors' remuneration is:

- Annual Total Fixed Remuneration  
less than 35%, normally around 30%.
- Annual Variable Remuneration  
less than 35%, normally around 30%.
- Multi-year Variable Remuneration  
more than 35%, normally around 38%.
- Other remuneration  
less than 10%, normally around 2%.

### 3. Considerations in the Policy on remuneration and employment conditions of the Company's employees

In order to establish the remuneration conditions for the position of Executive Director described in this Policy, the scheme that applies to the remuneration of the employees of the Naturgy Group has been taken into account, in particular, the following characteristics have been considered:



(i) The total remuneration of the employees of the Naturgy Group may be composed of fixed, short and long-term variable elements, as well as remuneration in kind and other social benefits.

ii) Variable remuneration is not guaranteed and is fully flexible, so that no amount may be received for this item in the event that the minimum compliance thresholds are not met.

iii) In setting the remuneration components, special attention is paid to:

- Non-discrimination on grounds of gender, age, religion or race.
- To the level of responsibility and performance within the organisation.
- The application of criteria that contribute to the retention of key professionals and attract the best talent.

#### 4. Directors' remuneration for the performance of non-executive functions.

Directors' remuneration for the performance of non-executive duties shall consist of:

- i) A fixed annual allowance for membership of the Board of Directors, which shall be paid in proportion to the time spent performing the duties.
- ii) A fixed annual allowance for membership of each of the Committees, which shall be paid in proportion to the time spent performing the duties.



The allowance for membership of the Board and the Committees shall be differentiated according to the responsibilities and functions that each Director assumes on the Board or its Committees. Remuneration in shares or by reference to shares may also be established in accordance with the terms established in prevailing legislation.

It is left to the discretion of the Board of Directors to take into account other circumstances, which must be objective and applied in a transparent manner, and to establish the frequency of payment of the fixed annual allowance throughout the year. Among other matters, the dedication required for the performance of the duties shall be assessed, guaranteeing in all cases the independence of the Directors

Except as provided in the paragraphs of this section and in that relating to the maximum annual amount, the freedom of configuration reserved by law for the Board of Directors is respected, and the Board may, subject to the criteria established in art. 217 of the Capital Companies Act, periodically review or update the remuneration of the Directors for the performance of non-executive duties within the aforementioned framework.

The maximum annual amount to be received by all directors for the performance of non-executive, executive and delegated functions shall be the greater of 3% of the consolidated net profit of the corporate group in the immediately preceding calendar year and 3% of the dividend actually paid to shareholders in the preceding year.

In the event that in any year such limit prevents the payment to the Directors of all the remuneration to which they are entitled under this Policy or under the decisions of the Board of Directors or the contractual commitments assumed by the Company, the Board of Directors shall submit to the next Shareholders' Meeting to be held the extension of such limit by such amount as may be necessary for such Meeting to adopt the appropriate decision.

The Board of Directors may also establish a maximum amount of remuneration that may be received annually by the Directors as remuneration for membership of Committees.

Directors shall be insured under the civil liability policy for directors and executives of the group under the terms established in section 7 below.



## 5. Directors' remuneration for the performance of executive or delegated functions..

Directors' remuneration for the performance of executive or delegated functions: Directors' remuneration for the performance of executive or delegated functions must be consistent with the Company's strategy and be geared to the achievement of long-term objectives. It shall be made up of different remuneration components, which may consist mainly of:

- i) A fixed component that will accrue in any case.
- ii) A variable component with a time horizon of one year, linked to specific and measurable business objectives.
- iii) A variable component with a long-term time horizon linked to the duration of the Strategic Plan.

For Executive Directors, under normal conditions this long-term element has a weighting of no less than 30% of total remuneration in a scenario of meeting standard targets.

### 5.1. Fixed Annual Remuneration

In the 2022 financial year, this amount is set at 1,012,000€, which shall be reviewed annually in the manner provided for in section 6.

The sum of the Fixed Annual Remuneration and the remuneration for membership of the Board of Directors (which in 2022 is set at 1,100,000 euros) forms the Total Fixed Annual Remuneration, which in 2022 will be 2,112,000€.

### 5.2. Variable Remuneration.

It will represent a relevant part of the total remuneration and will be aligned with the creation of value for shareholders with different time horizons.

Remuneration in shares or by reference to shares may also be established in accordance with the terms established in current legislation.



### 5.2.1 Annual variable remuneration.

The annual variable remuneration is linked to the achievement of a combination of pre-set, specific and quantifiable objectives, aligned with the social interest and with Naturgy's strategy, such as economic-financial variables, efficiency and profitable growth, quality and safety issues, sustainability, environment or good governance and shall assess, on an annual basis, the contribution to the achievement of these objectives.

The annual variable remuneration will be based on 100% of the Total Fixed Annual Remuneration multiplied by the degree of achievement of objectives effectively reached in the year.

Annual variable remuneration will have a maximum degree of achievement of up to 150% and a minimum degree of achievement for its accrual of up to 80%, with the Board of Directors being able to determine different percentages each year within this range.

The achievement metrics, as well as their degree of attainment, shall be set annually by the Board of Directors at the proposal of the Nomination, Remuneration and Corporate Governance Committee.

The payment of the annual variable remuneration may be replaced each year by mutual agreement in whole or in part by a contribution to a social welfare system.

A claw back clause shall be included for 18 months following receipt of the annual variable remuneration.

The amount of the annual variable remuneration, in the part that is related to the Company's results, will be set once the audited annual accounts are available, taking into account any qualifications in the report of the Company's external auditor that reduce such results.

### 5.2.2 Multi-year variable remuneration

The Company shall establish, in coordination with the Strategic Plan in force from time to time, multi-year incentive plans for the executive Directors linked to the profitability achieved by the shareholders within the scope of the corresponding Plan, in order to encourage the retention and motivation of the executive Directors





in the execution thereof and an alignment with the maximization of shareholder profitability. The Board of Directors may include as participants in this remuneration scheme Company executives who are not considered executive Directors and whose participation is deemed essential for the achievement of the objectives of the Strategic Plan.

In particular, the Company may establish long-term incentive schemes, the term of which may exceed the term of this Policy, using total shareholder return as a criterion. These may be implemented through a specific holding company for Naturgy shares. For the purchase of shares, such holding company may receive resources from Naturgy or third parties to achieve an appropriate capital structure. The holding company shall remain the property of Naturgy for the duration of the plan and shall at all times take the most efficient decisions to maximise the return on investment, acting as a diligent investor would have done. The monetary value of the surplus remaining in the vehicle, derived from dividends, share price variations and other income and expenses, mainly financial, after returning the resources received, shall constitute the total multi-year variable remuneration for all the participants in the Plan.

A minimum return threshold will be established below which the surplus, even if any, will not be distributed, and a claw back clause will be included for the 18 months following receipt of the plan.

In order to maintain incentives with a long-term horizon at all times, before the end of each programme, the Board of Directors may establish incentive schemes that give continuity to those currently in place, whether linked to the ongoing strategic plan or to other long-term objectives to be established by the Board of Directors. It may also decide on early termination, either to achieve such continuity or in the event of any event which, in its opinion, represents a material change in circumstances.

The Board of Directors, at the reasoned proposal of the Nomination, Remuneration and Corporate Governance Committee, may adopt such decisions as it deems necessary for the administration, interpretation, correction, development or continuity of the incentive scheme in the event of substantial changes in the circumstances of the Plan, taking into account the corporate interest of the Company and the objectives of the Plan.

The Board of Directors may adopt such decisions as it deems necessary to keep the multi-year variable remuneration scheme in line with the Strategic Plan in force



at any given time, carrying out such preparatory work as may be necessary before submitting any amendments requiring such approval to the General Meeting of Shareholders for approval.

### 5.2.3. Other variable remuneration

In the case of one-off transactions, the Board of Directors may establish remuneration linked to specific and pre-set objectives that encourage the achievement of objectives linked to such one-off transactions. Similarly, the Board of Directors may exceptionally establish remuneration in consideration of singular achievements which have made a decisive contribution to the Company's results..

### 5.3. Social Welfare and Social Benefits.

In addition, executive directors may be granted a scheme of remuneration in kind similar to that of executives in the area of social benefits and benefits in the area of social welfare complementary to the protective action of Social Security, regardless of whether these are channelled through different instruments in view of the commercial nature of the relationship between the executive directors and the company: savings insurance, temporary disability insurance, etc.

## 6. Main terms of executive directors' contracts.

The remuneration, rights, obligations and financial compensation of Executive Directors shall be determined in a contract to be approved by the Board of Directors.

The contract of Executive Directors shall contain a notice period of at least six months, except in the event of force majeure, an exclusivity agreement during the performance of their duties and a confidentiality agreement, both during the term of the contract and after its termination.

Furthermore, without prejudice to the settlement of ongoing remuneration, it may establish an indemnity for certain cases of termination of the contractual relationship, which shall be equal to twice the sum of the following three amounts: (i) total annual fixed remuneration, (ii) annual variable remuneration and, (iii) in consideration of the concept of multi-year variable remuneration, a lump sum equivalent to 125% of the annual fixed remuneration; this third concept may be conditional in part on the achievement of minimum profitability targets for shareholders consistent with those envisaged in the Strategic Plan. Such compensation shall not be payable in the event of a very serious and culpable breach of the professional



obligations of the executive directors that causes serious damage to the interests of the company.

In addition, and as a post-contractual non-competition agreement for one year, an indemnity equivalent to a maximum of one year's total annual fixed remuneration may be established.

## 7. Liability cover for Directors

The Company shall take out and pay the premium for civil liability insurance for the Directors of the Company, including the Executive Directors, in which the Directors shall be considered as insured for the liabilities that may be demanded of them as a consequence of the performance of the activities inherent to their duties, except in the case of malice.

The Company may do so by subscribing to and paying the global premium corresponding to a joint directors' and officers' liability insurance policy covering both the parent company and the companies belonging to its group.

## 8. Updating of remuneration

The amounts of remuneration established in this Policy may be reviewed and updated by the Board of Directors, following a report from the Appointments, Remuneration and Corporate Governance Committee, within the maximum limit established in section 2, taking into account information on market developments, the growth forecast for each year, and market studies and analyses that may be carried out from time to time. These variations shall be disclosed in the Annual Remuneration Report.

## 9. Remuneration policy decision-making process

Article 8 of the Articles of Association, in relation to article 25 of the Regulations of the Board of Directors, defines the responsibilities that correspond to Naturgy's Appointments, Remuneration and Corporate Governance Committee in matters of remuneration.

The Nomination, Remuneration and Corporate Governance Committee:



- i) has reviewed the legislative developments and other circumstances that have occurred since the previous review of the Policy, in particular the approval of a new Strategic Plan 2021-2025 in July 2021. On this basis, it has made a proposal to the Board of Directors to submit to the General Meeting of Shareholders the approval of this Policy and of the modification of the long-term variable remuneration scheme, together with a specific report on both proposals.
- ii) has also proposed to the Board of Directors the annual remuneration of the executive Directors and the other terms of their contracts, as well as the metrics and targets linked to the variable remuneration of the position of executive Director and senior managers reporting directly to the Board, considering its potential long-term impact, the sustainability of the results and any associated risks.
- iii) in view of the audited annual accounts, has supervised the predetermined and quantifiable objectives, which must be assessed in order to determine the final amount of the annual and, if applicable, multi-year variable remuneration of the executive director and senior executives that are applicable to them.

Naturgy's Audit and Control Committee participates in the decision-making process in relation to the variable remuneration of the executive director by verifying the economic-financial information included as part of the objectives set for the purpose of receiving such remuneration, given that this Committee must first check the results of the Company and its group as a basis for calculating the respective objectives.

As regards measures to avoid conflicts of interest, the executive chairman does not participate in the discussions of the Nomination, Remuneration and Corporate Governance Committee when dealing with remuneration issues that may affect him.

## 10. Temporary exceptions to the remuneration policy

The Board of Directors may temporarily derogate from this Remuneration Policy under the following conditions:

- i) Exceptions may be total or partial.
- ii) Exceptions shall be agreed by the Board of Directors following a reasoned proposal from the Appointments, Remuneration and Corporate Governance Committee.
- iii) No exception may be made to the maximum annual amount to be



- received by all the Directors in a financial year, as set out in Section 4.
- iv) Exceptions shall only be in force from the time they are approved by the Board of Directors until the next Shareholders' Meeting, at which the continuation of the exception must be submitted for approval.

## 11. Vigencia de la Política de Remuneraciones

This Remuneration Policy, which is aligned with the objectives of the current Strategic Plan, shall be in force from the date of approval and for the following three financial years and replaces any previously approved Remuneration Policy. Article 9 of the Articles of Association of the Company establishes that the remuneration system shall be oriented to promote the long-term profitability and sustainability of the Company.

Given that the Company has considered it appropriate to establish a multi-year variable remuneration plan which, from its inception, may last up to 8 years and could therefore exceed the three-year horizon of this Policy, the remuneration principles contained in this policy and especially in section 5.2.2 shall inspire that of 2025.

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