



2022

PROXY SEASON REVIEW SPAIN

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2022

SPAIN

HIGHLIGHTS



AVERAGE
QUORUM: 72%



NUMBER OF
CONTESTED
RESOLUTIONS WITH
20%+ DISSENT*



NUMBER OF
CONTESTED
RESOLUTIONS WITH
10%-20% DISSENT*

REMUNERATION

MOST CONTESTED PROPOSAL

Statistics based on 33 AGMs and 621 resolutions at Spanish issuers in 2022

*Percentage based off of total number of votes

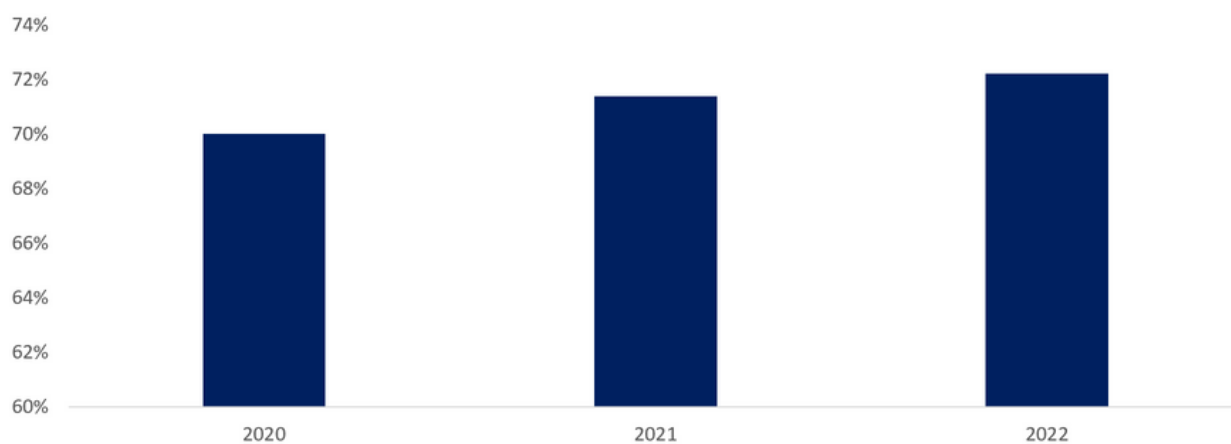
GENERAL OVERVIEW

As in previous years, CMI2i has analysed the Spanish Annual General Meeting landscape in order to identify and highlight the major trends and topics of the 2022 season.

This report covers the IBEX 35 index, solely focusing on issuers headquartered in Spain. Therefore, two companies have been excluded from this analysis[1].

During the period under review, 621 management proposals were presented across 33 companies. The average AGM participation (quorum) for the 2022 proxy season was 72.20%, the highest attendance in the last 3 years.

THREE-YEAR QUORUM COMPARISON



[1] ArcelorMittal and International Airlines Group

Summary of the SEASON

In order to proceed with this analysis, we have categorised the resolutions into 10 macro categories. During the 2022 Spanish proxy season, the average level of support across all categories was approximately 96%.

The proposals which received the lowest approval rates on average were remuneration related proposals (88%), followed by amendments of bylaws (90%) and capital issuance (92%).

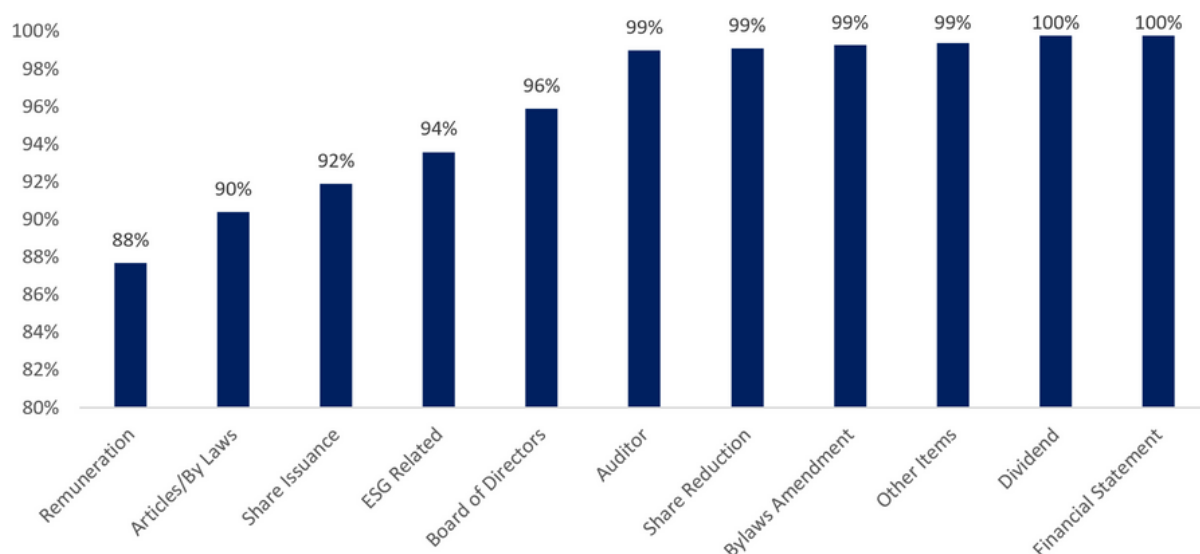
27

CONTESTED RESOLUTIONS WITH 20%+ DISSENT

60

CONTESTED RESOLUTIONS WITH 10%-20% DISSENT

AVERAGE SUPPORT BY CATEGORY

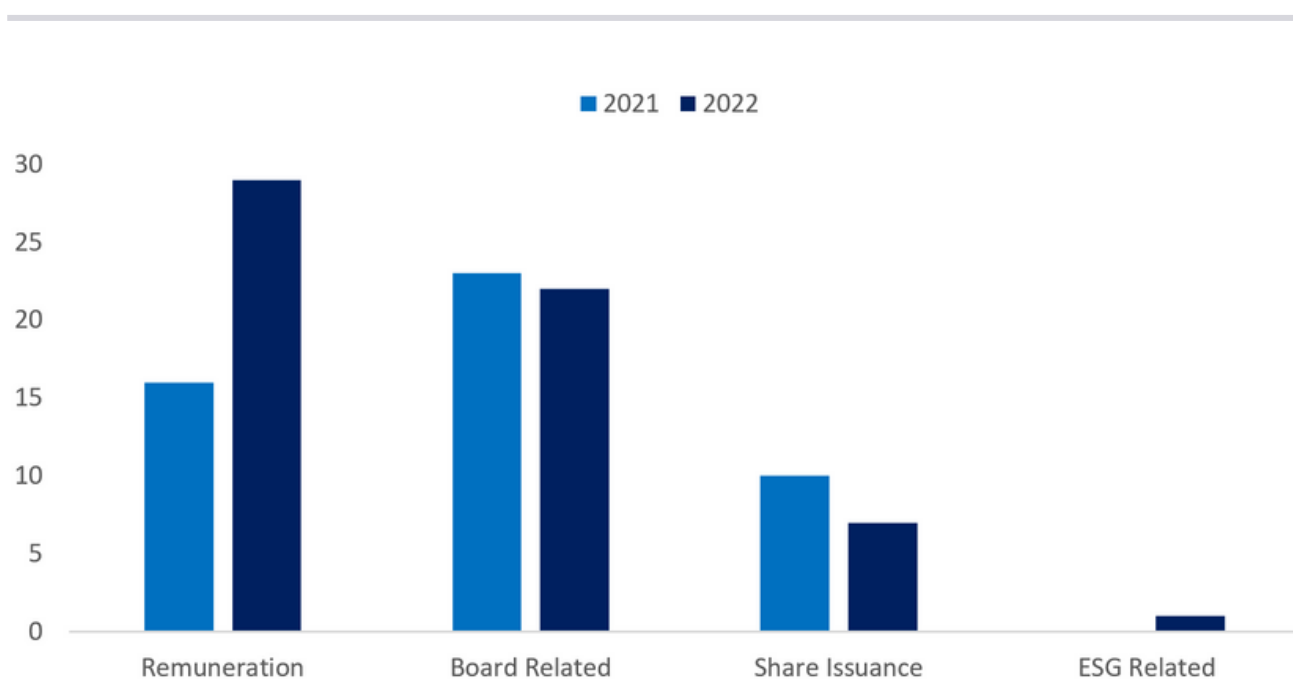


Out of the total number of proposals presented by corporate issuers this year, 10% (59) were contested by at least 10% of the votes submitted, while 4% (27) received at least 20% dissent votes. CMi2i noted a 20% increase in the level of dissent year-on-year, mainly driven by the higher number of contested remuneration proposals this year.

In 2022, 13 companies received 20% or more opposition on at least one resolution and will therefore be required to address the shareholders' dissent ahead of their 2023 AGMs.

In 2022 only one shareholder resolution was proposed and subsequently approved. And the same company, Indra Sistemas, experienced the only resolution presented by management that failed to be approved by its shareholders at the 2022 AGM.

DISSIDENT VOTES 2021 - 2022 COMPARISON



In comparison to the 2021 AGM season, we noted a 30% increase in the number of the corporate issuers receiving significant dissent^[2], highlighting that **Institutional Investors are becoming increasingly vocal every year on governance issues**. Shareholder acknowledgement on dissent votes is a principle which has also gained momentum over recent years, where proxy advisers and investors have penalised issuers that were deemed to have not, or insufficiently addressed, shareholders' dissent. This was further illustrated this year, where we note that 6 of the companies that received significant dissent in 2021, and failed to address these votes prior their 2022 AGMs, received a high level dissent again this season.

^[2] *Almirall, Banco de Sabadell, Caixabank, Cellnex Telecom, Ferrovial, Fluidra, Iberdrola, Indra Sistemas, Inmobiliaria Colonial, Pharma Mar, Red Electrica Corporacion, Solaria Energia y Medio Ambiente, Telefonica.*

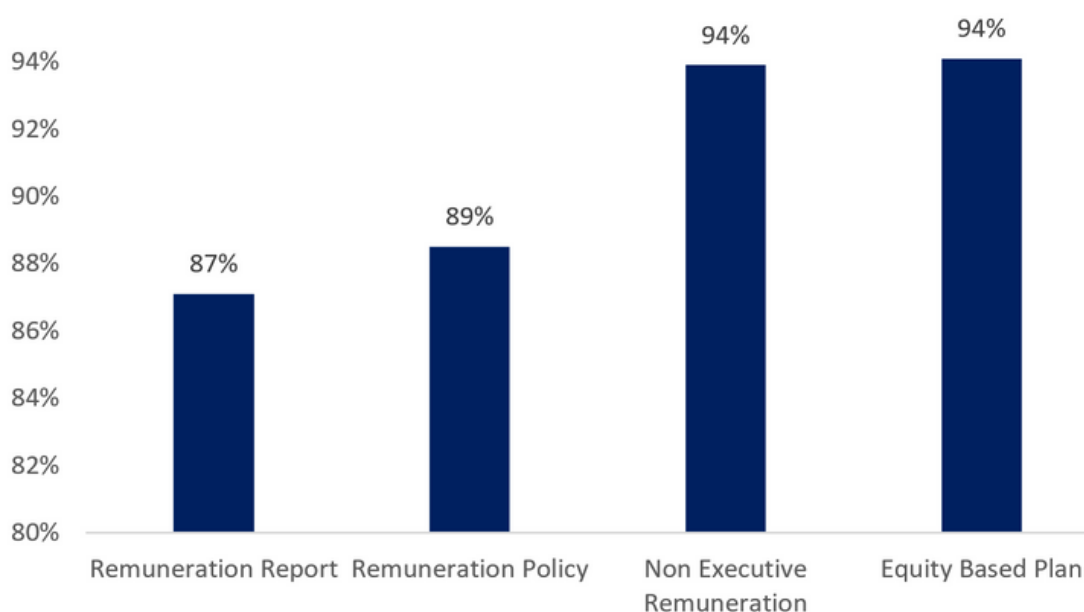
Focus on..


REMUNERATION

Executive compensation concerns were on top of investors agendas globally this year, this was also reflected in Spain. We observed a sharp decline in average support to remuneration report proposals, with a 3% year-on-year decrease. Spanish law requires a company to submit their remuneration report for an advisory vote on an annual basis, whilst the binding remuneration policy is to be presented at least once every three years. This year, 19 companies put forward their remuneration policy, with 7 of them receiving significant level of opposition. **The average level of support on remuneration policy proposals was 88%, one of the lowest in Europe.** Remuneration reports were equally highly contested, averaging only 87% support.

The leading proxy advisors, ISS and Glass Lewis recommended 14% and 15% respectively against all remuneration proposals put forward this season. These recommendations could be linked to limited levels of support observed at this season's AGMs.

AVERAGE REMUNERATION SUPPORT BY CATEGORY





Focus on...

BOARD, E&S

BOARD

Whilst remuneration proposals remain the most challenged this season, board related resolutions also received high levels of dissent.

In 2022, 22 resolutions related to board elections received more than 10% voting opposition, representing 12% of all board election votes. The main concerns for investors remain the lack of independence across the board, board gender diversity and the lack of response to high opposition levels at the previous AGMs. Moreover, the only failed resolution across the IBEX 35 this year was the election of Isabel Torremocha Ferrezuelo at Indra Sistemas, due to independence concerns, and particularly related to the audit committee not being fully independent.

E&S

During the 2022 AGM season another prominent topic was Environmental & Social proposals.

In Spain, similarly to what happened last year, four companies presented E&S related resolutions of which three (Repsol, Ferrovial, Aena) proposed say-on-climate votes and one (Acciona) requested shareholders' approval for its sustainability report. Ferrovial, Aena and Acciona had put forward a similar proposal last year, while it was Repsol's first proposal.

The average support level on E&S proposals was 93%, down five percentage points compared to 2021 (98% average support). While it is considered a satisfactory average level of support, Repsol's proposal was contested by approximately 17% of the shareholders. As this trend continues in Spain, it is likely that more issuers will put forward E&S related proposals during the 2023 season.

CONCLUSION

The 2022 AGM season was one of the most contested in the Europe in recent years, and Spain surely contributed to this trend. 13 companies received significant dissent (20%+) on one or more of the proposals, and due to the investors' and proxy advisors' policies they will be required to address the dissent and engage with their shareholders ahead of next year's AGM season in order to mitigate investors' concerns and avoid further dissent votes.

With such results at shareholders' meetings, the issuers will face increased scrutiny from the proxy advisors and large institutional investors, notably around the application of dissent acknowledgement guidelines. Remuneration and Board of Directors were once again two of the most challenged topics, and for most of the issuers reviewed remuneration disapproval led to board dissent. This is an escalating practice increasingly used by investors when dissatisfied with compensation structures and awards. E&S was another important topic this season and it is expected that Spanish issuers will continue to present environmental proposals at their meetings.

The current economic climate and the high level of inflation across the markets is going to bring new challenges to Spanish issuers ahead of their 2023 AGMs, notably in relation to pay quantum and CEO/workforce pay ratios.

TELEFONICA SA

KEY ISSUES

- Discretionary Bonus
- Pay for performance alignment
- Share price performance
- Combined CEO/Chairman

MOST CONTESTED RESOLUTION



Remuneration Report

OVERVIEW

Telefónica SA is the Spanish issuer with the highest level of negative votes on its remuneration report this season.

Shareholders' votes were motivated by several identified concerns:

- Combined CEO/Chairman structure highly criticized by international investors due to the absence of balance of powers.
- Underperformance compared to peers since appointment of the Chair/CEO in 2016.
- Telefónica SA being the sole European Telecommunication issuer to have a remuneration policy provision allowing for granting one-off awards.
- The board rewarded executives with one-off awards at maximum opportunity (100% of the salary) following two transaction in 2021 (O2/Virgin joint-venture and Telxius tower division sale).

The leading proxy advisors, ISS and Glass Lewis, issued negative recommendations on the remuneration report.

KEY TAKEAWAYS

With only 53.27% support, Telefónica SA's remuneration report was narrowly rejected by shareholders this season.

Institutional investors raised several issues with the overall management of the company, the executive compensation structure and most notably the lack of a link between pay and performance.

Company pay quantum sits at 3.69x median of peers despite poor share performance.

Dissent acknowledgement and shareholder engagement will be fundamental in order to address and act on shareholders' concerns as well as mitigating further negative recommendations and rejections in 2023.

The company should consider the dissolution of the joint CEO and Chairman role to align with global market practices and removing the possibility to grant one-off awards in the remuneration policy.

NON-SUPPORTERS



CELLNEX TELECOM

KEY ISSUES

- Remuneration Policy allows for very high maximum reward
- Excessive use of board discretion
- Pay for performance alignment

MOST CONTESTED RESOLUTIONS



Remuneration Policy

OVERVIEW

In 2021, the remuneration policy was supported by approximately 88% of the shareholders.

Cellnex Telecom amended the policy in 2022 and introduced a “booster element” under the 2022-2024 Long Term Incentive Plan (LTIP).

The potential maximum award of the booster would be approximately €40m, well above market standards.

The leading proxy advisors, ISS and Glass Lewis, issued negative recommendations on the 2022 remuneration policy.

Shareholders raised concerns over the fact that the new remuneration system is not geared to the sustainable long-term success of the company, incentivising disproportionate and unreasonable risk taking.

Potential CEO pay stands well above company peers.

KEY TAKEAWAYS

With only 56% favorable votes, Cellnex Telecom had the lowest support on the remuneration policy vote across the IBEX 35.

A remuneration policy vote is expected only once every 3 years. Strongly supported in 2021, the decision to propose a new policy which maximises the CEO's remuneration has been negatively perceived by proxy advisors and investors and seen as a regression.

Institutional investors raised several issues with the excessive opportunity for the CEO, notably they expressed their disapproval on the misalignment between CEO and shareholders' interests.

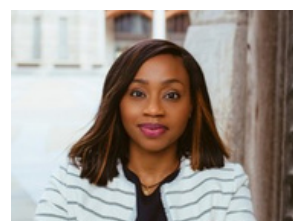
The company should take on board shareholders' feedback and address the concerns with the current remuneration structure in order to mitigate further negative votes in 2023.

NON-SUPPORTERS





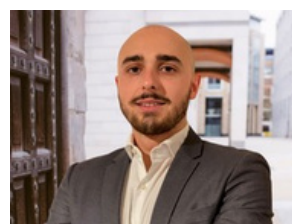
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