



**Report from the Board of Directors of Applus Services, S.A. on the proposed delegation to said Board of the power to increase the share capital included in item Eighth on the agenda for the Annual General Shareholders' Meeting called to be held on 28 and 29 May 2020, on first and second call, respectively.**

## **I. Introduction and purpose of the report**

This Report is drafted by the Board of Directors of Applus Services, S.A. (hereinafter, “Applus” or the “Company”), pursuant to the provisions of section 506 of the Spanish Companies Act, in order to provide a rationale for the proposal regarding the authorisation to the Board of Directors of the Company to increase the share capital, with the power to exclude pre-emptive rights, which will be submitted for the approval of the General Shareholders’ Meeting of the Company convened for 28 and 29 May 2020 on first and second call, respectively.

It is hereby acknowledged that, in accordance with the provisions of section 518 of the Spanish Companies Act and section 8 of the Regulation of the General Shareholders’ Meeting of Applus, this Report will be made available to the shareholders at the Company’s registered office and published uninterruptedly in the corporate website of the Company as from the date of the announcement of the calling until the holding of the General Shareholders’ Meeting.

## **II. Justification for the proposal**

Pursuant to section 297.1.b) of the Spanish Companies Act, the shareholders at the General Shareholders’ Meeting may, by complying with the requirements established for the amendment of the By-Laws, delegate to the Board of Directors the power to resolve, on one or more occasions, to increase the share capital, at the time and in the amount the Board decides within a maximum period of five years from the date that the resolution is adopted by the shareholders at the General Shareholders’ Meeting. Those capital increases must be paid by means of cash contributions and their aggregate amount may under no circumstances exceed one-half of the share capital of the Company at the time of the authorisation.

The Board of Directors of Applus believes that the proposed resolution submitted for approval by the shareholders at the General Shareholders’ Meeting is justified by the advisability of making use of the mechanism contemplated by current corporate laws and regulations whereby this body may approve one or several capital increases without the need to call and hold a new General Shareholders’ Meeting for each of such increases. Thus, the aim is to give the Company’s Board of Directors the greater responsiveness required to operate in an environment in which the success of a strategic initiative frequently depends on the ability to deal with it quickly, without incurring the delays and costs associated with holding a General Shareholders’ Meeting. All of the above is, if possible, more convenient to be able to meet Applus’s strategic objectives within the current environment of uncertainty and furthermore as it is also a common practice in the Spanish market.

In addition, section 506 of the Spanish Companies Act allows listed companies, when the shareholders delegate the power to increase the share capital as permitted by section 297.1.b), to also give the Board of Directors the power to exclude pre-emptive rights. In this case, the par value of the shares to be issued plus any share premium must be equal to the fair value of the shares of the Company as set forth in the report to be prepared, at the request of the Board of Directors, by an auditor other than the auditor of the Company, appointed for such purpose by the Commercial Registry on each occasion that the Board exercises the power to exclude

pre-emptive rights.

The Board of Directors believes that the power to exclude pre-emptive rights, as a supplement to the power to increase share capital, is justified for several reasons:

- (i) First, it tends to entail a relative reduction in the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance) as compared to an issuance with pre-emptive rights.
- (ii) Second, it appreciably increases the promptness of action and responsiveness of the Board of Directors, such that advantage may be taken of those times when market conditions are more favourable for the Company.
- (iii) In addition, the exclusion of pre-emptive rights may allow the Company to optimise the financial conditions of the transaction and, in particular, the issue price of the new shares, as it may bring it closer to the expectations of the qualified investors to whom such capital increases are customarily addressed, while reducing execution risks through a lower exposure of the transaction to changes in market conditions.
- (iv) Finally, it mitigates the effect of distortion in the trading of the Company's shares during the issuance period, which is normally shorter than in the case of an issuance with pre-emptive rights.

In sum, this is a tool the use of which in a specific capital increase transaction can be critical to its success and the lack of which might entail the loss of the manoeuvring capacity required for that success.

In any event, the proposal does not provide for the mandatory exclusion of the pre-emptive rights, nor provides for the share capital to reach the maximum limit referred to below, but merely for a power that the shareholders acting at the General Shareholders' Meeting delegate to the Board of Directors. Therefore, it is for the Board to decide in each case, in view of the specific circumstances and in compliance with legal requirements, whether or not such rights should effectively be excluded.

In the event that the Board of Directors decides to make use of the power to exclude pre-emptive rights in connection with a specific capital increase that it may ultimately approve in exercise of the authorisation granted by the shareholders at the General Shareholders' Meeting, a directors' report and an auditor's report shall be prepared as required by section 308 of the Spanish Companies Act, which shall be made available to the shareholders on the corporate website of the Company and report to the shareholders at the first General Shareholders' Meeting held after the resolution approving the increase in capital.

On a separate note, in order to limit as much as possible the dilutive effect for existing shareholders that may result from the exclusion of pre-emptive rights and in view of the best corporate governance practices followed in the most developed markets, the authorisation to totally or partially exclude pre-emptive rights shall be limited to increases in capital up to a maximum amount equal to 20% of the current share capital of the Company, in aggregate

with all the increases done under the authorisations granted by the shareholders at this General Shareholders' Meeting (this is, including all the increases in capital carried out, where appropriate, to meet the conversion of the convertible bonds issued by means of the other authorisation which proposed to the Annual General Shareholders' Meeting of 28 and 29 May 2020). It is worth noting that this limitation goes far beyond the 50% statutory limit and meets Recommendation 5 of the Spanish Good Governance Code of Listed Companies.

The proposal also contemplates making application, when appropriate, for listing of the shares to be issued by the Company under the delegation of powers on Spanish or foreign, official or unofficial, organised or other secondary markets, authorising the Board of Directors to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets. Likewise, it is proposed to expressly authorise the Board of Directors to further delegate to any director the powers contemplated in this proposed resolution, so as to further contribute to achieving the purpose of expediting the proposed transactions.

Finally, it is noted that the proposal is basically justified in the context of the situation created by the COVID-19 pandemic and is aligned with other measures that are being carried out by Applus to preserve the strength of its balance sheet in the current circumstances of high uncertainty, such as the suppression of the dividend that was initially planned to be distributed to shareholders. The objective of the proposal is to provide to the Board of Directors of the Company with a greater margin of manoeuvre in order to reinforce its balance sheet in a case (which is not now foreseen) of need, extending the limit under the current authorisation to increase the share capital that was approved by the General Shareholders' Meeting on 31 May 2018. Consequently, the proposal includes the revocation of such authorisation.

### **III. Proposed resolution submitted to the Shareholders at the General Shareholders' Meeting**

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting reads as follows:

*“Authorisation to the Board of Directors to increase the share capital within a period of five years, with the power to exclude pre-emptive rights, up to a maximum nominal amount of 20% of the existing share capital if pre-emptive rights are excluded, pursuant to the provisions of articles 297.1.b) and 506 of the Spanish Companies Act.*

*To authorise the Board of Directors to increase the share capital on one or more occasions and at any time upon the terms and within the limits set out in section 297.1.b) of the Spanish Companies Act, i.e. within a term of five years from the date of approval of this resolution and by up to one-half of the current share capital.*

*Increases in share capital under this authorisation shall be carried out through the issuance and flotation of new ordinary shares –with or without a premium– the consideration for which shall be cash contributions.*

*As to all matters not otherwise contemplated, the Board of Directors may establish the terms and conditions of the increase in share capital and the characteristics of the shares, and may also freely offer the new shares that are not subscribed for within the period or periods for the exercise of pre-emptive rights. The Board of Directors may also resolve that, in the event of incomplete subscription, the share capital shall be increased only by the amount of the subscriptions made.*

*In connection with the increases in share capital that may be carried out under this authorisation, the Board of Directors is authorised to totally or partially exclude pre-emptive rights as permitted by section 506 of the Spanish Companies Act, provided, however, that such power shall be limited to increases in share capital carried out pursuant to authorisations granted by the shareholders at this General Shareholders' Meeting up to a maximum amount equal, in the aggregate, to 20% of the current share capital of the Company. Consequently, and for clarification purposes, it is noted that to determine whether the aforementioned 20% limit has been reached, the capital increases made under this authorisation will be added to those made, where appropriate, to attend the conversion of convertible bonds issued under the corresponding authorisation granted by the General Shareholders' Meeting on this same date.*

*The Company shall, when appropriate, make application for trading of the shares issued under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised to carry out all acts and formalities that may be required for admission to listing with the appropriate authorities of the various Spanish or foreign securities markets.*

*Due to the authorisation, the Board of Directors is empowered to amend the article of the By-Laws related to the share capital once the increase is agreed and executed.*

*The Board of Directors is expressly authorised to further delegate to any director the powers delegated in its favour by virtue of this resolution.*

*This resolution fully repeals the authorisation to increase the share capital granted to the Board of Directors by the General Shareholders' Meeting held on 31 May 2018 under item Eleventh of the agenda."*

In Madrid, on 22 April 2020