



**Annual Report on the functioning of the Appointments and Compensation Committee  
of the Board of Directors of Applus Services, S.A. during year 2019**

## **I. Introduction**

This Report is drafted by the Appointments and Compensation Committee (the “**Committee**”) of the Board of Directors of Applus Services, S.A. (hereinafter, “**Applus**” or the “**Company**”) in compliance with article 40.11 of the Regulations of the Board of Directors of Applus (hereinafter, the “**Regulations**”), in order to inform about the work performed by the Committee during year 2019.

This Report shall be submitted to the Board of Directors of the Company, which is the body in charge of evaluating the work performed by the Committee during the year 2019, in conformance with article 36 of the Regulations.

## **II. Performance of the Committee during year 2019**

### **1. Meetings**

During year 2019, the Committee held 3 meetings and further passed a set of resolutions in writing (with no meeting being held). All the members attended each session and supported the written procedure.

The Committee considers that it has met with the frequency required to perform its functions.

### **2. Composition of the Committee**

The Board agreed at its meeting of 30 May 2019 to appoint Ms. María José Esteruelas Aguirre as member of the Committee in substitution of Mr. Christopher Cole (who had been appointed by the Board on 26 October 2018 as temporary member of the Committee to cover the vacancy created by the resignation of the former director Mr. Claudi Santiago).

Since then and to date the Committee has been composed by three members: Mr. John Hofmeister (Chairman), Mr. Richard Nelson and Ms. María José Esteruelas Aguirre.

### **3. Actions carried out during year 2019**

The Committee, in the performance of the functions attributed to it under article 529 quidecies of the consolidating text of the Spanish Companies Law, article 32 of the Company’s bylaws and article 40 of the Regulations, has focused the objectives of its meetings on the following actions:

#### **A. Remuneration Policy**

The Committee, in the exercise of its functions to review and control the remuneration policies of the Company, has submitted to the Board of Directors for its subsequent ratification the following remuneration matters related to the senior and non-senior

managers, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"):

- (i) Approval of the bonus payouts for the CEO and the Senior Managers.
- (ii) Determination of the 2019 salaries of the Senior Managers.
- (iii) Approval of the awards under the 2015 Restricted Stock Units ("RSUs") award system and the 2016 long-term incentive ("LTI") plans for the CEO and the Senior Managers.
- (iv) Determination of the target regarding adjusted earnings per share ("EPS") and the EPS target stretch for the period 2019-2021 under the LTI plans for the CEO and the Senior Managers.
- (v) Approval of the 2019 RSUs awards for non-senior managers under their LTI plan.
- (vi) Approval of a new Directors Remuneration Policy in order to include in the new policy (i) the remuneration of the CFO due to the proposal of his appointment as Executive Director (see section D below) and the amendment of his employment contract and (ii) the introduction of a clawback clause in relation to the variable annual remuneration of the Executive Directors.
- (vii) Approval of the contractual conditions of Mr. Carles Grasas (former Executive Vice President of IDIADA) as chairman of the Board of Directors of IDIADA as from 1 January 2020, as part of the succession process in such company.
- (viii) Approval of the salary and contractual conditions of Mr. Josep María Farrán as new Executive Vice President of IDIADA in replacement of Mr. Carles Grasas
- (ix) Approval of the agreement for Mr. Jorge Lluch (former Senior Vice President of Corporate Development) to leave the Company, effective on 1 January 2020.
- (x) Approval of the salary and contractual conditions of Mr. Javier López as new Senior Vice President of Corporate Development in replacement of Mr. Jorge Lluch.

The new Directors Remuneration Policy was approved by the General Shareholders' Meeting at its meeting of 30 May 2019, as well as it is approved the delivery to the CFO of shares or rights over Company shares as part of his remuneration systems, i.e.: (i) the fixed annual remuneration payable in RSUs, (ii) the variable annual remuneration partially payable in RSUs, and (iii) the Long-term Incentive Plan involving the delivery of *performance stock units* (PSUs).

B. Report on remuneration

As provided for in article 28 of the Regulations, the Committee, at its meeting of 19 February 2019, reviewed and prepare the Directors' Compensation Annual Report. Such Directors' Compensation Annual Report was submitted to the Board of Directors for its approval and subsequently submitted to advisory vote at the General Shareholders' Meeting held on 30 May 2019.

C. Board Evaluation Process

The Committee has cooperated with the Chairman of the Board of Directors in the annual Board Evaluation Process of the members of the Board of Directors and of the different Committees.

Additionally, the Committee has complied with the provisions established under article 40.3.a.(viii) of the Regulations, informing on the performances carried out by the Chairman of the Board of Directors, Mr. Christopher Cole, and the Chief Executive Officer, Mr. Fernando Basabe Armijo.

D. Proposal for appointments

As a consequence of the resignation of Mr. Claudi Santiago as Independent Director on 9 August 2018 and Mr. Scott Cobb as Dominical Director on 5 November 2018, the Committee conducted a selection process to identify and interview suitable candidates to fill such vacancies taking into account the needs of the Board. The Committee took the advice of a well-reputed directors search company for such selection process. In the selection process, preference was given (i) to female candidates for being the sex less represented in the Board of Directors and (ii) to diversity in terms of age.

The Committee finally agreed to propose the appointment of (i) two Independent Directors to cover the vacancies above mentioned, and (ii) the CFO (Mr. Joan Amigó) as new Executive Director to strengthen the experience of the Board in the TIC sector. This latter appointment required the increase of the maximum number of directors (formerly nine) permitted under the Company's By-laws and Regulations.

In this regard, the Committee at its meeting of 19 February 2019 reviewed and prepared the mandatory report under which (i) formally proposed to elect Ms. María José Esteruelas as Independent Director, (ii) issued a favourable opinion on the election of Mr. Joan Amigó as Executive Director, and (iii) analysed the needs of the Board and concluded that their appointments met said needs. The Board of Directors fully endorsed the assessment made by the Committee at its meeting of 20 February 2019 and therefore agreed (i) to appoint Ms. María José Esteruelas as Independent Director through the cooptation procedure (subject to ratification by the next General Shareholders' Meeting) and (ii) to propose to the next General Shareholders' Meeting to appoint Mr. Joan Amigó as Executive Director.

Likewise, the Committee passed a set of resolutions in writing (with no meeting being held) on 9 April 2019 to formally propose to elect Ms. Essimari Kairisto as Independent

Director and analysed the needs of the Board, concluding that her appointment adequately met said needs. The Board of Directors endorsed the assessment made by the Committee by passing a set of resolutions in writing (with no meeting being held) on such date and therefore agreed to appoint Ms. Essimari Kairisto as Independent Director through the cooptation procedure (subject to ratification by the next General Shareholders' Meeting).

Finally, the General Shareholders' Meeting held on 30 May 2019 finally (i) ratified the appointments of Ms. María José Esteruelas and Ms. Essimari Kairisto as Independent Directors and (ii) appointed Mr. Joan Amigó as Executive Director.

#### E. Succession planning and talent development

The Committee has devoted efforts to discuss the future succession of the CEO and the Company's senior managers, as well as their professional development. The Committee has supervised the 3 main initiatives related to talent development in place, i.e. the global management development program, the personal development plan for "high potentials" and the annual performance appraisals.

The Committee, together with the CEO and the Director of Human Resources, reviewed the performance evaluation and the personal development plan of the Senior Managers, as well as the succession plans for each of their positions at the meeting held on 24 October 2019.

#### F. Engagement with key investors / proxy advisors

During January 2019, the Chairman of the Committee led the execution of an engagement process among the key investors and proxy advisors, having received positive feedback regarding (i) the Board of Directors independence; (ii) the remuneration of the senior, non-senior managers and the CEO; and (iii) the Company's talent management program.

#### G. Employee Engagement Survey

After the analysis of the survey conducted in 2017 to measure, among other matters, the level of engagement of the Group's employees with Applus, the relevant action plans have been designed in order to preserve and, where appropriate, improve said employees' satisfaction. For this purpose, the following actions in Spain shall be remarked: (i) renewal of the Top Employer accreditation; (ii) implementation of a flexible compensation system for all employees; (iii) implementation of the "Without limits" program to achieve the full integration of people with intellectual disabilities; and (iv) the creation of a Sports Club to reinforce the commitment with health & safety.

In Barcelona, on 20 February 2020