



Report drafted by the Appointments and Compensation Committee of the Board of Directors of Applus Services, S.A. in relation to the proposed amendment of the Remuneration Policy of the Directors of the Company

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1. PURPOSE OF THE REPORT

This Report has been issued by the Appointments and Compensation Committee of Applus Services, S.A. (hereinafter “**Applus**” or the “**Company**”) on 20 February 2018 in order to justify and explain the proposal of new Remuneration Policy of the Directors of the Company to be submitted to the Board of Directors, the entire text of which is attached as Annex hereto, in accordance with the provisions set forth in article 529 novodecies of the Spanish Companies Act and in article 40.3.b) of the Regulation of the Board of Directors of Applus.

It is expressly noted that the proposed new Remuneration Policy of the Directors, should be submitted to the next General Shareholders’ Meeting for its approval. To this effect, and as provided for in articles 518 and 529 novodecies of the Spanish Companies Act, article 8 of the Regulations of the General Shareholders’ Meeting of Applus and article 25 of the Regulation of the Board of Directors 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 said General Shareholders’ Meeting.

2. GENERAL JUSTIFICATION FOR THE PROPOSAL

The proposed new Remuneration Policy of the Directors basically intends to modify the compensation scheme of the Chief Executive Officer of the Company, as well as some other terms of his contract, in order to have them adapted to the market standards followed in Spain by companies of an importance and complexity similar to those in Applus. The remaining terms of the Remuneration Policy of the Directors, except for certain technical improvements and minor clean-up changes, are essentially the same as those in the Remuneration Policy of the Directors currently in force, the restated text of which was approved by the General Shareholders' Meeting of the Company on 12 June 2016.

The current compensation and contractual scheme of the Chief Executive Officer (who is the only executive director in the Board) was approved in Applus' pre-IPO phase, when the Company was wholly owned by a private equity entity. Accordingly, that scheme followed usual private equity standards, which are to a great extent different from the standards followed by listed companies. The only relevant change in that remuneration scheme after the IPO was the introduction, on June 2016, of a long term remuneration system in order to replace a former IPO-linked incentive, which ended on 2017. In particular, the fixed remuneration of the Chief Executive Officer has remained unaltered since he was hired on September 2010.

On May 2017 Applus' Board of Directors, at the proposal of the Appointments and Compensation Committee, engaged the consulting firm Mercer to perform a benchmark study on the remunerations of CEOs of large Spanish and European companies. The results of such study showed that the compensation of Applus' Chief Executive Officer,

particularly as far as his fixed remuneration was concerned, was significantly below the average compensation of the CEOs in comparable companies.

Accordingly, and as previously mentioned, the main goal of the proposed new Remuneration Policy is to increase the remuneration of Applus' Chief Executive Officer in order to place it closer to that of top executives in comparable companies. In particular, the new Chief Executive Officer salary has been targeted at the midpoint of the CEO remunerations paid by the companies considered in the above-mentioned benchmark study. The proposal is also aimed to have some other terms of the Chief Executive Officer contract adjusted to Applus' interests as listed company.

In short, the proposed changes, which are discussed in detail in section 3 below, are designed to "normalize" the Chief Executive Officer's compensation and contractual conditions in order to bring them to the market levels of listed companies, taking also in consideration his outstanding performance and sustained leadership in the Company.

3. DETAILED EXPLANATION OF THE MAIN NOVELTIES OF THE NEW DIRECTORS' REMUNERATION POLICY

3.1. Fixed remuneration of the executive director

The fixed remuneration of the executive director increases from the current Eur gross 650,000 per annum to Eur gross 750,000 per annum, payable as from January 1st 2018.

3.2. Variable remuneration of the executive director

The variable remuneration for the executive director currently comprises two components: (i) a variable annual amount in cash linked to achieving certain targets; and (ii) a long term incentive plan. The latter remains unchanged under the proposed new Remuneration Policy, save for a minor amendment related to the awarding date of the PSUs, which will be the date of approval by the Board of Directors of Applus' annual results (instead of immediately after the publication of such results, as it happens today).

However, a modification of the first of the variable remuneration components is proposed as follows:

- (i) The variable annual amount, which was so far fully payable in cash, shall be paid partly in cash (in particular, 62.5% of the total amount) and partly (the remaining 37.5%) by means of the free delivery of rights over the Company shares called restricted stock units – RSUs.

The number of RSUs to be delivered will be determined on the basis of the average market value of Applus shares during the 30-day period prior to the date of delivery, which will be the date of approval by the Board of Directors of Applus' annual results. Each RSU shall be vested into one share of Applus

within a three-year period as from the date they were awarded, on a 30% basis for the first two years and a 40% basis for the third year.

- (ii) The variable base target of this variable remuneration goes from 50% of the fixed remuneration (currently, Eur 325,000) to 80% of such fixed remuneration, increased as mentioned in section 3.1 above, (that is, Eur 600,000).
- (iii) The percentages of increase and reduction of the variable remuneration depending on the level of achievement of the targets are likewise modified: for every increment of 1% on the targets the variable remuneration shall be increased by 2% (instead of the current 3%), up to a maximum of 150% of the variable base target (instead of the current 250%), and for every decrease of 1% on the targets the variable remuneration shall be reduced by 5% (instead of the current 10%).

3.3. *Other terms and conditions of the contract of the executive director*

In addition to the changes in the fixed and variable remuneration of the executive director that have been explained in section 3.2 above, the following amendments to the terms and conditions of his contract are proposed:

- (i) Elimination of severance payment: The contract now provides that, in case of termination decided by the Company, the executive director shall be entitled to receive a compensation equal to twice the amount of the annual fixed remuneration plus the variable remuneration accrued in the year prior to termination, subject to a minimum amount of Eur 1,640,000. This compensation is eliminated, so that in case of termination of the contract the executive director will not be entitled to receive any indemnity, except as resulting from the non-competition agreement referred to below.
- (ii) Modification of the non-competition agreement: The post contractual non-competition period is extended from one to two years, the content of this non-competition obligation is specified in larger detail (expressly extending it to directorship positions in competing companies) and it is made more enforceable. The compensation for the non-competition agreement is likewise changed. So far, this compensation was considered to be included in the annual fixed remuneration of the executive director (in particular, 30% of such fixed remuneration was the compensation for the non-competition obligations). It is now proposed that, in consideration for the non-competition agreement, the executive director will be entitled to receive an amount equal to twice the annual fixed remuneration, payable on 24 monthly installments as from the date of termination of the contract, regardless of the party terminating such contract. In the event of breach of the non-competition agreement, the executive director will be bound to give back the amounts paid by the Company as a consideration for such agreement.

- (iii) Pension plan: The contract will provide that the Company shall annually contribute to the executive director's pension scheme an amount equal to the difference between the amount of the of the actual benefits received by the executive director as remuneration in kind every year and 10% of his annual fixed remuneration (which is the cap for the benefits in kind, as provided for in the contract).
- (iv) Termination notice period: The prior notice period required to both the Company and the executive director in order to terminate the contract becomes the same, six months (currently, this notice period is six months for the executive director and three months for the Company).

4. CONCLUSION

Based on the grounds above, in accordance with the provisions set forth in article 529 novodecies of the Spanish Companies Act, the Appointments and Compensation Committee of Applus submits this proposal to the Board of Directors of the Company which shall, in turn, submit it to the General Shareholders' Meeting for its approval.

In Madrid, 20 February 2018

Annex

Complete text of the proposal

**REMUNERATION POLICY OF THE DIRECTORS OF
APPLUS SERVICES, S.A.**

1. Duration of the policy

The Remuneration Policy will be in force during the present financial year 2018 and the following two years (2019 and 2020) unless an agreement amending or replacing such policy is passed at the Annual General Meeting during its applicable period, in accordance with article 529 novodecies of the Spanish Corporate Companies Act.

2. Principles and grounds

The principles and grounds of the directors' Remuneration Policy of Applus, in their capacity as board members and for the performance of executive duties, are based on a remuneration centered on market practices, capable of attracting, retaining and motivating the necessary talent in accordance with the characteristics of its industry and of the countries in which the Company operates in order to satisfy its business needs and shareholders' expectations.

Likewise, according to article 27.2 of the Board of Directors Regulation of the Company, independent directors shall be eligible for remuneration as a reward for the dedication, qualification and responsibility that the office demands, however, this remuneration should not reach a level which compromises their independence.

In any case, the directors' remuneration provided for in this Remuneration Policy will be reasonably proportionate to the importance of the Company, the economic situation and the market standards of comparable companies. Furthermore, the remuneration system is oriented towards the promotion, in the long-term, of the profitability and sustainability of the Company and it incorporates the necessary cautions to avoid an excessive assumption of risks and the reward of unfavourable results.

3. Remuneration for directors, in their condition as such

The office of director of the Company is remunerated. In general, such remuneration comprises a fixed annual amount, as follows:

- (i) The maximum amount of the annual remuneration for the Board of Directors as a whole, in their capacity as board members (as fixed amount), will be approved by the General Shareholders' Meeting. If such sum is not set by the General Shareholders' Meeting, the amount will be the same as that set for the preceding year.

- (ii) The Board of Directors will set the specific remuneration for each director, in his/her condition as board member (as fixed amount), taking into account the functions and responsibilities attributed to each director, if they sit in Board committees and any other objective circumstances that may be deemed relevant.

Notwithstanding the above, proprietary and executive directors shall not receive any remuneration for sitting on the Board of Directors or any other committee of the Board of Directors.

The maximum amount the Company can pay to the Company directors, as fixed annual amount, in their capacity as board members, for each financial year in which this Policy is in force, shall not exceed EUR 1,500,000. This amount aims to grant the board of directors with certain leeway should it be necessary to increase the number of members of the board of directors while this Policy is in force. In addition, directors will be reimbursed for travel, accommodation and any other expenses incurred due to attendance to Board of Directors and Committees meetings, as long as they are duly justified.

The Company has entered into a civil liability insurance policy for its directors on market conditions.

4. Directors' remuneration for the performance of executive duties

As of this date, Mr. Fernando Basabe Armijo is the only member of the Board of Directors performing executive functions in the Company.

4.1 Fixed remuneration

The fixed remuneration to be paid to the executive director (with effect from January 1, 2018) amounts to EUR 750,000. During the term of this Remuneration Policy, said amount may be increased with reference to the Consumer Price Index or any other index which may substitute it in the future.

Furthermore, the executive director of the Company shall receive other benefits as remuneration in kind, for a maximum amount equal to 10% of the fixed remuneration in cash, in accordance with the Directors' Remuneration Annual Report and the executive director contract. In addition, the Company will annually contribute to the executive director's pension scheme an amount equal to the difference between the referred 10% of the fixed remuneration and the amount of the actual benefits received by the executive director as remuneration in kind in said year.

4.2 Variable remuneration

Pursuant to article 27.1 of the Board of Directors' Regulation, remuneration comprising

the delivery of shares of the Company or of its group companies, share options or other share-indexed instruments, variable payments indexed to the Company's performance or membership of pension schemes will be confined to executive directors. Deductions should be made to remuneration linked to Company earnings in line with any qualifications stated in the external auditors' report that reduce such earnings.

The variable remuneration for the executive director comprises (i) a variable annual amount both in cash and by means of the free delivery of rights over the Company shares called restricted stock units ("RSUs") linked to achieving targets; and (ii) a long term incentive plan.

- (i) The executive director's variable annual remuneration will be linked to achieving targets (based on the Group's adjusted operating profit and operating cash flow).

The variable amount will be increased by 2% for every increment of 1% achieved in excess of the targets, up to a maximum of 150% of the variable base target, which is established as 80% of the fixed remuneration paid in cash (that is, Eur 600,000). 62.5% of the variable remuneration to be received shall be paid in cash and the remaining 37.5% through the delivery of RSUs.

For the sake of clarity, for instance, on the basis of the abovementioned criteria, if one year the amount of the remuneration to be received matches the variable base target (Eur 600,000), Eur 375,000 would be received in cash and Eur 225,000 by RSUs.

On the other hand, if the targets are not achieved, the variable remuneration will be reduced by 5% for every decrease of 1% on the targets.

The basis for the calculation of the RSUs to be delivered to the executive director will be the average market value of Applus Services, S.A. shares during the 30-day period prior to the date of delivery of the RSUs. The RSUs will be delivered every year on the date of approval by the Board of Directors of Applus Services, S.A.'s annual results and the amount of the executive director's annual variable remuneration. Specifically, the first RSUs will be delivered in February 2019.

Each RSU shall be vested into one share of Applus Services, S.A. within a three-year period as from the date they were awarded, on a 30% basis for the first two years and a 40% basis for the last year. The first RSUs delivered will be vested into shares in February 2020. Likewise, the RSUs might be vested in advance in certain circumstances.

- (ii) Each year the long term incentive plan (which started in 2016 under the former Remuneration Policy) awards the executive director PSUs (Performance Stock Units) equal to, in principle, 60% of his fixed remuneration (even though,

depending on the degree of achievement of the parameters set forth below such amount may finally fluctuate between a minimum of 0% and a maximum of 120% of his fixed remuneration), where the value of each PSU is equivalent to the average quote value of a share in the Company during the thirty days prior to the granting of the PSUs. Each PSU will be exchangeable for one Company share in accordance with the vesting schedule referred to below.

The PSUs will be granted every year on the date of approval by the Board of Directors of Applus Services, S.A.'s annual results, even though the number of PSUs to be delivered may be adjusted over the course of the year if the executive director's fixed remuneration is modified (as it will be the case in year 2018 as a result of the modifications introduced by this Remuneration Policy). Notwithstanding the latter, the day of delivery of the additional PSUs shall be considered as the date of approval of the corresponding annual results.

The PSUs awarded in each year shall be vested into shares within a three-year period as from the day they were awarded provided that certain parameters regarding total shareholder return and adjusted earnings per share reported by Applus, as set out below, are met. The number of PSUs that will be vested will have a value between 0% and 120% of the fixed remuneration of the executive director depending on the degree of compliance with such parameters during the three years prior to the vesting, so as to ensure that the vesting reflects the professional performance of the executive director during each three-year period. Provided the conditions are met, the first PSUs granted in 2016 will vest in February 2019.

In particular, the vesting of PSUs will be based on the following quantitative parameters:

- a) A target based on relative total shareholder return ("TSR") within a three-year period, where the Company's TSR will be compared with an unweighted index composed of a group of peer companies within the testing, inspection and certification industry.

This parameter will represent 40% of the total PSUs granted each year.

In particular, within this 40%, 50% of PSUs will be vested should the TSR performance be equal to the index and 200% of PSUs will be vested should the TSR performance be 5% greater on an annual cumulative basis than the index. Between the index and the TSR value that gives right to vest 200% of PSUs, there will be a straight line vesting between such two values. As a result, 100% of PSUs will be vested should the TSR performance be 1.67% greater than the index.

If the TSR performance is below the index, no PSUs will vest for this parameter.

- b) A target regarding adjusted earnings per share (“EPS”) accumulated within a three-year period.

This parameter will represent 60% of the total PSUs granted each year.

The Board of Directors will set specific thresholds for this EPS target at which 50%, 100% and 200% (within the 60% this parameter represents) of target PSUs will be vested. The maximum number of PSUs that will be vested will be 200% of the target PSUs.

If the EPS performance is below the specific threshold that gives right to vest 50% PSUs, no PSUs will vest for this parameter.

If accredited inaccuracies in the data taken into account for the purpose of awarding the PSUs are observed, mechanisms will be implemented so that the Company may claim the refund of the amount corresponding to the relevant PSUs, net of any withholding, taxes or fees, effectively received by the executive director.

Likewise, the PSUs may vest early if some events occur.

4.3 *Main terms and conditions of the executive director’s contract*

The essential terms and conditions of the executive director’s contract are, apart from those relating to his remuneration, the following:

- (i) Duration: the executive director’s contract is of indefinite term.
- (ii) Exclusivity: while he performs executive duties, the executive director may not hold any direct or indirect interest in any other business or activity which may represent a conflict of interests in relation to the Company’s obligations and liabilities or in relation to its activity and that of the Applus Group.
- (iii) Termination: the executive director’s contract may be terminated, at any moment, at the request of the executive director or the Company, provided that it is notified in writing to the other party. Six months’ advance notice must be provided in any case. In this context, the executive director is not entitled to any compensation as a result of the termination of the contract, except for the provisions contained in the non-competition agreement. Nevertheless, if the executive director or the Company fully or partially breaches the advance notice obligation, the other party would be entitled to an indemnity equal to the fixed remuneration of the executive director relating to the duration of the breached advance notice period.

- (iv) Post-contractual non-competition agreement: in the two years following the termination date of the contract, the executive director will not compete against the Company or any Applus Group company. Competition shall be understood as the provision of any kind of services, on his own behalf or on behalf of a third party, whether it entails executive duties or mere advisory duties, or the direct or indirect promotion of the incorporation of companies and entities that will develop a competing business, as well as equity stake in these companies or entities. For these purposes, a competing business shall be deemed as any activity that, at the time of termination of the executive director's contract, is being developed by any company belonging to the Applus Group in a certain territory or it is scheduled to start being developed in a certain territory within the 12 months following the termination of the executive director's contract. Likewise, the executive director will not recruit nor participate in the recruitment (for him or for the entity which he represents or in which he performs his activities) of employees who, at the date of termination of their contract or in the preceding twelve months, form part or have formed part of the Company's workforce or that of any Applus Group.

In order to adequately meet the aforementioned non-competition commitments assumed by the executive director once the contract has been terminated, upon such termination (whether at the request of the executive director or the Company), the executive director shall be entitled to receive an amount equal to the double of the fixed annual remuneration received in cash in the last year prior to the termination of the contract, that will be paid for the 24-month period following such termination by means of 24 equal installments. The referred amount shall be reduced by the sum that, as the case may be, the Company would have to grant the executive director as legal compensation – which might result from the enforcement of the applicable law – for the termination of the contract, so that the total amount to be received by the executive director once the contract has been terminated does not exceed, in any case, the double of the fixed remuneration that he received in the last year prior to the termination of the contract. Such reduction would be equally apportioned among the monthly payments pending to be paid.

Should the executive director breach this commitment and compete with the Company and with any Applus Group company, he must return the amounts paid by the Company to compensate the agreement.

It must be noted that part of the compensation formerly received by the executive director for its non-competition commitments (that is, 30% of the fixed remuneration in cash) will be deemed as consolidated into his fixed remuneration, without it being linked to the non-competition agreement in any way that, as from this date, will only be awarded as stated above.