



**Report from the Board of Directors of Applus Services, S.A. on the proposed authorisation to issue convertible or exchangeable bonds included in item Twelfth on the agenda for the Annual General Shareholders' Meeting called to be held on 20 and 21 June 2017, on first and second call, respectively.**

*NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between this translation and the text of the original Spanish-language document, the text of the original Spanish-language document shall prevail.*

## **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 511 of the Spanish Companies Act, to provide a rationale for the proposal regarding the authorisation to the Board of Directors to issue debentures or bonds that are convertible into and/or exchangeable for shares of the Company, 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 20 and 21 June 2017 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**

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary to satisfy the corporate interest.

The purpose of this delegation is to provide the decision-making body of the Company with the manoeuvrability and responsiveness required by the competitive environment in which the Company operates, and in which the success of a strategic initiative or a financial transaction often depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from the call to and holding of a General Shareholders’ Meeting. The Board of Directors of the Company will thus be empowered, if necessary, to raise a significant volume of funds within a short period of time. This flexibility and agility is especially desirable in the current economic environment, where changing market circumstances make it advisable for the Company’s Board of Directors to have the necessary means to have recourse, at any time, to a wider scope of available financing sources.

The issuance of debentures that are convertible into and/or exchangeable for shares is one of the instruments for the financing of companies by raising third-party funds. On the one hand, these securities provide an advantage to both the investor and Applus in that they offer investors the possibility of converting their receivables from the Company into shares of the Company, receiving a potential return in excess of that offered by other debt instruments and, for Applus, to increase its equity by alternative means. In addition, the convertible or exchangeable nature thereof means that the coupon on these debentures is generally lower than the cost of simple fixed-income securities and of bank financing, because the interest rate of the debentures reflects the value of the investors’ option to convert them into shares of the Company.

The proposal specifically grants the Board of Directors the power to issue, on one or more occasions, convertible and/or exchangeable debentures or bonds entitling the holders thereof

to subscribe for newly issued shares or to acquire shares of the Company that may then be outstanding and to resolve, when appropriate, to effect the increase in share capital required to accommodate the conversion or the exercise of the option to subscribe for the shares, provided such increase, individually or added to any increases resolved to be carried out in reliance on other authorisations proposed by the Board of Directors to the shareholders at a General Shareholders' Meeting pursuant to the provisions of section 297.1.b) of the Spanish Companies Act, does not exceed 50% of the share capital on the date of the resolution. The amount of the increases in capital, if any, carried out to accommodate the conversion or exchange of debentures or other securities pursuant to this delegation will be deemed to be included within the limit available at any time to increase the share capital.

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting also establishes the standards to determine the terms and conditions applicable to the conversion and/or exchange, although it entrusts to the Board of Directors, in the event that it resolves to use this authorisation, the specific determination of some of such terms and conditions in respect of each specific issuance within the limits and in accordance with the standards established by the shareholders at the General Shareholders' Meeting. The Board of Directors shall thus be responsible for determining the specific ratio for conversion and, for such purpose, upon approving an issuance of convertible and/or exchangeable securities in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting, it shall prepare a directors' report describing the specific applicable terms and conditions, on which the related audit report mentioned in sections 414 and 511 of the Spanish Companies Act shall be prepared.

Specifically, the proposed resolution submitted by the Board of Directors for approval by the shareholders at the General Shareholders' Meeting provides that, for purposes of the conversion and/or exchange, the securities issued pursuant to the delegation shall be valued at their nominal amount and the shares at the fixed (determined or determinable) or variable ratio established in the respective resolution of the Board of Directors on the date(s) indicated in the resolution itself, based on the listing price of the Company's shares on the date(s) or during the period(s) referred to in the resolution.

In any event, the value may not be less than the average exchange ratio for the Company's shares on the Continuous Market of the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the relevant resolution providing for the issuance of the fixed-income securities or prior to the date of payment for the securities by the subscribers. A premium or discount, as appropriate, on such price per share may also be set.

It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market) during a period to be determined by the Board of Directors, which shall not be greater than three months or less

than five calendar days prior to the date of conversion and/or exchange. A premium or discount, as appropriate, may also be set on such price per share in this case.

In any of the cases described in the two preceding paragraphs, it is provided that, if a discount on the price per share is established, such discount may not exceed 25%.

The Board of Directors thus considers it is given an adequate degree of flexibility to set the value of the shares for purposes of the conversion on the basis of market conditions and other applicable considerations.

Similar standards shall be used, with any changes that may be required and to the extent applicable, for the issue of debentures exchangeable for shares of other companies (in this case, any references to the Spanish Stock Exchanges shall be deemed to be references to the markets where such shares are listed).

Furthermore, and as provided in section 415.2 of the Spanish Companies Act, the resolution delegating to the Board of Directors the power to issue convertible securities provides, for purposes of the conversion thereof, that the nominal value of the debentures may not be less than the par value of the shares. Convertible debentures may likewise not be issued for an amount lower than the nominal value thereof.

In addition, it is stated for the record that the authorisation to issue convertible and/or exchangeable securities or similar securities that may carry the right, directly or indirectly, to subscribe for or acquire shares of the Company includes, pursuant to the provisions of section 511 of the Spanish Companies Act, the grant to the Board of Directors of the power to totally or partially exclude the pre-emptive rights of the shareholders when so required to raise funds on the markets or otherwise justified by the corporate interest.

The Board of Directors believes that the exclusion of pre-emptive rights allows for a significant reduction in the financial cost and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance), as compared to an issue with pre-emptive rights, while causing less distortion in the trading of the shares of the Company during the issuance period.

In sum, this is a tool the use of which in a specific bond issuance 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, pursuant to the provisions of section 511 of the Spanish Companies Act, in the event that the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with a specific issue, it must, when adopting the respective resolution to effect the issue, issue a report specifying the reasons of corporate interest that justify such measure, on which there shall also be prepared a corresponding report of an auditor appointed by the Commercial Registry that is not the Company's auditor. This report must contain a technical opinion regarding the reasonableness of the data contained in the Board of Directors' report and regarding the fairness of the conversion ratio and, if applicable, of the adjustment formulas to offset a possible dilution of the financial interest of the shareholders. Both reports shall be made available to the shareholders on the Company's

corporate website and disclosed to them at the first General Shareholders' Meeting held after the capital increase resolution is adopted, as provided for under section 506 of the Spanish Companies Act.

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 proposal provides that capital increases to be approved to meet the conversion of convertible bonds issued without pre-emptive rights shall be limited to a maximum amount equal to 10% of the current share capital of the Company (together with all other capital increases carried out pursuant to authorisations granted by the shareholders at this General Shareholders' Meeting).

It is worth noting that this limitation is not a legal requirement and, moreover, goes even beyond of Recommendation 5 of the Spanish Good Governance Code of Listed Companies, pursuant to which the board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

Furthermore, it may sometimes be desirable to issue the securities under this proposed resolution through a subsidiary, with the Company acting as guarantor. Accordingly, it is deemed to be of interest for the shareholders at the General Shareholders' Meeting to authorise the Board of Directors to guarantee, in the name of the Company, within the limits describe above, such new issuances of convertible and/or exchangeable fixed-income securities as may be made by subsidiaries during the effective period of this resolution, in order that the Board of Directors may be granted the utmost degree of flexibility in structuring the issuances of securities in such manner as may be most appropriate in the circumstances.

The proposal also contemplates that the securities issued pursuant to the powers delegated hereby may be admitted to trading on the appropriate Spanish or foreign, official or unofficial, organised or other secondary market. Finally, it is proposed to expressly authorise the Board of Directors to further delegate the powers contemplated in this proposed resolution.

### **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 issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company for a maximum amount of Eur 200 million within a period of five years, with the power to exclude pre-emptive rights, and to increase the share capital to the extent required for conversion, up to a maximum nominal amount of 10% of the existing share capital if pre-emptive rights are excluded, pursuant to the provisions of article 511 of the Spanish Companies Act*

To authorise the Board of Directors to issue debentures and bonds exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, according to the following terms and conditions:

1. **Term:** The issuance of the securities covered by the authorisation may be effected on one or more occasions within a maximum period of five years following the date of approval of this resolution.
2. **Maximum Amount:** The maximum total amount of the issuance(s) of securities approved under this authorisation shall be Eur 200,000,000 or the equivalent thereof in another currency.
3. **Scope:** For each issuance, the Board of Directors shall be authorised to, among other things, determine the amount thereof, always within the above-mentioned overall quantitative limit, the place of issuance (in Spain or abroad) and the domestic or foreign currency and, in the case of foreign currency, its equivalence in euros; the specific instrument to be issued whether bonds or debentures, including subordinated bonds or debentures, or any other form permitted by law; the date or dates of issuance; the number of securities and the nominal value thereof, which, in the case of convertible and/or exchangeable bonds or debentures, shall not be less than the par value of the shares; the interest rate (whether fixed or variable); the dates and procedures for payment of the coupon; whether the instrument issued is perpetual or subject to repayment and, in the latter case, the period for repayment and the maturity date or dates; guarantees, reimbursement rate, premiums, and lots; the form of representation, as securities or book entries; the establishment of anti-dilution provisions; the rules applicable to subscription; the rank of the securities and the subordination clauses, if any; the law applicable to the issuance; the power to make application, where appropriate, for the trading of the securities to be issued on Spanish or foreign, official or unofficial, organised or other secondary markets, subject to the requirements established by applicable regulations in each case and, in general, any other terms of the issuance, as well as, if applicable, the appointment of the security-holders' syndicate representative (comisario) and the approval of the basic rules that are to govern the legal relations between the Company and the syndicate of holders of the securities to be issued in the event that such syndicate must or is decided to be created.

In addition, the Board of Directors is authorised such that, when it deems it appropriate and subject, if applicable, to any appropriate authorisations being secured and to the consent of security-holders coming together at a meeting of the corresponding syndicates of security-holders, it may modify the terms and conditions applicable to the repayment of the fixed-income securities issued as well as the respective period thereof, and the rate of interest, if any, accrued by the securities included in each of the issuances effected under this authorisation.

4. **Basis for and Terms and Conditions Applicable to the Conversion and/or Exchange:** The specific terms and conditions for the conversion and/or exchange of the debentures and bonds to be issued under this authorisation shall be subject to the following standards:

- (i) *The securities issued pursuant to this resolution shall be exchangeable for shares of the Company or of any other company and/or convertible into shares of the Company, in accordance with a fixed or variable conversion and/or exchange ratio determined or to be determined, with the Board of Directors being authorised to determine whether they are convertible and/or exchangeable, as well as to determine whether they are mandatorily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder thereof or of the Company, at the intervals, and during the period established in the resolution providing for the issuance, which may not exceed thirty years from the date of issuance.*
- (ii) *In the event that the issue is convertible and exchangeable, the Board of Directors may also provide that the issuer reserves the right at any time to elect between conversion into new shares or the exchange thereof for outstanding shares of the Company, with the nature of the shares to be delivered being determined at the time of conversion or exchange, and may also elect to deliver a combination of newly-issued shares and existing shares of the Company and even to pay the difference in cash. In any event, the issuer shall afford equal treatment to all holders of fixed-income securities converting and/or exchanging their securities on the same date.*
- (iii) *For purposes of the conversion and/or exchange, the securities shall be valued at the nominal amount thereof and the shares at the fixed exchange ratio established in the resolution of the Board of Directors making use of this authorisation, or at the variable ratio to be determined on the date or dates specified in the resolution of the Board, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in such resolution. In any event, the fixed ratio thus determined may not be less than the average exchange ratio for the shares on the Bilbao, Madrid, Barcelona, and Valencia Stock Exchanges, through the Automated Quotation System (Continuous Market), in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be more than three months or less than five calendar days prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed-income securities or prior to the date of payment of the securities by the subscribers, at a premium or at a discount, as the case may be, on such price per share, provided, however, that if a discount on the price per share is established, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*
- (iv) *It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Continuous Market during a period to be determined by the Board of Directors, which shall not be more than three months or less than five calendar days prior to the date of conversion and/or exchange, at a premium or at a discount, as the case may be, on such price per share. The premium or discount may be different*

*for each date of conversion and/or exchange of each issuance (or for each tranche of an issuance, if any), provided, however, that if a discount is established on the price per share, it shall not be greater than 25% of the value of the shares used as a reference as set forth above.*

- (v) Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holder of the debentures shall be rounded downwards by default to the immediately lower integer, and each holder shall receive in cash, if so provided in the terms of issuance, any difference that may arise in such case.*
  - (vi) In no event may the value of the shares for purposes of the ratio for conversion of debentures into shares be less than the par value thereof. Furthermore, debentures may not be converted into shares if the nominal value of the former is less than that of the latter.*
  - (vii) When approving an issuance of convertible and/or exchangeable debentures or bonds under the authorisation granted in this resolution, the Board of Directors shall issue a directors' report, elaborating on and specifying, on the basis of the standards described above, the basis and terms and conditions for conversion that are specifically applicable to the respective issuance. This report shall be accompanied by the corresponding audit report as provided by law.*
5. **Admission to Trading:** *The Company shall, when appropriate, make application for trading of the convertible and/or exchangeable debentures and/or bonds issued by the Company under this authorisation on Spanish or foreign, official or unofficial, organised or other secondary markets, and the Board of Directors shall be authorised as broadly as required 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.*

*It is expressly stated for the record that if application is subsequently made for delisting, it shall be made in compliance with the same formalities as the application for listing, to the extent any such formalities are required, and in such case, the interests of the shareholders or debenture-holders opposing or not voting in favour of the resolution shall be safeguarded as provided by applicable law. In addition, it is expressly stated that the Company undertakes to abide by Stock Market regulations, whether now existing or as may hereafter be issued, particularly as regards trading, continued listing, and delisting.*

6. **Guarantee in Support of Issuances of Convertible and/or Exchangeable Fixed-income Securities by Subsidiaries:** *The Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of convertible and/or exchangeable fixed-income securities carried out by subsidiaries during the effective period of this resolution.*
7. **Delegation of Powers to the Board of Directors:** *This authorisation to the Board of Directors also includes, without limitation, the delegation thereto of the following*



*powers:*

- (i) *The power of the Board of Directors, pursuant to the provisions of section 511 of the Spanish Companies Act, to totally or partially exclude the pre-emptive rights of the shareholders. In any event, if the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with any specific issuance of convertible bonds or debentures and other securities similar thereto that it ultimately decides to effect under this authorisation, the Board shall issue, at the time of approval of the issuance and pursuant to applicable laws and regulations, a report setting forth the specific reasons based on the corporate interest that justify such measure, on which there shall be prepared the corresponding report of an auditor, other than the Company's auditor and appointed by the Commercial Registry, mentioned in sections 414 and 511 of the Spanish Companies Act. Both such reports shall be made available to the shareholders and disclosed at the first General Shareholders' Meeting that is held following approval of the resolution providing for the issuance.*
- (ii) *The power to increase share capital to the extent required to accommodate requests for conversion. Such power may only be exercised to the extent that the Board of Directors, adding the increase in capital effected to accommodate the issuance of convertible debentures or bonds and other similar securities to the other increases in capital approved under authorisations granted by the shareholders at this General Shareholders' Meeting, does not exceed the limit of one-half of the amount of the share capital provided by section 297.1(b) of the Spanish Companies Act.*

*Likewise, in the event that the Board of Directors had decided to exclude the pre-emptive rights of the shareholders in connection with the specific issuance of convertible bonds or debentures to which the capital increase relates, this power shall in any event be limited to those increases in 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 10% of the share capital on the date of adoption of this resolution.*

*This authorisation to increase capital includes the authorisation to issue and float, on one or more occasions, the shares representing such capital that are necessary to carry out the conversion, as well as the power to amend the article of the By-Laws relating to the amount of the share capital and, if appropriate, to cancel the portion of such increase in capital that was not required for the conversion.*

- (iii) *The power to elaborate on and specify the basis for and specific terms and conditions for the conversion and/or exchange of the debentures and bonds to be issued, taking into account the standards set out in section 4 above.*
- (iv) *The delegation to the Board of Directors includes the powers required in order to interpret, apply, implement, and develop the resolutions providing for the*

*issuance of securities that are convertible into or exchangeable for shares of the Company, on one or more occasions, and to carry out the corresponding increase in capital, as well as the power to correct and supplement such resolutions as to all matters that may be necessary and to comply with all legal requirements for the successful implementation thereof. To such end the Board of Directors may correct any omissions or defects in the aforementioned resolutions that may be identified by any Spanish or foreign authorities, officials, or bodies, and may also adopt all such resolutions and execute all such public or private documents as it may deem necessary or appropriate in order to adjust the preceding resolutions for the issuance of convertible or exchangeable securities and the corresponding increase in capital to the oral or written assessment of the Commercial Registrar or, in general, of any other competent Spanish or foreign authorities, officials, or entities.*

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

In Bellaterra, Cerdanyola del Vallès (Barcelona), on 5 May 2017.