



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

## **I. Introduction**

This Report is drafted by the Audit Committee (the “**Committee**”) of the Board of Directors of Applus Services, S.A. (hereinafter, “**Applus**” or the “**Company**”) in compliance with article 39.15 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 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 4 meetings, i.e. the regular quarterly meetings. All of the members attended each session either in person or duly represented.

The Committee considers that it has met with the frequency required to perform its functions, and in any event with the minimum frequency of meetings established under article 39.10 of the Regulations.

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

At the beginning of the year 2019, the Committee was composed by the same 3 members composing it at the end of year 2018. However, the Committee is composed by 4 members since 9 April 2019, date on which the Board of Directors, at the proposal of the Appointments and Compensation Committee, agreed to appoint, via the co-optation mechanism, Ms. Essimari Kairisto as independent director and subsequently as new member of the Committee.

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

The Committee, in the performance of the functions attributed to it under article 529 quaterdecies of the Spanish Companies Act, article 31 of the Company’s bylaws, and article 39 of the Regulations, has focused the objectives of its meetings principally on the following actions:

#### **A. Review of Periodic Financial Information**

The Committee has reviewed all the quarterly, biannual, and annual financial statements of the Company, both individual and consolidated, which must be submitted to the National Securities Exchange Commission (“*Comisión Nacional del Mercado de Valores*” or “**CNMV**”) due to the Company’s publicly listed status, prior to its approval by the Board of Directors.

Furthermore, the Committee has ensured its compliance with the legal requirements for the preparation of the financial statements and, in particular, with respect to the delimitation of the scope of consolidation and the correct application of accounting principles (specially the application of the IFRS 16).

B. Review of the process for the preparation of the annual accounts

The Committee has reviewed the process for the preparation of the annual accounts corresponding to year 2018 prior to their approval by the Board of Directors. In this regard, the Committee has completed the following actions:

- (i) Verified the compliance with, and the correct application of accounting principles.
- (ii) Maintained a continuous communication with the external auditor of the Company in order to identify significant weakness of the internal control systems that may be detected, as well as any other relevant risk that may affect the audit process.
- (iii) Supervised and reviewed the processing of financial information, the internal systems of control of the Company, and monitored its complete adequacy and integrity.

C. Relationship with the External Auditor

The Committee has supervised the relations with the Company's external auditor, Deloitte, S.L., (the "**Auditor**") as well as the completion of the audit agreement currently in force, and has ensured that the opinion about the annual accounts and the content of the audit report were drafted in a clear and precise manner.

The Committee held timely meetings with the Auditor during year 2019, from which it received punctual and detailed information regarding the auditing services and those non-audit services provided to the Company and its group of companies, in accordance with article 39.7c of the Regulations and the Spanish accounting and audit regulations. In addition, the Committee has supervised that there are no objective reasons to question the independence of the auditor of the accounts corresponding to year 2018 and that it has respected the rules governing the audit process in the framework of the elaboration of the financial information of the Company.

Finally, it is expressly stated that the Committee has enabled the attendance of the Auditor to 2 of the 4 meetings held during year 2019 (in particular, the February and July meetings, in which the 2018 financial statements and the 2019 first semester financial statements were reviewed, respectively) in order to support and provide appropriate clarifications to the Committee members.

#### D. Internal Audit

The Committee has complied, during year 2019, with its functions relating to the internal audit function of the Company.

In this sense, the Committee has supervised the implementation of the Internal Audit Plan for year 2019 as well as its correct execution. To that end, the Committee has granted access to its meetings to the responsible person of the Company's internal audit department, who has provided support and information to the Committee when needed, and has duly provided any clarifications requested.

In addition, the Committee has actively monitored the independence of the department in charge of the Company's internal audit.

#### E. Internal control systems of financial information ("ICFR")

In relation with the Internal Control Systems of Financial Information ("ICFR"), the Committee hereby states that:

- (i) the internal control systems and risk management have been periodically reviewed so that the main risks are identified, managed, and adequately understood;
- (ii) discussions have been held with the auditors regarding the significant weaknesses of the internal control system detected in the development of the audit; and
- (iii) it has monitored the processes of implementation of the ICFR in significant subsidiaries of the group.

#### F. Systems for the management of corporate risks

The Committee has supervised the complete review of the Risk Map of the Company (defined in 2014) which has involved all the different divisions of the Applus+ Group and has been done using the most generally accepted methodology, i.e. COSO Framework. The Committee reviewed and did follow-up of the Risk Map in 3 of the meetings held during 2019 (February, May and October). The intention of the Committee is to have the Risk Map reviewed twice a year at the Audit Committee level (in the May and October meetings) and on a yearly basis by the Board.

Additionally, the Committee, at its meeting of 9 May 2019, agreed to propose to the Board the approval of the new Risk Management Policy and Risk Management Procedure, which were approved by the Board at its meeting of the next day.

Furthermore, the Committee:

- (i) has reviewed the main aspects of the taxation of Applus (organization of the tax department, strategy, taxes paid, tax credits, recoverability of the same, etc.), including in particular the analysis of tax inspections that affect the Group. In this

regard, particular attention has been paid to the status of the new tax inspection in relation to the corporate income tax 2014-2017 of the Company and its key holding subsidiaries, as well as VAT / withholding tax 2015-2017 of the Company and some the of said subsidiaries; and

- (ii) has supervised the performance of the cybersecurity control systems of the Company analysing the main risks in this area, the defence strategy against such risks, their possible impact on the business of Applus and the action plans to mitigate these risks.

#### G. Treasury stock transactions

The Committee has been monitoring the transactions on treasury stock shares of the Company during all the meetings of the year 2019.

#### H. Amendments to the Internal Regulations of Conduct in the Securities Markets

The Committee, at its meeting of 22 July 2019, agreed to propose to the Board the amendment of the Internal Regulations of Conduct in the Securities Markets in order to adapt it to some recent changes in the market abuse rules included in the Spanish Securities Market Law.

This amendment, which was the subject of the corresponding justifying report issued by the Committee, was approved by the Board of Directors at its meeting of 23 July 2019.

#### I. Amendments of the Regulations

The Committee, at its meeting of 19 February 2019, agreed to propose to the Board the amendment of the Regulations in order to increase the minimum and maximum number of directors of the Board to a range between 9 and 12 (until then it was between 7 and 9), in order to allow the appointment of the 3 new directors that were proposed by the Appointments and Compensation Committee on such date.

This amendment, which was the subject of the corresponding justifying report issued by the Committee, was approved by the Board of Directors at its meeting of 20 February 2019 but was conditioned to the prior approval by the General Shareholders' Meeting of the correlative amendment of the By-laws (i.e. Board composition thresholds), which occurred in the Annual General Shareholders' Meeting held on 30 May 2019.

In Barcelona, on 20 February 2020