

**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES**

**ISSUER IDENTIFICATION**

**END OF THE FINANCIAL YEAR OF REFERENCE**

31/12/2016

**Tax Identification Code**

A-64622970

**REGISTERED NAME**

APPLUS SERVICES, S.A.

**REGISTERED ADDRESS**

CAMPUS UAB, RONDA DE LA FONT DEL CARME, S/N, 08193, BELLATERRA,  
BARCELONA

**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES**

**A. OWNERSHIP STRUCTURE**

**A.1. Complete the following table about the share capital of the company:**

Date of last change	Share capital (€)	Number of shares	Number of Voting rights
8/05/2014	13,001,675.50	130,016,755	130,016,755

**State whether there are different classes of shares with different rights attaching thereto:**

Yes  No

**A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:**

Individual or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
SOUTHEASTERN ASSET MANAGEMENT, INC	20,318,412			15.63
THREADNEEDLE ASSET MANAGEMENT LIMITED	0	- THREADNEEDLE INVESTMENT FUNDS - PAN EUROPEAN SMALLER COMPANIES - THREADNEEDLE INVESTMENT FUNDS- EUROPEAN SMALLER COMPANIES. - OTHER FUNDS	11,722,394	9.02
HARRIS ASSOCIATES LP	6,539,719			5.03
NORGES BANK	6,504,356			5.00

**State the most significant changes in the shareholding structure that have occurred during the financial year:**

Individual or company name of the shareholder	Date of transaction	Description of transaction
Norges Bank	07/11/2016	It has increased over 5% in the capital stock

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Franklin Templeton Investment Management Limited	11/07/2016	It has decreased below 3% in the capital stock
Harris Associates Investment Trust	20/07/2016	It has decreased below 5% in the capital stock
Southeastern Asset Management, Inc	28/06/2016	It has increased over 15% in the capital stock
Southeastern Asset Management, Inc	10/06/2016	It has increased over 10% in the capital stock
CEP III Participations S.à r.l SICAR	09/06/2016	It has decreased below 3% in the capital stock
CEP III Participations S.à r.l SICAR	21/04/2016	It has decreased below 15% in the capital stock
FTIF – Franklin European Growth Fund	19/04/2016	It has decreased below 3% in the capital stock
Threadneedle Asset Management Ltd	25/01/2016	It has increased over 5% in the capital stock
Ameriprise Financial, Inc	25/01/2016	It has decreased below 3% in the capital stock
GIC Private Limited	22/01/2016	It has decreased below 3% in the capital stock
Norges Bank	14/01/2016	It has increased over 3% in the capital stock

**A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:**

Individual or company name of the director	Number of direct voting rights	Number of indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
MR. FERNANDO BASABE ARMIJO	506,708		0	0.39
MR. RICHARD CAMPBELL NELSON	47,125		0	0.04
MR. CHRISTOPHER COLE	12,415		0	0.01
MR. JOHN DANIEL HOFMEISTER	10,000		0	0.01

<b>Total percentage of voting rights held by the board of directors:</b>	<b>0.45%</b>
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**Complete the following tables about members of the company's board of directors who hold rights over the company's shares:**

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Individual or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights		Number of equivalent shares	% of total voting rights
		Direct shareholder	Number of voting rights		
MR. FERNANDO BASABE ARMIJO				44,931	0.00

NOTE: The number of options over the company's shares held by Mr. Fernando Basabe and shown in section A.3 above corresponds to a long term incentive plan (2016-2018), of indefinite duration, which was approved by the 2016 Annual Shareholders Meeting for the Executive Director. This incentive plan aims at including a variable compensation, payable in shares of the Company, subject to the fulfilment of certain conditions based on the total shareholder return and earnings per share during the three-year duration of each plan. The plan entails the annual payment of Performance Stock Units, which will be redeemable for Company's shares three years after the date in which these were granted. For more information, please check section A.4 of the Applus+ Annual Report on the Remuneration of Directors.

Likewise, with regards to the incentive plan "RSUs" for the Executive Director, in force since 2014, 392,989 shares (corresponding to 0.30% of the voting rights) are pending to be granted in the last instalment, as described in section A.4 of the Applus+ Annual Report on the Remuneration of directors.

- A.4 State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:**

N/A

- A.5 State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:**

N/A

- A.6 State whether any shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:**

Yes  No

**State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:**

Yes  No

**Expressly state whether any of such agreements, arrangements or concerted actions have been modified or terminated during the financial year:**

N/A

- A.7 State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to article 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:**

Yes  No

**A.8 Complete the following tables about the company's treasury shares:**

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
290,450	0	0.22

(\*)Through:

N/A

**Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007, which have occurred during the financial year:**

N/A

**A.9 Describe the terms and conditions and the duration of the mandate currently in force given by the shareholders to the board of directors in order to issue, repurchase or transfer the shares of the company:**

The General Shareholders Meeting of 18 June 2015 agreed to "authorise the Company's Board of Directors, with power to sub-delegate, so it may proceed with a derivative acquisition of its own shares, in accordance with article 146 of the Companies Act in the terms established below:

1. The acquisitions may be made either directly by the Company or indirectly through any of its subsidiaries, in the same terms as described herein;
2. The acquisition may be made as a sale and purchase, swap or goods received in lieu of payment, or any other transaction legally permitted, once or several times;
3. The number of shares acquired, when added to those already held by the Company, shall not exceed ten per cent (10%) of the capital stock;
4. The price or consideration will range between the face value of the shares and one hundred and ten per cent (110%) of their listed price;
5. The authorisation will remain valid for a maximum term of 5 years as of today.

*It is hereby expressly noted that any shares acquired as a result of this authorisation may be used either for disposal or redemption, or towards the direct delivery of these shares to the employees or Directors of the Company or any of the group companies, or as a consequence of the exercise of any option rights or the application of any remuneration systems.*

*To revoke, to the extent of the unused amount, the authorization granted by the General shareholders Meeting in 25 March 2014"*

**A.9 bis Estimated floating stock capital**

	%
Estimated floating stock capital	64.74

**A.10 State whether there are any restrictions on the transfer of securities and/or any restriction on voting rights. In particular, disclose the**

**existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.**

Yes  No

- A.11 State whether the general shareholders' meeting have approved the adoption measures to neutralize a public takeover bid, pursuant to the provisions of Law 6/2007:**

Yes  No

**If applicable, describe the approved measures and the terms on which the restrictions will become ineffective:**

N/A

- A.12 State whether the company has issued securities that are not traded on a regulated market within the European Community.**

Yes  No

**If applicable, state the different share classes and, for each of them, the rights and obligations.**

N/A

## **B. GENERAL SHAREHOLDERS' MEETING**

- B.1 State and, if applicable, explain whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.**

Yes  No

- B.2 State and, if applicable, explain any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:**

Yes  No

**Describe how they differ from the rules provided by the Companies Act.**

N/A

- B.3 State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.**

In accordance with Spanish Capital Companies Act, in order for a General Meeting to be validly convened, for an amendment of the By-laws, article 16.8 (b) of the Regulations will apply, whereby it will be necessary for the attendance of shareholders, present or represented at first call that hold at least fifty per cent (50%) of the subscribed voting capital stock. At second call, it will suffice for twenty-five per cent (25%) of the capital stock to attend.

In order for the General Shareholders Meeting to adopt resolutions that entail an amendment of the By-laws, article 21.1 (b) of the Regulations will apply, whereby an absolute majority will be required if more than fifty per cent (50%) of the voting capital stock subscribed is present. However, it will require the favourable vote of at least two thirds (2/3) of the voting capital stock in attendance when in the second call more than twenty-five per cent (25%) of the voting capital stock is present and in case it does not reach the fifty per cent (50%)

**B.4 State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:**

Date of General Shareholders' Meeting	Attendance data				Total
	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		
			Electronic voting	Other	
18/06/2015	0.72	66.87	0	0.61	68.20
22/06/2016	0.97	64.88	0	0.74	66.59

**B.5 State whether there are any By-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.**

Yes  No

**B.6 Deleted section.**

**B.7 State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.**

The corporate website is available at [www.applus.com](http://www.applus.com). At the top, under "Investor Relations", full information is provided on corporate governance and General Meetings. Specifically, through the following links- <http://www.applus.com/es/InvestorRelations/Corporate-governance> and <http://www.applus.com/es/InvestorRelations/Shareholders-meetings> - direct access is provided to information on corporate governance and General Meetings, respectively.

**C. STRUCTURE OF THE COMPANY'S MANAGEMENT**

**C.1 Board of directors**

**C.1.1 Maximum and minimum number of directors set forth in the By-laws:**

Maximum number of directors	9
Minimum number of directors	7

**C.1.2 Complete the following table identifying the members of the board:**

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Individual or company name of the director	Representative	Category	Position on Board	Date of first appointment	Date of last appointment	Election procedure
MR. CHRISTOPHER COLE	N/A	INDEPENDENT	CHAIRMAN	07/05/2014	07/05/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MR. RICHARD CAMPBELL NELSON	N/A	INDEPENDENT	DIRECTOR	01/10/2009	04/03/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MR. JOHN DANIEL HOFMEISTER	N/A	INDEPENDENT	DIRECTOR	01/07/2013	04/03/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MR. ERNESTO MATA LÓPEZ	N/A	INDEPENDENT	DIRECTOR	29/11/2007	04/03/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MR. NICOLAS VILLÉN JIMÉNEZ	N/A	INDEPENDENT	DIRECTOR	27/10/2015	27/10/2015	BOARD OF DIRECTORS APPOINTMENT ("Cooptación") – RATIFIED BY AGM
MS. MARIA CRISTINA HENRÍQUEZ DE LUNA BASAGOITI	N/A	INDEPENDENT	DIRECTOR	21/07/2016	21/07/2016	BOARD OF DIRECTORS APPOINTMENT ("Cooptación")
D. CLAUDI SANTIAGO PONSÁ	N/A	INDEPENDENT	DIRECTOR	22/09/2016	22/09/2016	BOARD OF DIRECTORS APPOINTMENT ("Cooptación")
MR. FERNANDO BASABE ARMIJO	N/A	EXECUTIVE	DIRECTOR	01/02/2011	04/03/2014	GENERAL SHAREHOLDERS MEETING RESOLUTION
MR. SCOTT COBB	N/A	PROPRIETARY	DIRECTOR	21/07/2016	21/07/2016	BOARD OF DIRECTORS APPOINTMENT ("Cooptación")

Total number of directors	9
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**State the vacancies on the board of directors during the reporting period:**

Individual or company name of the director	Status of the director at time of vacancy	Date of vacancy
MR. PEDRO DE ESTEBAN FERRER	Proprietary	09/05/2016
MR. MARIO PARDO ROJO	Proprietary	09/05/2016
MR. ALEX WAGENBERG BONDAROVSKI	Proprietary	09/05/2016

**C.1.3 Complete the following table about the members of the board and each member's status:**

**EXECUTIVE DIRECTORS**

Individual or company name of director	Position within the company's structure
MR. FERNANDO BASABE ARMIJO	CHIEF EXECUTIVE OFFICER

Total number of executive directors	1
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<b>Total % of the board</b>	11.11%
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**EXTERNAL PROPRIETARY DIRECTORS**

<b>Individual or company name of director</b>	<b>Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment</b>
MR. SCOTT COBB	Southeastern Asset Management, Inc.

<b>Total number of proprietary directors</b>	1
<b>Total % of the board</b>	11.11%

**EXTERNAL INDEPENDENT DIRECTORS**

**Director's identity or name:** MR. CHRISTOPHER COLE

**Profile:** Mr. Cole holds a Degree in Environmental Engineering from Borough Polytechnic (University of South Bank) is an associate engineer in the United Kingdom and in 1999 he completed an Executive Management Course at INSEAD in France. Mr. Cole founded WSP Group Plc, a professional services engineering company that was listed on the London Stock Exchange in 1987 and held the post of Chief Executive Officer of the company until it merged with Genivar, Inc. in 2012. Following the merger, he was appointed non-executive Chairman of the enlarged group WSP Global Inc., whose shares are listed on the Toronto Stock Exchange, a role he currently retains. He is also currently, non-executive Chairman of Ashtead Group Plc and Tracsis Plc.

Mr Cole has many years of experience in managing large international and diversified groups in both Executive and Non-Executive capacities and brings this wealth of experience to bear in his role as Chairman of the company.

**Director's identity or name:** MR. ERNESTO GERARDO MATA LÓPEZ

**Profile:** Mr. Mata López holds a Degree in Economics and MA from the University of Geneva and an MBA from IESE (Barcelona). He was a member of the board, seputy to the President, and CFO at Unión Fenosa, S.A. (now Gas Natural SDG, S.A.), President at Unión Fenosa Soluziona, S.A., member of the board of directors at Compañía Española de Petróleos, S.A. and Abertis Infraestructuras, S.A., where he was the Chairman of the Audit Committee. He was the President of the advisory board at Knight Frank, member of the board of Aguas Anginas and senior advisor in Marlin Patterson Global Advisers LLC.

Currently, Mr. Mata López the President of the advisory board of KPMG España and Quironsalud, member of the advisory board of Abertis and Herbert Smith Freehills, amongst others and Chairman of the board of Gedesco and Petroconer Retail SL and member of the board of Factor Energía, S.A.

Mr. Mata López has developed extensive experience in the energy and capital markets sectors, as well as in different Audit Committees, gathered through the numerous positions he has held in highly reputable Spanish companies. This experience as well as the many

relationships he has accumulated in the Spanish markets over the years is of great benefit to the company.

**Director's identity or name:** MR. JOHN DANIEL HOFMEISTER

**Profile:** Mr. Hofmeister holds a Bachelor's and Master's Degree in Political Science from Kansas State University. In May 2010 he was awarded an honorary doctorate from the University of Houston and in 2014 was awarded with a doctorate in letters by Kansas University. Mr. Hofmeister was the President of Shell Oil Company in the US from 2005 to 2008 and prior to that he was the Group Director of Human Resources at Royal Dutch Shell in the Netherlands. Mr. Hofmeister founded and heads the not for profit membership association, Citizens for Affordable Energy and is a key member of the US Energy Security Council, a bipartisan not for profit group in Washington, DC. Mr. Hofmeister has previously held executive positions at General Electric, Nortel Networks and AlliedSignal (now Honeywell International). Currently, Mr. Hofmeister also serves as a non-executive Director of Hunting plc (London, UK) and Chairman of the board at Erin Energy, Inc. (Houston, Texas).

Mr Hofmeister's deep knowledge of the global energy markets is of significant importance to the Board as this is a material part of the overall Group revenues. Furthermore, his experience of operating on other Boards in both an executive and non-executive roles especially whilst acting as Group Director of Human Resources at Royal Dutch Shell means he is well acquainted with this aspect of Corporate Governance.

**Director's identity or name:** MR. RICHARD CAMPBELL NELSON

**Profile:** Mr. Nelson is a fellow of the Institute of Chartered Accountants in England and Wales and holds a Master of Science Degree in Economics at the London Business School. Mr. Nelson was a Director of Transcontinental Services Inc. from 1972 and CEO from 1982 to the date of its acquisition by Inchcape Plc in 1985. He was nominated to the same position in Inchcape Plc which combined Transcontinental Services Inc. with its consumer goods testing and minerals testing businesses to become Inchcape Testing Services NA, Inc. In 1996, Inchcape Testing Services NA, Inc. was acquired by a private equity firm and became Intertek Group Limited of which Mr. Nelson was the executive Chairman until 2002, when the company floated on the London Stock Exchange. At this time, Mr. Nelson became the CEO of Intertek Group plc until he retired in 2006. Currently, Mr. Nelson is President of the International Federation of Inspection Agencies.

Mr Nelson has spent over thirty years in the testing, inspection and certification industry and in this time has gathered a significant level of experience giving him good knowledge of the industry and the investment market that follow it.

**Director's identity or name:** MR. NICOLÁS VILLÉN JIMÉNEZ

**Profile:** Mr. Villén holds an industrial engineer degree from Universidad Politécnica de Madrid, a Master in Electrical Engineer by the Florida University (Fulbright Scholar) and an MBA from the Columbia University. Mr. Villén was CEO of Ferrovial Aeropuertos (2009-2012) and CFO of Ferrovial (1993-2009). Before that, he worked as Midland Montagu Ventures' CEO, Smith Kline & French's CEO and International Vice-President, amongst other responsibilities in Abbot Laboratories and Corning Glass Works. Currently, he externally advises IFM Investors (an Australian infrastructure fund) and he is a board member of ACR Grupo, anca March and Parques Reunidos.

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Mr Villen has recently joined the Applus Group as an independent Director and was hired because of his high level experience in a variety of roles in world class Spanish and international companies including a strong financial background which will especially lend support to the Audit Committee.

**Director's identity or name:** MS. CRISTINA MARIA HENRÍQUEZ DE LUNA BASAGOITI

**Profile:** Ms. Henríquez de Luna is a Bachelor of Economics graduate from the University of ICADE in Madrid.

Ms Henriquez de Luna is the President and Managing Director Spain and Head of Iberia and Israel Cluster at GlaxoSmithKline where she has benefited from an extensive career in international markets in both commercial and finance roles. Previous to this, she was at Procter & Gamble in Spain, Switzerland, Mexico and Peru in a variety of senior finance positions including 12 years of direct Latin American management.

Ms Henriquez de Luna's experience of operating in international markets in both commercial and finance roles in a highly regulated industry make her well suited to support the Board.

**Director's identity or name:** MR. CLAUDI SANTIAGO PONSA

**Profile:** Mr. Santiago holds a Master's Degree in Computer Science from the Universitat Autònoma of Barcelona and completed postgraduate studies from INSEAD in Fontainebleau and Georgetown University in Washington D.C.

Mr. Santiago is the Managing Director and Chief Operating Officer at First Reserve Corporation, having the responsibility for the management of the firm's operations. Previous to this, he was at General Electric in a variety of executive positions including Senior Vice President of GE and President and CEO of GE Oil & Gas, a \$15 billion revenue oilfield service business.

Mr. Santiago's wealth of experience gathered in industry and private equity and especially within the energy sector is of great value to the Applus+ Board.

<b>Total number of independent directors</b>	7
<b>Total % of the board</b>	77.78

**State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director or senior officer of an entity that maintains or has maintained such relationship.**

N/A

**If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.**

N/A

**OTHER EXTERNAL DIRECTORS**

Identify any other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders.

N/A

State the changes, if any, in the type of director during the period:

N/A

**C.1.4 Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the type of such female directors:**

	Number of female directors				% of total female directors each class			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	1	0	0	0	14.29	0	0	0
Other external	0	0	0	0	0	0	0	0
<b>Total:</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11.11</b>	<b>0</b>	<b>0</b>	<b>0</b>

**C.1.5 Describe any measures adopted to include on the board of directors a number of female directors that allows for a balanced presence of men and women.**

Description of measures
<p>The company published its Directors' selection policy (available at <a href="http://www.applus.com">www.applus.com</a>), which formalises the Company's practices, established at the Regulations of the Board of Directors:</p> <ul style="list-style-type: none"> <li>a) The selection process for new Board members is free of implicit biases that hinder the selection of women to cover any vacancies.</li> <li>b) The company makes a concerted effort to include women that have the necessary qualifications, amongst the candidates applying to join the Board of Directors.</li> </ul> <p>As a result of the 2016 selection process, and on the basis of the needs identified by the Board of Directors, a women has been appointed as director in 2016.</p>

**C.1.6 Describe any measures approved by the compensation committee to ensure that selection processes are free of implicit biases that hinder the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:**

Description of measures
<p>The Appointments and Compensation Committee has been expressly assigned this task, included in article 40.3 (a)(x) of the Regulations of the Board of Directors "To report to the Board of Directors on the issues of gender diversity, and safeguard that, when filling new vacancies, the selection procedure does not suffer from implicit biases that might hinder the selection of female</p>

*Directors; and so that the Company deliberately searches for, and includes among potential candidates, women who meet the sought after professional profile”.*

The 2016 selection process for the position of independent Directors was led by the Appointments and Compensation Committee with the support of a recognised firm. In the process, both male and female candidates were considered, looking for an international perspective and experience in finance and accounting areas, and with the will to increase skill diversity and experiences in the Board.

The company issued the Directors’ selection policy and, in any case, the Appointments and Compensation Committee will, for all future selection processes, make a concerted effort to include women that have the necessary qualifications amongst the candidates, ensuring that processes are free of implicit biases that hinder the selection of women.

**If there are few or no female directors despite any measures adopted, describe the reasons for such result:**

Description of reasons
During 2016, there were three vacancies in the Board of directors, one of which was covered by a proprietary director and the other two with independent directors. The company was assisted in the selection process by a recognized firm and followed the Board of Directors Regulations and the principles foreseen in the Applus+ Directors’ selection policy, Said process was free of implicit biases and included, following a pre-selection, the potential candidates amongst which a significant percentage were women. The result of the process was the appointment of a male director and a female director, so half of the vacancies open for selection were covered by women.

**C.1.6 bis Explain the appointment committee conclusions about the compliance with the board members appointment policy. In particular, about how such policy is promoting the objective that in 2020 a number of female board members which represent, at least, 30% of the total members of the board of directors.**

It is the Appointments and Compensation Committee’s view that the Applus+ directors’ selection policy has adopted the practices followed by the company in the subject and is consistent with the good corporate governance, which is a key plank of the corporate social responsibility policy.

In this sense, the directors’ selection process that took place during 2016 has improved the diversity of the Board’s composition in a broad sense: gender, skills and experience. The company had the assistance of an external firm for the selection process, following a previous definition by the Board of the skills required.

Even though the directors’ selection policy does not include an explicit reference to the abovementioned objective, the company has in practice performed a selection process to cover two vacancies which, in fact, resulted in a female on the board of directors. With respect to potential future vacancies, the company

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shall act with the same level of equality to ensure the fair representation of women on the Board.

**C.1.7 Explain the form of representation on the board of shareholders with significant holdings.**

Currently, Southeastern Asset Management, Inc., who are the largest significant shareholder declaring a holding of 15.63% of the share capital, is represented on the Board of Directors by Mr. Scott Cobb.

**C.1.8 Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.**

N/A

**State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:**

Yes  No

**C.1.9 State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:**

Name of the director	Reason for withdrawal
MR. PEDRO DE ESTEBAN FERRER	Decrease in Azul Holding, S.C.A's participation in the company (shareholder which represented as proprietary director)
MR. MARIO PARDO ROJO	Decrease in Azul Holding, S.C.A's participation in the company (shareholder which represented as proprietary director)
MR. ALEX WAGENBERG BONDAROVSKI	Decrease in Azul Holding, S.C.A's participation in the company (shareholder which represented as proprietary director)

**C.1.10 State any powers delegated to the chief executive officer(s):**

N/A

**C.1.11 Identify any members of the board who are directors or officers of companies within the listed company's group:**

Individual or company name of the director	Company name of the group member	Post	Does it have executive functions?
MR. FERNANDO BASABE ARMIJO	APPLUS TECHNOLOGIES, INC.	Chairman of the Board	No
MR. FERNANDO BASABE ARMIJO	LIBERTYTOWN USA FINCO, INC	Chairman of the Board	No
MR. FERNANDO BASABE ARMIJO	LIBERTYTOWN USA 1, INC.	Chairman of the Board	No

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MR. FERNANDO BASABE ARMIJO	VELOSI INTERNATIONAL HOLDING COMPANY B.S.C. CLOSED	Director	No
MR. FERNANDO BASABE ARMIJO	IDIADA AUTOMOTIVE TECHNOLOGY, S.A.	Director's representative	No
MR. FERNANDO BASABE ARMIJO	LGAI TECHNOLOGICAL CENTER, S.A.	Director's representative	No
MR. FERNANDO BASABE ARMIJO	AZUL HOLDING 2 S.à r.l.	Director	No
MR. FERNANDO BASABE ARMIJO	APPLUS SERVICIOS TECNOLÓGICOS, S.L.U.	Sole director's representative	Yes
MR. FERNANDO BASABE ARMIJO	K1 KATSASTAJAT OY	Director	No

**C.1.12 Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group that have been reported to your company:**

Individual or company name of the director	Name of listed company	Position
MR. CHRISTOPHER COLE	ASHTREAD GROUP, PLC.	NON-EXECUTIVE CHAIRMAN
MR. CHRISTOPHER COLE	TRACSYS, PLC	NON-EXECUTIVE CHAIRMAN
MR. CHRISTOPHER COLE	WSP GLOBAL, INC	NON-EXECUTIVE CHARIMAN
MR. JOHN DANIEL HOFMEISTER	HUNTING, PLC	NON-EXECUTIVE DIRECTOR
MR. JOHN DANIEL HOFMEISTER	ERIN ENERGY, INC	NON-EXECUTIVE CHARIMAN
MR. NICOLAS VILLEN	PARQUES REUNIDOS SERVICIOS CENTRALES, S.A.	INDEPENDENT DIRECTOR

**C.1.13 State and, if applicable, explain whether the company has established rules regarding the number of boards of which its directors may be members:**

Yes  No

**C.1.14 Deleted section**

**C.1.15 State the overall remuneration of the board of directors:**

Remuneration of the board of directors (thousands of euros)	1,663
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Amount of total remuneration corresponding to pension rights accumulated by current directors (thousands of euros)	0
Amount of total remuneration corresponding to pension rights accumulated by former directors (thousands of euros)	0

: The amount of the total remuneration does not include the gross remuneration of 3,026k EUR associated to the 2016 RSUs vesting, in accordance with incentive plans agreed and signed on May 2014 with the CEO.

In addition, the shareholders meeting of the Company approved on 22 June 2016 a long term incentive plan by which the CEO shall receive, annually, PSUs "Performance Stock Units" convertible into shares of the Company over a term of three years from grant. The first conversion is due to take place in February 2019. The equivalent amount of the PSUs is, in principle, 60% of the annual fixed remuneration, but depending on the level of compliance of the economic parameters, the amount might vary between 0% and 120%. The economic parameters are total shareholder return and adjusted earnings per share.

**C.1.16 Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:**

Individual or company name	Position(s)
MR. JOAN AMIGÓ I CASAS	CHIEF FINANCIAL OFFICER
MS. EVA ARGILÉS MALONDA	GENERAL COUNSEL
MR. JORDI BRUFAU REDONDO	LABORATORIES EXECUTIVE VICE PRESIDENT
MR. RAMÓN FERÁNDEZ ARMAS	APPLUS+ ENERGY & INDUSTRY SOUTHERN EUROPE, AFRICA, MIDDLE EAST, ASIA & PACIFIC. EXECUTIVE VICE-PRESIDENT
MR. CARLES GRASAS ALSINA	IDIADA EXECUTIVE VICE PRESIDENT
MR. JORGE LLUCH ZANON	CORPORATE DEVELOPMENT & COMMUNICATIONS SENIOR VICE PRESIDENT
MR. PHIL MORRISON	APPLUS+ ENERGY & INDUSTRY NORTH AMERICA EXECUTIVE VICE PRESIDENT
MR. JOSÉ DELFÍN PÉREZ FERNÁNDEZ	HUMAN RESOURCES SENIOR VICE PRESIDENT
MR. AITOR RETES AGUADO	AUTOMOTIVE EXECUTIVE VICE PRESIDENT
MR. ALEIX RIBAS AGUILERA	INTERNAL AUDIT MANAGER
MR. PABLO SANJUAN SARDE	APPLUS+ ENERGY & INDUSTRY LATIN AMERICA EXECUTIVE VICE PRESIDENT
MR. SYTZE VOULON	APPLUS+ ENERGY & INDUSTRY NORTHERN EUROPE EXECUTIVE VICE PRESIDENT



<b>Total senior management remuneration (in thousands of euros)</b>	3,369
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NOTE: All managers which were members of the Executive Committee during 2016 and also the Internal Audit Manager have been included, as required by the accounting regulations in place and by the Report from the special work group on the Good Governance of Listed companies” published by CNMV on 16 May 2006. Consequently, Mr. Phillip Morrison and Mr. Sytze Voulon, Applus+ Energy & Industry North America Vice-President and Applus+ Energy & Industry Northern Europe Vice-President, respectively, are included in the above as their role as such initiated on 1 January 2016.

The amount of total remuneration above does not include the gross remuneration of EUR 2,860k associated to the 2016 RSUs vesting in accordance with incentive plans agreed and signed on May 2014 with some members of the senior management of the group.

In addition to the annual variable remuneration described in C.1.16, the senior managers, except for the Internal Audit Manager, benefits from a variable remuneration plan which foresees annual granting of a number of RSUs. This plan is annually approved by the Appointments and Compensation Committee and ratified by the Board of Directors. At 2016 year-end, there are two plans approved and ratified: on 24 February 2015 it was approved and ratified the granting of 67 thousand of RSUs (gross) to the senior management. The granting of the shares corresponding to this is done in March 2016 (30%), 2017 (30%) and 2018 (40%). On 23 February 2016, the Appointments and Compensation Committee ratified the delivery of an additional 107 thousands of RSUs (gross) to the senior management. The delivery of the corresponding shares will commence in March 2017 (30%), 2018 (30%) and 2019 (40%).

Some senior managers have a multiannual variable remuneration in the case of achievement of the group of some financial targets during years 2014, 2015 and 2016 (Multiannual Incentive), remuneration which shall be payable in 2017. In accordance with the calculations performed at 2016 year-end, the estimated payable amount in 2017 shall be 1.4 million Euros for the three years mentioned. The Multiannual Incentive finalises in 2016 (payable 2017)- On 21 July 2016, the board of directors has decided to replace the Multiannual Incentive by the Long Term Incentive (LTI).

**C.1.17 State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:**

<b>Name of the director</b>	<b>Name of the significant shareholder</b>	<b>Position</b>
N/A	N/A	N/A

**Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:**

Name of the director	Name of the significant shareholder	Description of the relationship
Mr. Scott Cobb	Southeastern Asset Management, Inc	Self-employed consultant

**C.1.18 State whether the regulations of the board have been amended during the financial year:**

Yes  No

Description of amendments
<p>During the year, two changes were made to the Regulations of the Board of Directors:</p> <ul style="list-style-type: none"> <li>The first, unanimously approved by the Board of Directors at its meeting held on 5 May 2016, amended various articles of the Regulations in order to (i) adapt them to the amendments made to the Spanish Companies Act by Act 22/2016, of 20 July, of accounts auditing; (ii) to complete, following Board's right of self-governance, the regulations in respect of documentation of approved resolutions; and (iii) introduce some wording clarifications or technical improvements, aimed mainly at updating obsolete legislative references.</li> <li>The second, unanimously approved by the Board of Directors at its meeting held on 22 June 2016. The purpose of said amendment was to eliminate the mandatory character of the Supervisory Committee, which was suppressed by the Board in the same date.</li> </ul> <p>Further to article 4.5 of the Regulations of the Board of Directors, the Board of Directors informed about the amendments in the General Shareholders meeting held on 22 June 2016.</p>

**C.1.19 State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. List the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.**

**Selection:** Appointments and Compensation Committee is responsible for (i) evaluating the skills, expertise and experience necessary in the Board of Directors to define, consequently, the functions and abilities needed in candidates who are to fill each vacancy, and to evaluate the time and dedication necessary in order for them to perform their duties; and of (ii) to safeguard that, when filling new vacancies, the selection procedure does not suffer from implicit biases that might hinder the selection of female Directors; and so that the company deliberately searches for, and includes amongst potential candidates, women who meet the professional profile sought (article 40.3 vi and x del of the Regulations of the Board of Directors). As described in section C.1.6 above, the company approved a director's selection policy and has undertaken

the selection of two independent directors following the prescribed principles.

**Appointment:** According to article 23 of the company By-laws, the members of the Board of Directors shall be appointed by the General Shareholders' Meeting, notwithstanding the possibility of co-opting members as established in the Spanish Companies Act. It is not necessary to be a shareholder to be elected member of the Board, except in the case of co-option. Individual or legal entities covered by any of the prohibitions established by current legislation for reasons of incapacity or incompatibility shall be disqualified from Board membership.

According to article 14 of the Regulations of the Board of Directors, proposals for the appointment of Directors submitted by the Board of Directors to the consideration of the General Shareholders' Meeting and appointment decisions adopted by the Board of Directors pursuant to its interim appointment authority shall be made subject to the prior report by the Appointments and Compensation Committee (in the case of executive and proprietary Directors), and subject to a proposal from the Appointments and Compensation Committee, in the case of independent Directors (according to article 40.3 of the Regulations of the Board of Directors).

**Term of office** (article 23.3 of the company By-laws and 15 of the Board of Directors Regulations). Tenure of office shall be four (4) years as from the date of acceptance, being able to be re-elected one or more times for periods of equal duration.

Article 15.2 of the Regulations of the Board of Directors provides that Directors appointed by interim appointment shall remain in their posts until the date of the first General Shareholders' Meeting or until the next one, in case the appointment takes place after the meeting is convened and before it takes place.

**Re-appointment** (article 16 of the Regulations of the Board of Directors). Before the reappointment of Directors is proposed to the General Shareholders' Meeting, the Appointments and Compensation Committee shall issue a report evaluating the work and dedication of the Directors proposed during the previous term in office.

The foregoing will be likewise applicable to natural persons who are appointed as representative for an entity. The proposal of representative shall be submitted to a report from the Appointments and Compensation Committee.

**Self-evaluation** (article 36 of the Regulations of the Board of Directors). The Board of Directors shall dedicate the first meeting of the year to an assessment of its operation during the previous financial year, evaluating the quality of its work, assessing the effectiveness of its regulations, and if appropriate, correcting those aspects that were found not to be functional. Furthermore, the Board of Directors shall assess the performance of its duties through the Chairman of the Board of Directors and the senior executive of the company, based on the report issued by the Appointments and Compensation Committee, as well as the operation of the Board of Directors Committees, based on their reports. The evaluation process was based in a questionnaire addressed to each of the directors as well as in telephone interviews or meetings with the Chairman of the Board. The results of the same was reported to the entire Board in the first session of the next exercise. The company has considered that was preferable to maintain the development of the process within the Board and not to incorporate an independent external party in the same, as the company has been listed for less than three years and three new directors were appointed during

2016.

**Removal** (article 17 of the Regulations of the Board of Directors). Directors shall be removed from their post once the term for which they were appointed has lapsed or when so decided by the General Shareholders' Meeting pursuant to the powers conferred upon them by law and in the by-laws, with no need for said decision to be included in the agenda of the General Shareholders' Meeting. The Board of Directors shall not propose the removal of any independent Director before the end of the statutory term for which they have been appointed, except where the Board of Directors considers that sufficient grounds for such action exist, based on a report by the Appointments and Remuneration Committee. In particular, sufficient grounds will be deemed to exist when the Director has failed to fulfil the duties of its position or is affected by one or more of the circumstances that would have prevented its appointment as an independent Director, in accordance with applicable legal provisions.

**C.1.20 Explain the extent to which the self-evaluation has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:**

<b>Describe changes</b>
The evaluation performed with regards to year 2016 was more extensive compared to the first one performed in 2015, that was only one year after the Company became listed. The differences were however not significant as the general evaluation of the functioning and performance of the Board has been very positive. However, it should be noted that: (i) the evaluation was performed before the first meeting of the Board of Directors and therefore the timing has been improved, in line with best practices; (ii) the evaluation has included meetings or individual interviews on the basis of a questionnaire which was wider in scope and more detailed and (iii) some exceptional areas have been identified for future actions which, will contribute to the improvement of the Board's activities.

**C.1.20 bis Describe the evaluation process and the areas evaluated by the board of directors with the assistance, if applicable, of an external consultant, regarding diversity in its composition, competences, functioning and composition of its committees, performance of chairman of the board of directors and the first executive of the company and the performance and contribution of each board member.**

The evaluation process was coordinated by the Chairman of the Board and consisted of a questionnaire for each Director, sent on January 2017 and individual interviews with each director. After the compilation of the results, a document stating the main conclusions of the process, as well as some notes and suggestions for improvement on development and performance of the functions of the Board of Directors and its Committees was sent to all directors. This was an agenda item at the first Board and Appointments and Compensation's meetings of the year, in February 2017, and the improvement measures shall continue to be discussed in future meetings as appropriate.

In general, the conclusions of the evaluation process were positive in terms of schedule and effectiveness and particularly in terms of quality of information –in format and time-, decision making –debate

and consensus-, dedication of Board members and its Committees as well as overall functioning. In particular, from this evaluation the appreciation of the higher diversity of the Board, as well as the variety of perspectives that this diversity provides to analysis and debates was noted.

**C.1.20.ter Detail, if applicable, the business relationships that the consultant or its group companies maintain with the Company and its group companies.**

N/A

**C.1.21 State the circumstances under which the resignation of directors is mandatory**

According to article 17.2 of the Regulations of the Board of Directors, “*Directors must tender their resignation to the Board of Directors and, where considered appropriate by the Board, formalize the appropriate resignation in the following circumstances:*

(a) *When they cease in the positions, posts, or functions related with their appointment as executive Directors;*

(b) *In the case of proprietary Directors, when the shareholder whose interests they represent transfers all of their shares, or that they do it in the corresponding number in case said shareholder reduces its holding in the Company;*

(c) *When they are affected by any of the incompatibility or prohibition provisions legally established;*

(d) *If they are severely reprimanded by the Board of Directors on the basis of a report by the Appointments and Remuneration Committee as a result of having breached their duties as Directors; or*

(e) *When their continuance on the Board of Directors may jeopardize the interests of the company”.*

**C.1.22 Deleted section**

**C.1.23 Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?**

Yes  No

**If so, describe the differences:**

N/A

**C.1.24 Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.**

Yes  No

**C.1.25 State whether the chairman has a casting vote:**

Yes  No

**C.1.26 State whether the by-laws or the regulations of the board set forth any age limit for directors:**

Yes  No

**C.1.27 State whether the by-laws or the regulations of the board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:**

Yes  No

**C.1.28 State whether the by-laws or the regulations of the board establish any specific rules for proxy-voting at meetings of the board of directors, the manner of doing so, and particularly the maximum number of proxies that a director may hold, as well as whether there is any limitation regarding the director's class, in addition to those established by applicable laws. If so, briefly describe such rules.**

Article 27.2 of the company By-laws provides that Directors shall personally attend the meetings. In case they cannot attend, the Director may only be represented at meetings of the Board of Directors by another director. Non-executive Directors can only be represented by other non-executive Directors. In any case, representation shall be granted by a letter addressed to the Chairman or by other means detailed in the Regulations for the Board of Directors.

Article 18 of the Regulations of the Board of Directors provides the obligations that Directors must fulfil when in office. Specifically, article 18.2 (a) establishes that Directors shall attend meetings of bodies of which they are part and actively participate in deliberations, so that they can effectively contribute to the decision-making process. Furthermore, said article also provides that if any Director cannot be present at sessions to which they have been called to attend, they must instruct the director who they have appointed as representative.

According to article 35.7 of the Board of Directors Regulations, the Chairman shall decide, in the event of any doubt, on the validity of the delegations conferred by Directors who are not present at the meeting. Said representations shall only be granted by letter or any other written method which, in the Chairman's opinion, ensures that the representation is valid.

**C.1.29 State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chairman did not attend. Proxies granted with specific instructions shall be counted as attendance.**

Number of meetings of the board	6
Number of meetings of the board at which the chairman did not attend	0

**In case the chairman is an executive director, please detail the number of meetings held where any executive director was present nor represented and chaired by the lead independent director.**

N/A

State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the audit committee	4
Number of meetings of the appointments and remuneration committee	4
Number of meetings of the Corporate Social Responsibility committee	4

**C.1.30 State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:**

Attendance of all the directors	5
% in attendance of total votes during the financial year	93.75

NOTE: the % above results from the absence of three proprietary directors in the Board of Director's meeting held on 5 May 2016, who had expressed their intention to tender their resignation in view of the imminent divestment of the shareholder that they were representing. Except for this fact, director's attendance is of 100%

**C.1.31 State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:**

Yes  No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

N/A

**C.1.32 Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.**

Article 13.3 of the Regulations of the Board of Directors establishes that: "*The Board of Directors shall attempt to formulate definitive financial information so that there is no scope for qualifications or reservations on the part of the auditor. However, when the Board of Directors is of the view that it must sustain its criteria, the Chairman of the Audit Committee (and the auditors) shall explain to the shareholders the content and scope of said reservations and qualifications*".

In accordance with article 39 of the Regulations of the Board of Directors, the Audit Committee is in charge of, amongst others, ensuring the efficiency of the internal audit and reviewing the internal control and risk management systems, as well as discussing with external auditors any significant weak points in the internal control system.

**C.1.33 Is the secretary of the board a director?**

Yes  No

In case the Secretary is not a member of the Board, please complete the following section:

Name of the Secretary	Representative
Mr. Vicente Conde Viñuelas	N/A

**C.1.34 Deleted section**

**C.1.35 State the mechanisms, if any, established by the company to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.**

Article 39.7(c) (iii) of the Regulations of the Board of Directors provides that the Audit Committee, will “*monitor the independence of the external auditor, to which end, the company shall:*

- *Notify any change of auditor to the CNMV as a relevant fact, accompanied by a statement of any disagreements arising with the outgoing auditor and, should this be the case, their content.*
- *Ensure that the company and the auditor comply with current regulations on the provision of non-audit services, the limits on the auditor's business concentration, the regulations referring to the requirement to rotate the auditor issuing the audit report, and in general, any other provisions established in order to ensure the independence of the auditors.*
- *The Audit Committee shall issue a report annually, in which it shall express its opinion on the auditors' independence. This report shall refer in any case to the provision of additional services provided by the auditors to the company or to any entity associated with the company, whether directly or indirectly.*
- *To this end, the Audit Committee shall receive the auditors' written confirmation of their independence in respect of the company, and any of its associated entities, whether directly or indirectly, as well as any information on additional services of any kind that they have provided to the company or any of its associated entities, whether directly or indirectly.*
- *In the event that the external auditor withdraws, the circumstances motivating this withdrawal shall be examined.”*

**C.1.36 State whether the company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:**

Yes  No

**If there has been any disagreement with the outgoing auditor, provide a description thereof:**

N/A

**C.1.37 State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:**

Yes  No



	Company	Group	Total
Amount of other non-audit work (thousands of euros)	83	270	353
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	36.22	12.68	14.97

**C.1.38 State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.**

Yes  No

**C.1.39 State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:**

	Company	Group
Number of continuous financial years	10	10
Number of years audited by the current audit firm/ Number of years in which the company has been audited (%)	100	100

**C.1.40 State whether there is any procedure for directors to hire external advisory services, and if so, describe it:**

Yes  No

Describe the procedure
<p>Article 24 of the Regulations of the Board of Directors expressly states that <i>"for the purpose of assisting the Directors in the performance of their duties, the external Directors may request the company to hire legal, accounting or financial advisers or any other experts, whose services shall be paid by the Company.</i></p> <p><i>Such engagement shall necessarily address specific problems of certain significance and complexity, arising in the context of the performance of their duties.</i></p> <p><i>The request for contracting advisers or external experts should be addressed to the Chairman of the Board of Directors and shall be authorized by the Board of Directors if, in its opinion:</i></p> <ul style="list-style-type: none"> <li><i>(a) it is necessary to ensure the effective performance of the duties entrusted to the independent Directors;</i></li> <li><i>(b) the cost of this assistance is reasonable, in view of the importance of the issue and given the assets and income of the Company; and</i></li> <li><i>(c) the technical assistance sought cannot be provided adequately by Company experts and specialists.</i></li> </ul> <p><i>In the event that the request for expert assistance were made by any of the Committees of the Board of Directors, it may not be refused, unless the majority of Directors considers that the</i></p>

*circumstances established in paragraph 2 of this article do not apply.”*

**C.1.41 State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of governing bodies and, if so, describe it:**

Yes  No

Describe the procedure
<p>Article 30.3 of the Regulations of the Board of Directors provides that “<i>As the Chairman of the Board of Directors is responsible for the effective operation and functioning of the Board of Directors, it shall be required to ensure that the Directors are provided with sufficient information beforehand; (...)</i>”. In practice, this means that the information required for a particular session is available at least at the moment of its call and, sometimes, according with the complexity of the matter, with enough anticipation. Likewise, the Board of Directors has set up an intranet so, amongst others, the information is available by electronic means and confidentiality is safeguarded, as well to enhance the previous accessibility of the information.</p> <p>In addition, article 23 of the Regulations of the Board of Directors provides that each director is entitled to ask for additional information, and the article regulates this requests.</p>

**C.1.42 State whether the company has established any rules requiring directors to inform the company—and, if applicable, resign from their position—in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:**

Yes  No

Describe the rules
<p>Article 17.2 of the Regulations of the Board of Directors provides that:</p> <p><i>“Directors must tend their resignation to the Board of Directors and, where considered appropriate by the Board, formalize the appropriate resignation in the following circumstances:</i></p> <p>[...]</p> <p><i>(c) When they are affected by any of the incompatibility or prohibitions provisions legally established;</i></p> <p><i>(d) If they are severely reprimanded by the Board of Directors on the basis of a report by the Appointments and Remuneration Committee as a result of having breached their duties as Directors; or</i></p> <p><i>(e) When their continued presence on the Board of Directors may jeopardize the interests of the Company.</i></p> <p><i>When a Director is removed from its office before the end of the term of office following its resignation or for whatever other reason, the Director shall explain the reasons for doing so in a letter addressed to all the members of the Board of Directors. Even if said removal is communicated as a relevant fact, the reasons for said removal will be included in the Annual Corporate Governance Report.”</i></p>

- C.1.43 State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of a bench trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:**

Yes  No

**State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.**

N/A

- C.1.44 Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.**

The Multicurrency Facilities Agreement signed by the company on 7 May 2014, with certain financial institutions, as amended and restated on 26 June 2015, includes early maturity clauses in the event of a change in control, in standard terms for contracts of this kind.

Further information on significant agreements entered into by the company in the last few years can be found in the prospectus dated 25 April 2014, published within the framework of the company's shares listing in the Barcelona, Bilbao, Madrid y Valencia stock exchanges. The prospectus can be found at the "Investor Relations / Financial Reports" section of the company's web page (<http://www.applus.com/en/InvestorRelations/Financial-reports>).

- C.1.45 Identify on an aggregate basis and provide a detailed description of the agreements between the company and its governing bodies, management or employees that provide for indemnities, guarantee or "golden parachute" clauses upon resignation or termination without cause, or if the labour relationship is terminated as a result of a takeover bid or other type of transaction.**

**Number of beneficiaries:** 10

**Type of beneficiary**

Chief Executive Officer and members of the management committee

**Description of agreement**

The company has entered into severance payment arrangements ("*blindajes*") with the Chief Executive officer and nine (9) members of the senior management team who are part of the management committee. The amounts payable to senior management pursuant to the severance payment arrangements may be determined by reference to one of the three following parameters, as applicable: (i) a compensation equal to twice the gross annual compensation received by the relevant senior manager in the year immediately preceding termination of employment; (ii) a compensation (net of tax) equal to twice the net annual monetary compensation received by the relevant

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senior manager in the year immediately preceding termination of employment after withholding taxes; (iii) a compensation (net of tax) equal to the greater of (a) twice the net annual monetary compensation received by the relevant senior manager in the year immediately preceding termination of employment and (b) compensation resulting from calculating 45 days of salary per year of service, with a maximum amount of 42 monthly payments; (iv) a compensation equal to the greater of following amounts: (a) the aggregate of two years of the fixed salary paid at the moment of termination plus twice the annual bonus received 12 months before the contract termination; (b) the legal compensation which might correspond for the contract termination; (v) a compensation equal to the aggregate of the following amounts: the aggregate of two years of the fixed salary paid at the moment of termination plus twice the annual bonus received 12 months before the contract termination (vi) a compensation equal to the greater of following amounts (a) twice the gross monetary compensation received in the last twelve months and (b) the compensation that results from calculation 33 days of salary per year of services with a maximum 24 monthly payments.

Pursuant to the arrangements entered into by the group, certain senior managers (including the CEO) are entitled to severance payments in case described in preceding paragraph in the following cases: (i) their employment is terminated by the company, except in case of fair disciplinary dismissal ("*despido disciplinario procedente*") declared by a final judgment and (ii) in some of the cases (not including the CEO) in the event they decide to early terminate their employment with the group (whatever form and cause), except in case of resignation ("*dimisión*").

In addition to these 10 managers, there are others in the company, who do not report directly to the CEO and have severance payment arrangements ("*blindaje*").

**State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:**

	Board of directors	General shareholders meeting
Decision-making body approving the provisions	YES	NO

	YES	NO
Is information about these provisions provided to the shareholders at the general shareholders' meeting?		X

NOTE: The severance arrangements ("*blindajes*") of the CEO will be informed in 2017 General Shareholders Meeting, as they were in 2016 General Shareholders meeting.

**C.2 Committees of the board of directors**

**C.2.1 Describe all of the committees of the board of directors, the members thereof, and the proportion of proprietary and independent directors of which they are comprised:**

**AUDIT COMMITTEE**

Name	Position	Class
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MR. ERNESTO GERARDO MATA LÓPEZ	CHAIRMAN	INDEPENDENT
MR. NICOLAS VILLÉN	MEMBER	INDEPENDENT
MS. MARIA CRISTINA HENRÍQUEZ DE LUNA	MEMBER	INDEPENDENT
% proprietary directors		0
% independent directors		100
% other external		0

**Explain the functions of the committee; describe the procedures and organization rules and its functioning, as well as the main performance of the year.**

The members of the Audit Committee are appointed by the Board of Directors. The Audit Committee consists of three to five members of the Board of Directors, based on their knowledge and experience in accounting, auditing and risk management matters.

Audit Committee's functions are listed in article 29 of the Regulations of the Board of Directors and mainly consist of:

- Informing the General Shareholders meeting on the matters amongst its competence that shareholders may bring up.
- Supervising the preparation of annual accounts and management reports, both individual and consolidated, in order to be drawn up by the Board of Directors according to law.
- To monitor the effectiveness of the internal control of the company, the internal audit, and the risk management, including tax risks, as well as to discuss with the auditor any significant weaknesses in the internal control system detected during the course of the audit, without altering its independence.
- Informing, beforehand, the Board of Directors, in order to be drawn up according to law, about the accuracy and reliability of the annual accounts and management reports, both individual and consolidated, including any periodic financial data forwarded to the markets, the creation or acquisition of holdings in special vehicle purpose entities or those established in countries or territories which are considered tax havens, as well as any other transactions or operations of an analogous nature, which, due to their complexity, might diminish the transparency of the Applus+ group.
- Issuing any reports and proposals requested by the Board of Directors or its Chairman, and others deemed pertinent for the adequate performance of its tasks.
- Supervising compliance with all internal codes of conduct and corporate governance rules, particularly the Regulations of the Board of Directors, in the terms provided therein.
- Ensuring that the company and auditor uphold current rules on the provision of non-audit services, limits on the auditor's workload, rules regarding the need for a turnover in the signatory auditor of the auditing report and, in general, all other provisions established to guarantee the auditors' impartiality.
- The Audit Committee will issue a report each year, giving its opinion about the auditors' impartiality. This report, in any case, will refer to the provision of additional services by the auditors to the company or to any other entity directly or indirectly related thereto.

The main actions of the Audit Committee during 2016 were:

- Monitoring and supervision of actions related to the risk

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- management map;
- Review and supervision of the SCIIF internal model;
- Monitoring of the results of the group on a quarterly basis, as well as periodic supervision of the most relevant accounting estimates.
- Review and approval of external audit fees.
- Issuing reports for amendment of the Board of Directors Regulations.

**Identify the member of the audit committee who has been appointed considering its knowledge and experience in accounting, audit or both and detail the number of years that the chairman of the committee has been in office.**

<b>Name of the experienced director</b>	Mr. ERNESTO GERARDO MATA
<b>Number of years of the chairman</b>	3

NOTE: All three members of the Audit Committee (as described in their profiles in section C.1.3 above) are experts in the subject and have been appointed considering their knowledge and experience in accounting and audit.

**APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
MR. JOHN DANIEL HOFMEISTER	CHAIRMAN	INDEPENDENT
MR. RICHARD CAMPBELL NELSON	MEMBER	INDEPENDENT
MR. CLAUDI SANTIAGO PONSÁ	MEMBER	INDEPENDENT

<b>% proprietary directors</b>	0
<b>% independent directors</b>	100
<b>% other external</b>	0

**Explain the functions of the committee; describe the procedures and organization rules and its functioning, as well as the main performance of the year.**

It consists of at least three and a maximum of five Directors, appointed by the Board of Directors for a period not exceeding their term as Directors and without prejudice to being re-elected, insofar as they are also Directors. The Board of Directors designate the members of the Appointments and Compensation Committee, based on the knowledge, skills and experience of the Directors and the tasks entrusted to the Appointments and Remuneration Committee.

Appointments and Compensation Committee's functions are:

- Reporting any proposed appointments and re-elections of Executive and Proprietary Directors, making proposals to appoint Independent Directors.
- Reporting any proposed removals of members of the Board of Directors.
- Verifying the nature of each Director, checking that requirements are met to be classified as executive, independent or proprietary.
- Evaluating the competences, knowledge and necessary experience on the Board of Directors, consequently defining the necessary candidate tasks and skills to cover each vacancy, evaluating the necessary time and dedication in order to adequately perform their task.
- Examining or arranging, as deemed adequate, the succession of the Chairman and top executive and, if necessary, making proposals to the Board of Directors in order for this succession to take place in an orderly and well planned manner.

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- Annually reporting on performance of tasks by the Chairman of the Board of Directors and top executive of the company.
- Reporting any appointments and removals of the Secretary of the Board of Directors and senior executives proposed by the top executive to the Board of Directors.
- Providing information to the Board of Directors about any gender diversity matters, ensuring that when new vacancies arise, selection procedures have no implicit biases that hinder the selection of female Directors; ensuring that the company deliberately searches for, and includes amongst potential candidates, women who meet the professional profile sought.
- Preparing and keeping a record of situations involving Directors and senior executives of the company, receiving and safeguarding in this register any personal details provided by Directors, as provided in article 29 of the Regulations of the Board of Directors.
- Receiving any information provided by Directors.
- Proposing to the Board of Directors a remuneration policy for Directors and senior executives.
- Proposing to the Board of Directors the individual remuneration of executive Directors and other contractual conditions.
- Proposing to the Board of Directors the basic conditions of senior executive contracts.
- Ensuring that the remuneration policy established by the company is followed.

Main 2016 actions of the Appointments and Compensation Committee were:

- Approval of executive Director's remuneration and bonus payment;
- Design of the new Long Term Incentive Plan ("LTI") for executive Director, approved by the general shareholders' meeting;
- Salary review, bonus payment, LTI award approval and change in contract terms, when applicable, of senior management.
- LTI approval for certain non-senior management and its conditions;
- Approval of appointment of senior managers undertaken in 2016 and related arrangements;
- Board, Committee, Chairman and Executive evaluation;
- Annual Report on Remuneration approval;
- Report on roles, responsibilities, and necessary approvals by Committee, Board and shareholders meetings in the matters of its competence;
- Approval of Board's remuneration policy;
- Selection, proposal and reports for appointment of new Board member;
- Directors' Selection Policy;
- Assistance in preparing and attending meetings held with investors and proxy advisors in matters of its competence.

**CORPORATE SOCIAL RESPONSIBILITY COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
Mr. CHRISTOPHER COLE	CHAIRMAN	INDEPENDENT
Mr. RICHARD CAMPBELL NELSON	MEMBER	INDEPENDENT
Mr. FERNANDO BASABE ARMIJO	MEMBER	EXECUTIVE

<b>% executive directors</b>	33.33
<b>% proprietary directors</b>	0
<b>% independent directors</b>	66.67
<b>% other external</b>	0

**Explain the functions of the committee; describe the procedures and organization rules and its functioning, as well as the main performance of the year.**

The Corporate Social Responsibility Committee comprises a minimum of three and a maximum of five Directors appointed by the Board of Directors, for a period not exceeding that of their term as Directors and without prejudice to their ability to be re-appointed insofar as they were re-appointed as Directors. The Board of Directors will appoint the members of the Corporate Social Responsibility Committee based on the expertise, skills and experience of the Directors and the commitments of the Corporate Social Responsibility Committee.

Corporate Social Responsibility Committee's functions are:

- To promote the Corporate Social Responsibility strategy of the company and of the Applus+ Group ensuring the adoption and effective implementation of good practices in the field of corporate social responsibility, good governance, ethics and transparency and procuring that expectations of the various stakeholders in the framework of value creation are taken into account.
- To submit to the Board of Directors the initiatives and proposals it deems appropriate and inform on the proposals submitted for the consideration thereof, ensuring that the business strategy of the company is aligned with the values of the Corporate Social Responsibility Policy approved by the Board of Directors.
- In particular, to design, define and approve initiative and according development plans for the achievement of the goals previously set up according to the Corporate Social Responsibility Policy of the company and to such other policies or codes that, within the scope of its functions, it may promote.
- To define the necessary organization and coordination for the implementation of such initiatives and strategies for Corporate Social Responsibility including, if necessary, the possibility to appoint ad-hoc committees to monitor specific areas that, in its view, may require specialized dedication.
- To assess, review and monitor the development and implementation of initiatives and plans of the company in implementing the Corporate Social Responsibility Policy, by monitoring their compliance with the indicators defined.
- To report, prior to its approval by the Board of Directors, on the Annual Corporate Social Responsibility Report and to coordinate whenever necessary the process for reporting non-financial information in accordance with applicable regulations and international reference standards.
- To issue the reports and take such other actions on Corporate Social Responsibility matters as may be requested by the Board of Directors or by its Chairman.

During 2016, the CSR Committee worked on three main areas:

- Corporate governance: the CSR Committee performed the



corporate governance analysis of the Company in comparison with the applicable recommendations and best practices, and designed an action plan for 2016 which included, amongst others improvements, the approval of the Directors' selection policy, the policy on communication and contacts with shareholders, institutional investors and proxy advisors (and the engagement in corporate governance with these stakeholders) and the tax strategy, the issuance of reports for the annual general meeting and the suppression of the supervisory committee. Likewise, it took note of those recommendations that the Company opted to "explain".

- **Business ethics:** the CSR Committee has made concerned efforts in this area, with the monitoring of the reports issued by the Chief Compliance Officer. Likewise, it has proposed amendments to the Code of Ethics and Anti-corruption policy, improving the annual training of the Company in the subject (new online course which has achieved 100% completion), continued due diligence of third parties representing the Company or its subsidiaries through an external software, approval and implementation of a Compliance Management System for criminal risk.
- **Environment / Sustainability:** an action plan has been approved, with measurable improvement objectives and issuance of the first CSR report. Included within the numerous actions in this plan, were: promoting events related to health and safety (Safety Day organised worldwide and actions of communication of "11 golden safety rules"); in the HR area (improvement of the training hours per employee, talent management and internal succession in positions within the organisation) and Innovation (130 projects and 6 new patents).

**C.2.2 Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:**

	Number of female directors							
	Year 2016		Year 2015		Year 2014		Year 2013	
	Number	%	Number	%	Number	%	Number	%
<b>Audit Committee</b>	1	33.33	0	0.00	0	0.00	0	0.00
<b>Appointments and Compensation Committee</b>	0	0.00	0	0.00	0	0.00	0	0.00
<b>Corporate Social Responsibility Committee</b>	0	0.00	0	0.00	0	0.00	0	0.00

**C.2.3 Deleted section.**

**C.2.4 Deleted section.**

**C.2.5 State, if applicable, the existence of regulations of the board**

committees, where such regulations may be consulted and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

Rules for Board Committees are included in the Regulations of the Board of Directors, which establish their competences, composition, procedures, etc.; these are available for consultation both on the CNMV website and the [www.applus.com](http://www.applus.com) corporate website, and may be directly accessed through the following link: <http://www.applus.com/es/InvestorRelations/Corporate-governance>.

See section C.1.18 for details regarding amendments of Regulations of the Board of Directors.

**C.2.6 Deleted section.**

**D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS**

**D.1. Describe any procedures for approving related-party and intragroup transactions.**

<b>Procedure for the approval of related-party transactions</b>	
<b>D.</b>	Further to article 7.2 h) of the Regulations of the Board of Directors and article 529 ter of Companies Act, transactions carried out by the company or companies of the Applus Group with its directors, significant shareholders, and shareholders represented on the Board of Directors of the company or any Applus group company, or with persons associated with them, must be approved by the Board of Directors on the basis of a prior report by the Audit Committee.

**Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:**

N/A

**D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:**

N/A

**D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.**

**In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:**

N/A

**D.5. State the amount of transactions with other related parties.**

0 (thousands of Euros)

**D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.**

Article 19 of the Regulations of the Board of Directors specifically regulates conflicts of interest:

*“The Directors shall perform their duties with the loyalty of a faithful representative, acting in good faith and in the best interest of the Company. In particular, the duty of loyalty obliges the Director:*

- a) ...
- b) ...
- c) *To refrain from participating in the discussion and voting on resolutions or decisions in which they or a person related to them has a, direct or indirect, conflict of interest. The agreements or decisions relating to them in their condition of Directors, including their appointment or revocation for the positions on the Board or others analogous in nature, shall be excluded from the above obligation of refrain from participating and voting.*
- d) *To perform their duties under the principle of personal responsibility with freedom of judgement or good judgement and independence with regard to the instructions and links to third parties.*
- e) *To adopt the necessary measures to avoid finding themselves in situations in which their interests, on their own account or that of a third party, may conflict with the corporate interest and their duties to the Company.*
- f) *In particular, the duty to avoid the conflicts of interest referred to in the previous paragraph obliges the Director to refrain from:*
  - (i) *Carrying out transactions with the Company, except in the event of ordinary transactions, carried out under standard conditions for the clients and non-material, defined as those transactions whose information is not necessary to present a fair view of the Company’s equity, the financial situation and the results of the entity.*
  - (ii) *Using the name of the Company or using their status as Director to unduly influence private operations being conducted.*
  - (iii) *Making use of the corporate assets, including the confidential information of the Company, for private purposes.*
  - (iv) *Taking advantage of the business opportunities of the Company.*
  - (v) *Obtaining advantages or remuneration from third parties other than the Company and the Applus+ Group associated to the performance of their duties, except in the case of the corporate hospitality.*
  - (vi) *Carrying out activities on their own account or on behalf of a third party which entail effective competition, whether actual or potential, with the Company or that, otherwise, would create a permanent conflict of interests with regard to the interests of the Company.*
- g) *The foregoing provisions shall also apply in the event that the beneficiary of the acts or activities prohibited is a person related to a Director.*
- h) *In any case, the Directors shall inform the other Directors and the Board of Directors of any conflict, direct or indirect, that they or persons related to them may have with the interests of the Company.*
- i) *The conflict of interest of the Directors shall be disclosed in the Notes of the financial statements”*

Likewise, article 7.2 (h) of the Regulations of the Board of Directors establishes that the following is a matter reserved for the Board of Directors: *“the approval,*

subject to a prior report from the Audit Committee, of the transactions carried out by the Company or companies of the Applus+ Group with its Directors, shareholders, whether on their own or together with others, considered as significant, including the shareholders represented on the Board of Directors of the Company or of other companies that are part of the Applus+ Group, or with persons related thereto". This shall not apply for transactions which fulfil the following conditions: (a) they are carried out under the terms of contracts whose conditions are standardized and applied to a large number of clients; (b) they are implemented at prices or rates generally set by the person supplying the good or service in question; and (c) the value of these transactions does not exceed 1% of the annual turnover of the Company.

Finally, section 4.11 of the Code of Ethics establishes the mechanisms to follow before situations of conflict of interest of Applus+ employees.

**D.7. Is more than one company of the group listed in Spain?**

Yes  No

**Identify the subsidiaries listed in Spain:** N/A

**Listed subsidiary**

**Identify if each activity areas and eventual business relationships have been public and accurately, as well as those of the listed subsidiary with the other companies of the group:**

Define the business relationships between listed parent Company and listed subsidiary, and between the latter and other companies of the group.

**Identify the mechanisms foreseen to resolve potential interest conflicts between the listed subsidiary and other companies of the group:**

Mechanisms foreseen to resolve potential interest conflicts

**E. RISK CONTROL AND MANAGEMENT SYSTEMS**

**E.1 Explain the scope of the company's Risk Management System, including the tax risks.**

The Applus+ Group has a Corporate Risk Map, which has identified critical risks in strategic terms, or related to government, compliance and financial reporting, which could affect the achievement of its strategic objectives.

This risk map has incorporated those factors deemed critical, considering all of the Group's lines of activity, geographical areas where it operates and its business divisions, as well as any risk factors deemed critical in relation to support functions (such as finances, human resources, legal and tax).

Critical risks have been identified and prioritised by the volume of business affected, possible inactivity if the risk materialises and potential reputational damage in the event of an incident.

The Board of Directors is ultimately responsible for the existence and maintenance of an internal control and risk management system that is adequate and effective, tax risks included. This

supervision function has been entrusted to the Audit Committee.

In addition, the company has developed a criminal risk map and approved a Criminal Risk Management and Crime Prevention Handbook in accordance with article 31 bis of the Criminal Code and other applicable laws. Under CSR Committee instigation, it has reviewed and strengthened the existing Corporate Compliance Program, by designing and implementing in the group the new Applus+ Criminal Risk Management and Crime Prevention System (hereinafter, the System), which is described in the referred handbook. The group has implemented the System by deploying the necessary internal control and surveillance measures to ensure compliance with criminal laws and to avoid the occurrence of offenses of which, in accordance with Spanish Criminal Code, any group company might be held responsible or, in case these cannot be avoided, at least to significantly reduce the risk of they taking place. Prevention is one of the main objectives of the System, the other one being to make possible the quick detection and reaction before any potential criminal offense in the group. The Company shall continue to deploy the implementation of the System in line with the annual plan that the CSR Committee approves.

**E.2 Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the tax one.**

Pursuant to Article 7.2 (vii) of the Regulations of the Board of Directors, the Group's Board of Directors is in charge of all risk control and management policy, tax risks included, and will periodically follow up on any internal reporting and control systems, by optimising the cost/benefit ratio, in order to:

- Reach any medium-term strategic objectives
- Safeguard shareholder value
- Give assurance the Group's results and reputation
- Uphold the interests of the Group's shareholders and stakeholders
- Ensure compliance with tax regulations in those countries where it operates

The Audit Committee, pursuant to Article 39.7 (a) (ii), is in charge of periodically reviewing any internal control and risk management systems in order to ensure that any main risks are identified, managed and adequately understood, including discussions with the auditors on any significant weaknesses in the internal control system detected during the audit. To do this, the Committee is backed up by the supervision tasks completed by the Group's Internal Audit Management. Supervision of any risk control systems includes approval of the risk model and periodic supervision, at different intervals depending on their importance.

The Group's Chief Executive Officer is in charge of handling these risks, as well as the heads of each corporate functional area and the Executive Vice President of each business Division, in accordance with their scope of activity, according to acceptable risk levels for the company.

The Internal Audit Management is in charge of supervising

compliance with risk tolerance, the effectiveness of control systems and following up on the implementation of necessary actions, which are subsequently monitored by the corporate functions affected.

**E.3 Point out the principal risks, including tax risks that could affect the achievement of business goals.**

The Applus+ Group risk map covers any risks that may have a significant impact on its results, to the best of its understanding. The risks contemplated in this map may be classified as follows:

1. derived from the Group's organisational model
2. inherent to business activities
3. regulatory and compliance risks in those countries where it operates (legal, tax, human resources, etc.)
4. financial

The main risk for the Group that could arise from its organisational model would be the risk of non-compliance of its Internal Authority Delegation Policy (predefined scope for decision-making) by the managements of its subsidiaries.

These are the main risks managed by the Group as regards its business activities:

- Adequate supervision of the Group's business based on long-term agreements (e.g. concessions in the technical vehicle inspection business in Spain, Europe and America) or IDIADA, providing services to the world's leading vehicle manufacturers.
- Adequate follow-up on the formal and service quality terms in any services provided based on granted accreditations. In this regard, the Group has taken out insurance policies in order to cover any third party damage related to potential negligence when providing the services offered by the Group in all sectors where it is present.
- Risks related to the economic, social and political situation of the countries where the Group operates, as well as the main macroeconomic indicators that could have a short and medium-term impact on Applus+ Group's results, particularly considering its geographic spread.
- Retention of key staff.

In financial terms, the Group manages and monitors the main risks that could affect Applus Group's results:

- Liquidity and leverage
- Overestimating certain significant assets (such as goodwill, intangible assets generated as a result of inorganic growth, as well as tax assets).
- Exchange rate risk resulting from the Group's international activity.
- Interest rate risk (which could increase the cost of its debt).

**E.4 Identify whether the entity has a risk tolerance level, including within tax.**

Tolerance levels are defined in the risk valuation matrix, as the starting point to evaluate any risks classified as inherent and residual.

Tolerance levels are defined according to the following parameters:

- Maintenance of quality standards
- Volume of business affected and potential impact on business sustainability
- Impact on reputation and on business continuity
- Compliance with applicable law (tax laws included)
- Probability of materialising

For those risks deemed critical, given the impact upon materialisation on the achievement of the Group's objectives, specific tolerance levels are defined, indicating action guidelines, timeframe to achieve, people in charge, follow-up indicators; the frequency and content is also established of any information to be provided to governing bodies for follow-up and decision-making.

**E.5 State what risks, including tax ones, have materialize during the financial year.**

The following risks have materialised during 2016 and have had an impact on the Group's results:

- In 2016, the Group's business related to the oil & gas market was affected by the challenging conditions, resulting in pressure on prices and lower volumes of work in most geographical areas and services. However, during the second half of the year, the negative impact of the downturn reduced. The Group has continued to adopt the necessary measures in order to mitigate effect of this impact.

With respect to events occurring in 2016, related to risks foreseen by the Group without a significant impact on its results, the following are of interest:

- The Group has completed impairment tests for all cash-generating units in relation to its goodwill and intangible assets, concluding that in 2016 it was not necessary to register any additional impairment.

The Group has not been involved in any new litigation that could have a relevant impact on its results; and currently open litigation actions have not led to events which could modify previous fiscal year's accounting accruals. The Directors do not expect any material tax liabilities to arise as a result of a potential inspection.

**E.6 Describe the plans for responding to and supervising the entity's main risks, including the tax ones.**

The Applus Group has an updated risk map contemplating any material risks from a strategic point of view, or related to

governance, regulatory compliance, including tax and financial reporting rules, which could affect the achievement of its strategic objectives, as well as the risk of fraud.

To do this, the Group has implemented measures to mitigate these risks, in order to reduce any potential impact. Furthermore, for any other risks not impacting to the same extent or which are not covered, an action plan has been designed, assigning managers of each respective initiative and an execution calendar. The idea is to thus start up the necessary measures to reduce the impact of such risks, should they materialise.

These measures are generally executed by the Group's Management; the Audit Committee and, ultimately, the Board of Directors of the Group are the two bodies in charge of supervising and approving the measures carried out.

In tax compliance risks which entail a high technical difficulty related to regulations interpretation, the Group resorts to external advisors in order to obtain a third party opinion on any foreseeable risks if a certain transaction is carried out, mitigating them before they appear and using any instruments available in tax laws (prior evaluation agreements, binding consultations, etc.), in those cases where i) this is deemed appropriate in order to reduce any disagreement derived from application of the tax rule, and ii) this is reasonable based on the instruments available, the issue in question and foreseeable timeframes.

In addition, the Group has internal control and risk management systems and tools that allow for constant monitoring and tracking of any action plans and incidents identified in the reporting and review of financial information.

Furthermore, the Group has taken out insurance policies to cover any damage that may be caused to third parties as a result of negligence when providing its services, including its subsidiaries, in those sectors where it operates.

**F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFR)**

**Describe the mechanisms of control and risk management system regarding the financial information issuance process (SCIIF) of the entity.**

**F.1 Control environment of the entity**

**Inform, pointing out the main characteristics, of:**

**F.1.1 What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control system over financial reporting (ICFR); (ii) the implementation thereof; and (iii) oversight thereof.**

Applus+ Group's Internal Control over Financial Reporting (hereinafter, "ICFR") is part of its general internal control system and makes up a group of processes carried out by the Board of



Directors, the Audit Committee, the Management and the Group's staff, in order to ensure reasonable safety regarding the reliability of any financial information disclosed to the markets.

The Board of Directors of the Applus+ Group is the Group's senior decision-making body, entrusting all regular management to the executive bodies and management team and, consequently, concentrating on its supervision function. The Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR, and has delegated this task to the Audit Committee. ICFR supervision is implemented through activities of this kind, carried out by the Internal Audit function.

The Group's internal control model for financial reporting has three distinct areas of control: (i) self-evaluation of the persons in charge of all processes and critical controls, (ii) review of the financial evaluation process by the Financial Managements in each Division and by the Corporate Financial Management in the consolidation process, and (iii) evaluation of the efficiency and efficacy of controls and risk identification by the Internal Audit Management.

The Group's Corporate Financial Management carries out the following tasks in relation to the ICFR:

To review and approve any accounting Policies and Manuals incorporated into the Group's Financial Management Intranet.

To establish and disseminate the necessary procedures to ensure adequate internal control of financial reporting.

To establish and maintain internal controls on financial information, to ensure its reliability, and to guarantee that all reports, transactions or other relevant events are communicated in due form and time.

To establish and maintain internal tax controls, in order to ensure the timely filing of accurate and complete tax statements.

During 2016, an Internal Control Model over Financial Reporting has been implemented, in order to guarantee its reliability.

**F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:**

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Applus+, through its Chief Executive Officer, entrusts the Corporate Financial Management with designing and reviewing the organisational structure involved in financial reporting. The Management outlines the structure and how responsibilities are distributed, as well as their design procedure, review, update and dissemination; this procedure is documented in flowcharts (organisational structure) and the process model and associated regulations, as part of the Applus+ Group's policy catalogue.

Furthermore, lines of authority and responsibility have been defined in all relevant processes by formalising the Model for Delegation of Authority and Responsibility, which includes any critical decisions of the Group that may eventually affect financial reporting.

As regards the financial reporting preparation process, instructions are issued by the Corporate Financial Management establishing specific guidelines and responsibilities for each closing of the

accounts (procedures explaining the main tasks, both in the corporation and in each subsidiary company), to include the IFRS Internal Manual.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.**

The Applus+ Group has a Code of Ethics and Anti-Corruption Policy in place, approved by the Board of Directors, which specifically refer to the registration of transactions and financial reporting, as well as compliance with the law and the Group's accounting policies, amongst others. Furthermore, all employees have been specifically trained and are obliged to explicitly accept both rules each year.

The main values and principles gathered in the Code of Ethics are integrity, honesty and responsibility. Furthermore, the Code of Ethics includes a commitment to strictly fulfil the obligation to provide reliable financial information, prepared under applicable regulations, and the responsibility of the company's employees and executives to ensure that this is so, both by adequately carrying out their tasks and by informing the governance bodies of any circumstance that could affect this commitment.

The body in charge of analysing any potential non-compliance, proposing corrective action, is the Corporate Social Responsibility (CSR) Committee of the Applus+ Group, along with the Group's Compliance Management.

- **Whistleblowing channel that makes it possible to report any irregularities of a financial or accounting nature to the Audit Committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

The Applus+ Group has put in place, and encourages the use of, an internal whistleblowing channel allowing the reporting of potential infringements of the Code of Ethics and other irregular activities.

All communications are received, analysed and followed through by the Chief Compliance Officer. All complaints and their processing will be kept confidential. There is a unique whistleblowing channel for the entire Group and is available on the corporate Intranet.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control system over financial reporting, covering at least accounting standards, auditing, internal control and risk management.**

As regards the training and periodic refreshment courses in matters that may affect the reporting and publication of financial information, Applus+ believes that development and continuous training of its employees and executives is essential. Furthermore, it is the Group's plan to arrange specific training sessions on issues related to the ICFR for the staff involved in drawing up the Group's financial statements. To do this, constant communications with external auditors and other independent third professionals will guarantee this continuous training, amongst other issues.

Any training needs detected and provided at corporate level are

extended to all other financial managers in the Group's subsidiaries, through a "Finance Community Meeting" held each year; training will be a key point of the agenda, including individualised sessions if deemed appropriate.

**F.2 Risk assessment of financial information indicates at least the following:**

**F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:**

- **Whether the process exists and is documented.**
- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated and how often.**
- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities or special purpose entities.**
- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) to the extent that they affect the financial statements.**
- **What corporate governance body of the entity supervises the process.**

The Appplus+ Group has a Risk Management Policy in place that establishes the basic principles and general action framework to control and manage any risks whatsoever it may face. This policy is developed and complemented with the Risk Management Procedure, containing:

- **Methodology to identify new risks and to periodically evaluate existing ones, establishing common and homogenous parameters for the entire Group.**
- **Decision-making process over action plans directed at mitigating the risks detected.**
- **Procedures established to adequately monitor risks by defining objective indicators.**
- **Maintenance of an internal control system to monitor, assess and improve the control measures applied to existing risks.**

The methodology used to select the risks to be taken into account is COSO (Committee of Sponsoring Organizations for the Treadway Commission). The criteria used to identify the most relevant processes include quantitative criteria (materiality) and qualitative criteria (business risk, visibility to third parties and reputational risks). Any risks identified are prioritised by professional opinion based on a series of variables (process level of automation, whether the process is known and/or it is necessary to use judgments and estimates). In addition, risks of fraud are implicitly identified insofar as they may generate material errors in financial information. Furthermore, the process to identify a risk of errors in financial reporting takes into account the effects of other types of risk, which are evaluated and managed by various corporate units.

As a result of applying its Risk Management Policy, the Group has developed risk matrixes and controls for its relevant business processes, specifically for each subsidiary of significant relevance in the consolidated Group. Each risk identified in the process to draw up consolidated financial statements is associated to the

processes and different financial lines deemed significant (either by contribution to the consolidated financial statements or due to other more qualitative factors) and to the Group's companies under the ICFR scope. Specifically, the foregoing has been completed for subsidiary companies which, in aggregate, represent more than 80% of the Group's sales. Once the applicable ICFR scope in the Applus+ Group is defined, based on identified risk matrixes, control activities have been designed to cover such risks.

Any risks identified as relevant are reviewed at least once a year, during the certification and evaluation process conducted by the managers on the effectiveness of the company's internal control. The object of this review is to update any risks to changing circumstances where the Group operates, particularly if there are changes in the organisation, IT systems, regulations, products or the market scenario.

As regards the process of identifying the scope of consolidation, the Group considers that the financial closing and consolidation process is one of the relevant processes that may affect financial reporting. This is why Applus+ has considered all the risks inherent to said processes, ensuring adequate configuration and execution, as well as an accurate identification of the scope of consolidation. As part of this process, the Consolidation Department, which reports to the Corporate Financial Management, periodically reviews any changes in the Group's structure along with the Legal Department.

The process to identify any risk of error in financial reporting is completed and documented by the Internal Audit Management. The entire process is ultimately supervised by the Audit Committee.

### **F.3 Control activities**

**Indicate whether at least the following are in place and describe their main features:**

**F.3.1 Procedures for review and authorisation of financial information, and description of the internal financial information control system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The Corporate Consolidation Management, which reports to the Corporate Financial Management, is in charge of executing procedures to review and authorise financial information and the ICFR description for disclosure to the stock exchange. Furthermore, the task of reporting financial data on a monthly, quarterly, six-monthly and annual basis begins with a view and certification by the financial manager of each subsidiary. Tax information is drawn up by the Tax Management, which reports to the Corporate Financial Management.

Any ICFR documentation, evidence of its execution and supervision, as well as significant events and action plans, are managed through the Group's internal control and risk management system (Applus GRC). This tool provides the following advantages in ICFR terms:

- Centralisation of all documentation and ICFR management of the Group, in a homogenous manner.

- Integration of internal control over financial information in all business and corporate processes, allowing each organisational unit responsible to periodically evaluate its controls, providing the necessary evidence and executing the ICFR internal certification process each year.
- Use of automatic workflows to manage control activities and to launch action plans.
- Provision of a back-up tool for the ICFR supervision and testing process by the Internal Audit Department.
- Procurement and support for the information required for ICFR reporting.
- Integrated internal control over the preparation and presentations of tax returns in those countries where it operates, using automatic workflows to manage tax control activities.

As regards activities and controls directly related to transactions that may have a material effect on financial statements, Applus+ has implemented a control description to mitigate the risk of any material error in information reported to the markets. Furthermore, in each subsidiary, the following information is available for each control activity belonging to significant processes:

- Description of the process and subprocess.
- Description of financial reporting risks associated to various processes, subprocesses and control objectives.
- Definition of control activities designed to mitigate any identified risks.
- Description of the managers of all processes, risks and control activities.
- Classification of control activities implemented or pending implementation (action plans).
- Level of automation of control activities (manual or automatic).
- Classification of each control activity by nature (preventive or detective).
- Definition of control execution frequency.
- Definition of evaluation frequency by the Internal Audit Department.
- Definition of any evidence required.

Each financial closing process carried out in the various divisions is treated as a single process; the same applies to all financial closing activities carried out at corporate level with the consolidation process and the preparation of annual accounts.

As regards any relevant judgements and estimates, Applus+ indicates in its individual and consolidated annual accounts which areas of uncertainty are estimated that could have a relevant impact on the financial information. These mainly refer to:

- The recoverability of deferred tax assets entered into the accounts.
- An estimate, at each date, of the effects of any tax certificates challenged and the outcome of any tax inspections underway, for the financial years audited.

A specific review of any relevant judgements, estimates, valuations, provisions and forecasts, as well as key calculation hypotheses, with a material impact on consolidated financial statements, is carried out through a continuous supervision by the Group's Corporate Financial Management.

Some of the controls implemented to mitigate or manage risks of error in financial reporting are related to the most relevant computer

applications, such as controls on authorised user access or the integrity of information transferred amongst applications and an adequate management of the Company's digital certificate for the filing of tax statements.

**F.3.2 Policies and procedures of internal control of information systems (including, among others, security of access, control of changes, operation thereof, operational continuity and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.**

The Applus+ Group uses SAP-BPC as a common data system to adequately register and control its operations; consequently, its adequate operation is essential and of particular interest to the Group. Specifically, homogenous accounting and reporting systems are in place in most of the Group's companies.

There are two control levels in the process to identify the risk of material errors in financial reporting:

- In each subsidiary, there are controls to ensure that all information reported through SAP-BPC is consistent with local reporting systems, if different.
- At corporate level there are automatic and manual controls, conducted on the main application, in order to generate SAP-BPC financial information and guarantee that the consolidation process is adequately completed.

For those systems and applications identified (used at corporate level to draw up consolidated financial information), the Corporate Systems Management has established a series of policies aimed at ensuring their adequate operation. In particular, there are documented policies on the following:

- Classification of information.
- System access management.
- Data leak prevention.
- Identification and maintenance of critical applications.
- Back-up copies.
- Restrictions on the use of Internet and e-mail.
- Data encryption.
- Third party agreements.
- Protection of equipment.
- Legal compliance.
- Communication of incidents.
- Licences and infrastructure use.

In terms of operative continuity, the Group has improved its already high level of availability in its central data systems, hosted in a main datacentre in Madrid, with a Disaster Recovery or DR solution. This DR is hosted in a secondary datacentre in Barcelona, connected through a high-speed line to the main datacentre. In the unlikely event of force majeure (fire, flood, earthquake, etc.) leaving the main datacentre inoperative, in a matter of hours the DR could restore the most critical business applications.

Additionally, a series of supplementary key controls are carried out by consolidation team members to strengthen the reliability of data systems used in financial reporting.

The Group has an improvement and monitoring plan in its data systems as regards the segregation of duties; it also incorporates into the Audit Plan the supervision of said internal control systems related to the segregation of functions in financial information systems.

**F.3.3 Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation or valuation entrusted to independent experts, which may materially affect the accounts.**

Each year, the Applus+ Group checks which activities executed by third parties are relevant for the financial reporting process.

Over 2016, some Applus+ Group companies, mainly in Spain, have continued to outsource certain activities related to economic, staff and back office management. As a result, certain control and risk management devices have been established with each supplier to guarantee the integrity and accuracy of any financial information reported, such as:

- A person in charge in the Corporate Financial Management.
- Quantifiable indicators to evaluate the quality and integrity of the service received.
- The Corporate Accounting Department has defined monthly review tasks for the financial statements of subsidiaries operating in Spain.

Furthermore, in the rest of the Group, outsourced activities are very circumstantial, or highly centralised in very specific processes or subprocesses, such as the issue of payrolls. These facts are considered a risk in the ICFR model of these companies, for which there is an efficient and effective associated control.

Additionally, when the Applus+ Group considers it necessary to get independent experts involved, upon recruiting these services, it demands in their selection criteria the absence of any doubt on their competence, qualifications, reputation and impartiality.

**F.4 Information and communication**

**Indicate whether at least the following are in place and describe their main features:**

**F.4.1 A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.**

The Corporate Financial Management is in charge of defining, updating and disseminating the accounting policies of the Applus+ Group for reporting consolidated financial data under IFRS-EU regulations (consequently including the information to be reported by each subsidiary). The Applus+ Group has an accounting policy manual (IFRS Internal Manual) for the issue of financial statements under IFRS-EU, which is drawn up by the Corporate Financial Management, is periodically updated (at least once a year) and is published on the Intranet of the Corporate Financial Management, which all staff may access, involved in the drafting and review of financial information.

The functions of the Corporate Financial Management, through the Consolidation Department, include replying to any accounting consultations that may be raised by the various business units or other corporate managements of the Applus+ Group. Furthermore, at meetings held by corporate, division and subsidiary financial

managers, training is arranged on the interpretation and application of any new issues.

Additionally, the Group's external auditor, both in relation to consolidated statements and the most representative subsidiaries in consolidated terms, demands that the financial data reported by these subsidiaries follow the principles enshrined in the Group's Accounting Manual, i.e. IFRS-EU, both in the annual audit and the limited six-monthly audit.

**F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control system over financial reporting.**

The Applus+ Group has various integrated platforms, both for the accounting registrations of transactions and for financial reporting. The issue of regulated financial data, as well as individual financial statements, is centralised in the Finance Management, in order to guarantee homogeneity. In addition, the integrity and reliability of these data systems is validated through the general controls indicated in section F.3.2.

Each month, reportings are received from each company through the SAP-BCP reporting and consolidation tool, gathering all the necessary information to prepare the Group's consolidated financial data (abridged intermediate financial statements and consolidated annual accounts). This reporting guarantees data homogeneity with the following characteristics:

- Homogenous and consistent for all countries and business activities.
- Based on the Applus+ Group's instructions and accounting manual, of which there is just one for all of the Group's companies.
- Incorporation of all applicable legal, tax, commercial and regulatory requirements.
- SAP-BPC incorporates automatic validation controls between the reported financial statements and any additional details requested.

**F.5 Supervision of the operation of the system**

**Indicate and describe the main features of at least the following:**

**F.5.1. The activities of supervision of the internal control system over financial reporting performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control system over financial reporting. Information is also to be provided concerning the scope of the assessment of the internal control system over financial reporting performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.**

The Group's Audit Committee has carried out the following activities during the 2016 financial year in relation to ICFR:

- Supervision of the level of implementation of the ICFR



- model of the Applus+ Group and of any risk matrixes and ICFR controls.
- Supervision of the outcome of any ICFR reviews completed by the Internal Audit Department and external auditor.
- Review of any ICFR information included in the Annual Corporate Governance Report.

The Audit Committee uses the Internal Audit function to supervise adequate operation of the internal control system, including the ICFR, and ensures its impartiality. This function completes independent and periodic reviews on the design and operation of the internal control system, locating any weaknesses and making recommendations for improvement through the issue of various reports, forwarded to the Corporate Financial Management and Audit Committee, as part of the meetings that are periodically held. These reports are submitted to the Audit Committee, along with any action plans adopted by the managers and Corporate Financial Management for mitigation.

Any potential internal control weaknesses identified in reviews conducted by the Internal Audit function are catalogued by criticality as high, medium or low, based on the impact they may have if they materialise. These weaknesses are managed through the Applus+ GRC application, a manager is assigned and a timeframe to carry out an action plan, and their resolution is checked by the Internal Audit function.

As a result of the ICFR evaluation activities carried out by the Internal Audit function in 2016, submitted to the Audit Committee, no material weaknesses have been identified that could have a relevant impact on the financial information of the Applus+ Group in the 2016 financial year; the necessary corrective actions have been established to handle any future weaknesses.

Furthermore, the external auditor, as indicated in section F.7.1, issues an annual report on the procedures agreed regarding the ICFR description made by Applus+, which has not pointed out any issues worthy of mention.

**F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.**

The procedure to discuss any improvements and relevant internal control weaknesses identified is generally based on periodic meetings held by the Audit Committee with the following parties:

- Group's Chief Financial Officer, as the senior manager in charge of financial reporting, explains how the main financial metrics have performed in the period under discussion, including any transactions and the most relevant impacts arising during the period, and communication of the main estimates made.
- The Group's Internal Audit Manager, as the person in charge of supervising the internal control model, ICFR included, reports on the state of any possible weaknesses identified and on the outcome of his reviews.
- The external auditor shares the auditing or limited

review schedule to be carried out during the ongoing year, in relation to the annual accounts, and reports any internal control weaknesses or any other issue that it considers should be notified to the Audit Committee.

The Applus+ Group, both from the Corporate Finance Department and Audit Committee, represented by the Internal Audit function, encourages total collaboration and coordination with the Group's external auditors. As a result, it has direct contact with the Management, holding periodic meetings both to obtain the necessary information for its work and to report any control weaknesses identified further to its audit.

The action plans related to weaknesses detected in 2016 have been instrumented as recommendations, following the prioritisation circuit, allocation of a manager and supervision described in section F.5.1.

**F.6 Other significant information**

There is no other relevant information worth noting with respect to the Internal Control System for Financial Reporting.

**F.7 External audit report**

**Report on:**

**F.7.1 Whether the information on the internal control system over financial reporting has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.**

The Applus+ Group has submitted its ICFR information, disclosed to the markets in 2016, to an external audit. Consequently, the scope of the auditing procedures has been completed according to Circular E14/2013, of 19 July, of the Spanish Institute of Chartered Accountants (*Instituto de Censores Jurados de Cuentas de España*), which publishes the Action Guide and standard auditor's report regarding information related to the internal control system over financial reporting (ICFR) of listed companies in Spain.

**G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

**State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.**

**If the company does not comply with a recommendation or does it partially, a detailed explanation of the reasons should be given so that shareholders, investors and the market in general have sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.**

- 1. The by-Laws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market.**

Complies x

Explain

- 2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:**

- a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;**

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies                      Complies in part                      Explain                      Not applicable x

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies x                      Complies in part                      Explain

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies x                      Complies in part                      Explain

5. 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.

When the board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in applicable laws.

Complies x                      Complies in part                      Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and compensation committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy

Complies x                      Complies in part                      Explain

7. The company should broadcast its general meetings live on the corporate website.

Complies                      Explain x

The Company considers the high level of participation at its later shareholders meeting (<http://www.applus.com/en/InvestorRelations/Shareholders-meetings>), the information and communication channels available for its shareholders. In this sense, the Company does not consider that live broadcasting of its shareholders meetings would significantly increase its transparency. In any case the Company's shall continue to direct its efforts to identify any appropriate measures in order to continue increasing

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transparency and to promote and facilitate communication when convening and celebrating each shareholders' meeting.

8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

Complies x                      Complies in part                      Explain

9. **The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies x                      Complies in part                      Explain

10. **When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) **Immediately circulate the supplementary items and new proposals.**
- b) **Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.**
- c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.**
- d) **After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals**

Complies                      Complies in part                      Explain                      Not applicable x

11. **In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.**

Complies                      Complies in part                      Explain                      Not applicable x

12. **The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies x                      Complies in part                      Explain

13. **The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Complies X                      Explain

14. **The board of directors should approve a director selection policy that:**

- a) **Is concrete and verifiable;**
- b) **Ensures that appointment or re-election proposals are based on a prior**

- analysis of the board's needs; and  
c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies          Complies in part    x          Explain

The Board of Directors of the Company approved in 2016 the directors' selection policy, which promotes the diversity in a wide sense, and in particular, the gender diversity, without including specific reference to the abovementioned objective.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies x          Complies in part          Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.  
b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies x          Explain

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies x          Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.  
b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.  
c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.  
d) Dates of their first appointment as a board member and subsequent re-elections.  
e) Shares held in the company, and any options on the same.

Complies x          Complies in part          Explain

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies                  Complies in part                  Explain                  Not applicable x

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies x                  Complies in part                  Explain                  Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies x                  Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies x                  Complies in part                  Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies x                  Complies in part                  Explain                  Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

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Complies x      Complies in part      Explain      Not applicable

- 25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board of directors' regulations should lay down the maximum number of company boards on which directors can serve.**

Complies      Complies in part x      Explain

While the company does not establish specific rules on the number of Board of Directors of which its directors can be part, the Appointments and Compensation Committee ensures that the non-executive directors have the appropriate time for the fulfilment of their functions. The result of the evaluation described above in section C.1.20 of this report confirmed the appreciation of the members of the Board on such dedication, and particularly the Chairman.

- 26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Complies      Complies in part x      Explain

The Board of Directors meet with sufficient frequency to perform their functions efficiently and particularly, especially considering its international condition, and in particular, during 2015, it met 6 times, which is above the minimum requirements described in article 35.1 of the Board of Directors Regulations, which requires a quarterly frequency.

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Complies x      Complies in part      Explain

- 28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Complies x      Complies in part      Explain      Not applicable

- 29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense**

Complies x      Complies in part      Explain

- 30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Complies x      Explain      Not applicable

- 31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

**For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.**

Complies x      Complies in part      Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies x      Complies in part      Explain

33. The chairman, as the person in charge of the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies x      Complies in part      Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies      Complies in part      Explain      Not applicable x

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies x      Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies x      Complies in part      Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee



*ENGLISH GUIDE TRANSLATION FOR INFORMATION PURPOSES ONLY*

- |  |          |                  |         |                  |
|--|----------|------------------|---------|------------------|
|  | Complies | Complies in part | Explain | Not applicable x |
|--|----------|------------------|---------|------------------|
- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minute.**
- |  |          |                  |         |                  |
|--|----------|------------------|---------|------------------|
|  | Complies | Complies in part | Explain | Not applicable x |
|--|----------|------------------|---------|------------------|
- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**
- |  |            |                  |         |  |
|--|------------|------------------|---------|--|
|  | Complies x | Complies in part | Explain |  |
|--|------------|------------------|---------|--|
- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**
- |  |            |                  |         |  |
|--|------------|------------------|---------|--|
|  | Complies x | Complies in part | Explain |  |
|--|------------|------------------|---------|--|
- 41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**
- |  |            |                  |         |  |
|--|------------|------------------|---------|--|
|  | Complies x | Complies in part | Explain |  |
|--|------------|------------------|---------|--|
- 42. The audit committee should have the following functions over and above those legally assigned:**
- 1. With respect to internal control and reporting systems:**
    - a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.**
    - b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**
    - c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**
  - 2. With regard to the external auditor:**
    - a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.**
    - b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.**
    - c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**
    - d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**
    - e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

*ENGLISH GUIDE TRANSLATION FOR INFORMATION PURPOSES ONLY*

Complies x      Complies in part      Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies x      Complies in part      Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies      Complies in part      Explain      Not applicable x

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balancesheet risks.

Complies x      Complies in part      Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies x      Complies in part      Explain

47. Members of the appointments and compensation committee – or of the appointments committee and compensation committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies x      Complies in part      Explain

48. Large cap companies should operate separately constituted appointments and compensation committees.

Complies      Explain      Not applicable x

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies x      Complies in part      Explain

50. The compensation committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies x      Complies in part      Explain

51. The compensation committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers

Complies x      Complies in part      Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting. d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members

Complies      Complies in part x      Explain      Not applicable

While the majority of the members of the Corporate Social Responsibility committee are independent Directors, including its Chairman, the company has considered it is convenient to include the executive Director in the committee in order to encourage the implementation of the CSR Policy within the group.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies x                      Complies in part                      Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity

Complies x                      Complies in part                      Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies x                      Complies in part                      Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies x    Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies x    Complies in part                      Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies x      Complies in part      Explain      Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies x      Complies in part      Explain      Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies      Complies in part      Explain      Not applicable x

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies x      Complies in part      Explain      Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies      Complies in part      Explain      Not applicable x

The shares attributed to Directors (Chairman of the Board and executive Director) as well as options or rights over shares (only for executive Director) derive from extraordinary agreements and not from LTIP programs, which were entered to into before the shares in the company were listed.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out Good Governance Code of Listed Companies 45 of step with the director's actual performance or based on data subsequently found to be misstated.

Complies      Complies in part x      Explain      Not applicable

The contractual arrangements entered into by the company derived from extraordinary agreements and not from LTIP programs, and were entered to into before the shares in the company were listed.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria

Complies x      Complies in part      Explain      Not applicable

#### H. OTHER INFORMATION OF INTEREST

1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of

**this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**

- 2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

**Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.**

- 3. The company may also state whether it has voluntarily adhered to other international, industrial or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. Particularly, please mention if it has adhered to the Good Tax Practices Code, of 20 July 2010.**

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With respect to the notes regarding recommendations 7 (which the Company has opted to explain) and 14, 25, 26, 52 and 63 (which the Company complies in part), it is noted that the Corporate Social Responsibility Committee, within the framework of its duties, performs an annual analysis on the situation of the Company in the field of good corporate governance. In this sense, in the meeting held by this Committee on 21 February 2017, the level of compliance with the recommendations was discussed, together with the explanations offered by the Company. Afterwards, such analysis was ratified by the Board, considering that the Company adopts measures which ensure the compliance with the objectives of the principles in which the recommendations are based.

Some of the Applus group companies (particularly, Applus Norcontrol SLU and LGAI Technological Center SA) are adhered since January 2013 and 2014, respectively, to the UN Global Compact.

**This annual corporate governance report was approved by the Board of Directors of the company at its meeting held on 22 February 2017.**

**State whether any directors voted against or abstained in connection with the approval of this Report.**

Yes  No

## **Applus Services, S.A. and Subsidiaries**

Auditor's report on the system of  
Internal Control over Financial Reporting  
(ICFR) of the Applus Group for 2016

*Translation of a report originally issued in  
Spanish. In the event of a discrepancy, the  
Spanish-language version prevails*

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails*

## AUDITOR'S REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) OF THE APPLUS GROUP FOR 2016

To the Directors of  
Applus Services, S.A.:

As requested by the Board of Directors of Applus Services, S.A. and Subsidiaries ("the Applus Group") and in accordance with our proposal-letter of 9 December 2016, we have applied certain procedures to the information relating to the ICFR system included in section F of the accompanying Annual Corporate Governance Report ("ACGR") of the Applus Group for 2016, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the information relating to the ICFR system included in section F of the accompanying ACGR.

It should be noted in this regard, irrespective of the quality of the design and operating effectiveness of the internal control system adopted by the Applus Group in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Applus Group was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Applus Group's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission (CNMV) on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Applus Group's annual financial reporting for 2016 described in the information relating to the ICFR system included in section F of the accompanying ACGR. Therefore, had we applied procedures additional to those described below or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July, we do not express an audit opinion in the terms provided for in that Law.



The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Applus Group in relation to the ICFR system - disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model ACGR established in CNMV Circular no. 7/2015, of 22 December 2015.
2. Questioning of personnel responsible for the drawing up of the information detailed in point 1 above: (i) to obtain an understanding of the process that goes into drawing up the information; (ii) to obtain information that permits an evaluation of whether the terminology used complies with the framework definitions; and (iii) to obtain information on whether the control procedures described are in place and functioning at the Applus Group.
3. Review of the explanatory supporting documentation for the information detailed in point 1 above, including the documentation furnished directly to the personnel in charge of preparing the ICFR system descriptive information. In this regard, the aforementioned documents include reports prepared for the Audit and Control Committee by internal audit, senior management and other internal or external specialists.
4. Comparison of the information detailed in point 1 above with the knowledge on the Applus Group's ICFR system obtained through the procedures applied during the financial statement audit work.
5. Reading of the minutes taken at meetings of the Board of Directors, Audit and Control Committee and other committees of the Applus Group to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements established by Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law, and by CNMV Circular no. 7/2015, of 22 December, for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.

Deloitte  
initialled for identification  
purposes only

Raimon Ripoll

24 February 2017