



REPORT ON THE OPERATION OF THE  
AUDIT AND CONTROL COMMITTEE

FISCAL YEAR 2019

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## REPORT ON THE OPERATION OF THE AUDIT AND CONTROL COMMITTEE FOR THE FISCAL YEAR 2019

### 1. INTRODUCTION

Article 529 of the consolidated text of the Spanish Corporations Act, approved under Royal Legislative Decree 1/2010, of 2 July (“LSC”) establishes in sub-section 13 that publicly listed companies must create an audit committee, while article 529, sub-section 14 LSC establishes how that committee is to be composed, how it will function and its scope of competence.

For its part, article 529, sub-section 9 LSC establishes that the Board of Directors must make an annual assessment of its performance and that of its committees. Recommendation 36 of the Good Governance Code for listed companies (the “Good Governance Code”) establishes that the assessment of the committees will be based on the report submitted by them to the Board of Directors.

Accordingly, the Audit and Control Committee of Técnicas Reunidas, S.A. (the “Company”) has drawn up this report on its performance during the 2019 financial period, which will be available to shareholders and other stakeholders on the corporate web site from when formal notice of the Shareholders Annual General Meeting has been sent out, in accordance with Recommendation 6 of the Good Governance Code.

### 2. REGULATION OF THE COMMITTEE AND PRACTICAL GUIDELINES THAT ARE BEING FOLLOWED

The Audit and Control Committee of the Company is regulated in articles 29 of the Articles of Association and 13 of the Regulations for the Board of Directors. Those documents are permanently available for consultation on the corporate web site of the Company ([www.tecnicasreunidas.es](http://www.tecnicasreunidas.es)).

In exercising its functions, the Audit and Control Committee takes the terms established in the Good Governance Code as a basis and has also taken into account the basic principles and recommendations of the Technical Guide 3/2017, of the CNMV [the Spanish

Securities & Exchange Commission] on Audit Committees for public interest entities, published in June 2017 (the “Technical Guide 3/2017”). In this respect, this report includes the information contained in sub-section 79 of the Technical Guide 3/2017.

### 3. COMPOSITION

In compliance with articles 29 of the Articles of Association and 13 of the Regulations for the Board, the Audit and Control Committee must be formed by a minimum of three and a maximum of five directors, appointed by the Board of Directors from among its non-executive directors, the majority of whom should be independent directors.

At least one of the independent directors on the Audit and Control Committee will be appointed taking into consideration their knowledge and experience of accounting, auditing or both. In all cases and as a group, the members of the Audit and Control Committee must have the relevant technical expertise in relation to the sector in which the Company operates.

In addition, the Chairperson of the Audit and Control Committee will be elected from among the independent members of the Committee and must be replaced every four years. They may be re-elected after a period of one year from the date of their retirement from office.

During the 2019 financial period the composition of the Audit and Control Committee has varied. In this respect, between 1 January and 30 July 2019 the composition of the Committee was as follows:

Director	Position	Category
Ms Petra Mateos Aparicio	Chairperson	Independent
Mr Pedro Luis Uriarte Santamarina	Member	Independent
Mr José Manuel Lladó Arburúa	Member	Proprietary
Mr José Nieto De La Cierva	Member	Independent
Mr Álvaro García-Agulló Lladó	Member	Proprietary
Non-Director Secretary: Ms Laura Bravo Ramasco.		

From 30 July 2019, with the resignation of Mr Álvaro García-Agulló as Committee Member, the composition of the Committee up until 31 December 2019 was as follows:

Director	Position	Category
Ms Petra Mateos Aparicio	Chairperson	Independent
Mr Pedro Luis Uriarte Santamarina	Member	Independent
Mr José Manuel Lladó Arburúa	Member	Proprietary
Mr José Nieto De La Cierva	Member	Independent
Non-Director Secretary: Ms Laura Bravo Ramasco.		

- Ms Petra Mateos-Aparicio (Chairperson) is an external independent director. Appointment by co-option as a Director, agreed by the Board on

29 February 2016, and ratified at the General Meeting of 29 June 2016. Appointed as member and Chairperson of the Committee on 31 July 2018.

Ms Mateos Aparicio has a PhD (cum laude) in Economic Sciences and Business Studies from the Complutense University of Madrid and is a Lecturer in Financial Economics. She has been Vice President of the Spain-U.S. Chamber of Commerce since July 2011. She has been the Executive Chairperson of Hispasat (2004-2012), Non-Executive Chairperson of Hisdesat (2005-2011), Director of Hispamar Satélites (Brazil), Director of XTAR LLC (USA) from 2005 to 2012, and a Member of the Board of Directors of Solvay (2009- 2013). From 1983 to July 1985, she was a Director of Iberia and Banco Exterior de España, where she was Deputy Managing Director from 1985 to 1987. She was also a Director of Banco CEISS (2004-2018), a part of the Unicaja Group, from 2014 until its merger with Unicaja in September 2018. With extensive academic experience, she has been (1982-2015) Professor of Financial Economics at the Department of Business Economics and Accounting in the Faculty of Economics and Business Studies of the National Distance Education University (UNED); Professor of Financial Economics at the University College of Financial Studies (CUNEF); a member of the Board of the National Agency for Quality Assessment and Accreditation (ANECA) from 2009 to 2015; and a member of the National Board of the Spanish Institute of Financial Analysts (IEAF) since 2011.

She has also received various awards and distinctions, such as the Knight of the Order of the Legion of Honour of the French Republic; Business Leader of the Year (2010), awarded by the Spain-U.S. Chamber of Commerce; and the Women Together Foundation Award (2009), awarded by the United Nations Economic and Social Council (ECOSOC).

- Mr Pedro Luis Uriarte Santamarina (member) is an external independent director. Appointed as a Director at the General Meeting of 22 June 2011, subsequently re-elected by the Shareholders General Meeting, and appointed as a member of the Committee on 28 February 2012.

Mr Uriarte Santamarina has a Degree in Economic Sciences and Law from the Deusto Business School in Bilbao. He has extensive experience, gained from a 52-year career that includes professional work in the industrial sector (9 years); finance (23 years), where he became Deputy Chairman and Chief Executive Officer of the Board of Directors of BBV and BBVA; consultancy (14 years); R&D&I (2 years); and 4 years in Public Administration, as Director of Economy and Finance in the first Basque Government, from 1980 to 1984. He was also a university lecturer at the

Deusto Business School for seven years, specialising in subjects related to business transformation and advanced management, and has subsequently collaborated with various business schools (Deusto Business School, IESE, ESADE, etc.). Since 2002, he has been Executive Chairman of Economía, Empresa, Estrategia, a strategic consultancy firm that he himself created. He combines this position with that of Director and Advisor to various companies, and collaborates with a number of university and social projects

- Mr José Manuel Lladó Arburúa (member) is a non-executive proprietary director. Appointed as a Director at the General Meeting of 10 May 2006, subsequently re-elected on several occasions at Shareholders General Meetings, and appointed a member of the Committee in July 2018.

Mr Lladó Arburúa has a BSBA from Georgetown University and an MBA from the University of Chicago. In his professional career, he has been manager of the international corporate finance division of Citibank N.A. (1986-1990) Managing Director of The Chase Manhattan Bank, with responsibility for Global Market Sales for Spain (1990-2001); and Deputy Managing Director of Banesto, with responsibility for the International and Treasury area (2001-2004). He is a founding Partner of Summa Financial Services (2004-present) and Managing Director of Ideon Financial Services (2008-present). He is a member of the Board of Directors of Aragonesas Promoción de Obras y Construcciones, S.L.; Layar Castilla, S.A. (Chairman); Summa Investment Solutions, S.A. (Chairman); Choice Financial Solutions, S.L. (Director); Fintonic Servicios Financieros, S.L. (Director); León Valores S.A., SICAV (Director); Araltec, S.L. (Deputy Chairman) and Aragonesas Promoción de Obras y Construcciones (Director

- Mr José Nieto de la Cierva (member) is an external independent director. Appointed as a Director at the General Meeting of 27 June 2018 and appointed as a member of the Committee on 31 July 2018.

Mr Nieto de la Cierva has a degree in Economic Sciences and Business Administration from the Complutense University of Madrid. He has developed his professional career in the private sector, as a member of the consultancy department of KPMG Spain (1988-1989), subsequently part of the JP Morgan group (1989 -2002); Director of The Chase Manhattan Bank (1998-2002); and Managing Director of Corporate Banking for The Chase Manhattan Bank in Spain (1998-2002). He subsequently joined Banesto (2002-2010), where he was Deputy Managing Director of Corporate Banking (2002) and Managing Director of Wholesale Banking (2006). He has also held posts in the Banca March

Group (2010-2017), where he was Chairman of Banco Inversis; Chief Executive Officer of Banca March; Director and member of the Audit Committee of Corporación Financiera Alba; Director and member of the Executive Committee of Ebro; Director of Consulnor; and Director of Aegon España. He is also currently Deputy Managing Director of Banco Sabadell since 2018.

Shareholders, investors and other interested parties may consult the company website to obtain further details about the members of the Committee and their professional background.

Accordingly, the Committee was composed entirely of non-executive directors, the majority of whom are independent directors, including its Chairperson, in compliance with Article 529 sub-section 14 of the LSC. Each member has been appointed by the Board of Directors, and in particular its Chairperson, taking into account the functions of the Committee, and ensuring that the composition of the Committee meets the various criteria for diversity, including those related to the knowledge, skills, professional experience, competences, personal expertise, gender and sectoral knowledge of its members

#### 4. COMPETENCIES OF THE COMMITTEE AND ACTIONS CARRIED OUT DURING THE YEAR

In accordance with Article 13.2 of the Regulations of the Board of Directors, and without prejudice to other functions that may be assigned by the Board of Directors, the Committee has, among others, the following basic responsibilities:

- Reporting to the General Meeting on issues raised there concerning matters within its competence and, in particular, on the outcome of the audit, explaining how this has contributed to the integrity of financial reporting and the role the Committee has played in this process.
- Submitting proposals to the Board of Directors on the selection, appointment, renewal and replacement of the external auditor, as well as their contracting conditions, and regularly requesting information from the auditor about the audit plan and its implementation, in addition to safeguarding their independence in the performance of their duties.
- Reviewing the Company's accounts and monitoring compliance with legal requirements and the correct application of accounting principles, with the direct collaboration of internal and external auditors.
- Supervising the process of preparing and presenting the Company's mandatory financial and non-financial reports and, where appropriate,

submitting recommendations or proposals to the Board of Directors aimed at safeguarding integrity, verifying compliance with regulatory requirements and the correct application of accounting principles. To be familiar with and supervise the Company's internal control systems, check that they are adequate and complete, and review the appointment or replacement of the people in charge of them.

- Supervising, on a regular basis, the efficiency of the Company's internal control system, the internal audit and the risk management systems, as well as addressing, together with the auditor, any significant weaknesses in the internal control system detected during the audit, all without undermining their independence. For this purpose, when appropriate, the Committee may submit recommendations or proposals to the Board of Directors and the corresponding time limit for their follow-up.
- Establishing the appropriate relationships with external auditors in order to gather information on any issues that might undermine their independence, for consideration by the Committee and any other issues related to the performance of the audit and, when applicable, the authorisation of services other than those which are prohibited, as well as any other communications provided for in auditing legislation and auditing standards.

In all cases, the Committee must receive from the external auditors an annual declaration of their independence from the Company and its directly or indirectly associated entities, as well as detailed and itemised information on any type of additional services provided to these entities and the corresponding fees received by the external auditor, or by persons or entities linked to them, in accordance with the provisions of regulatory legislation on auditing.

- Monitoring compliance with the audit engagement, ensuring that the opinion on the annual financial statements and the main contents of the audit report are drafted clearly and accurately, as well as evaluating the results of each audit, receiving information on a regular basis from the external auditor about the audit plan and the results of its implementation, and verifying that recommendations are taken into account by senior management. The Committee will also ensure compliance with the regulations in force on the provision of non-audit services, and restrictions on the auditor's business combinations, and in general, any other standards for ensuring auditor independence.
- Reviewing the periodic financial reports that, as a listed company, the Company must provide to the markets and their supervisory bodies,

ensuring that interim accounts are drawn up using the same accounting principles as the annual financial statements.

- Verifying compliance with the Internal Code of Conduct, this Regulation of the Board of Directors and, in general, the Company's rules of governance, and making the necessary proposals for improvements.
- Issuing an annual report, prior to the issuance of the Audit Report, expressing an opinion on whether the independence of the auditor or auditing firm has been jeopardised. This report will, in all cases, include a justified evaluation of the provision of each and every additional service, individually and jointly considered, separate from the legal auditing and in relation to the independent status of the auditing or the regulatory legislation on auditing.
- Understanding the fiscal policies implemented by the Company. In this regard, receiving information from the head of tax affairs on the fiscal policies implemented, prior to the drawing up of the annual financial statements and the submission of the Corporate Income Tax Return, and, where relevant, on the tax implications of corporate operations whose approval is subject to the Board of Directors.
- Monitoring and supervising compliance with the risk management policy, whether directly or through subcommittees created for this purpose.
- Reporting to the Board of Directors, in advance of its adoption of the corresponding decisions, on all matters set out in the legislation, the Articles of Association and the Regulations of the Board of Directors and, in particular, on:
  - a) the financial reporting which must be made public by the Company on a regular basis;
  - b) the creation or acquisition of shares in special purpose entities or entities based in countries or territories considered as tax heavens;
  - c) and related-party transactions.

Article 13.4 of the Regulations for the Board also provides that the Committee will draw up an annual report on its operation, highlighting any major issues which have arisen in connection with its functions. In addition, when the Audit and Control Committee considers it appropriate, the report will include proposals for improvements to the Company's rules of governance.

In particular, during the 2019 financial period the Committee has carried out the following activities:

- a) Regarding financial and non- financial reporting and the associated internal control mechanisms.

With regard to the annual accounts for the 2018 financial period:

- The separate and consolidated annual accounts received a favourable report from the Committee for the consideration, and if the case, approval of the Board of Directors. In the preliminary debate, mention was made of certain issues that were considered especially relevant, to this effect highlighting as a new feature the preparation of the non-financial information as part of the directors' report, following the passing of Act 11/2018, of 28 of December, after verification in accordance with the provisions of current legislation.

The external auditors, Deloitte and PricewaterhouseCoopers (PwC), also stated that during the joint audit, there was no evidence of any significant risks additional to those identified in the planning process and submitted in a prior meeting in 2018 and confirmed that there had been no disagreement or limitation of scope during the joint auditing process.

- The Committee unanimously agreed to submit to the Board of Directors the proposal for the distribution of income or allocation of loss for the year ending 31 December 2018.
- The statement to be sent to the CNMV was analysed, in which it mentioned that the Committee would give a favourable report to the Board of Directors on the Annual Financial Report corresponding to the 2018 financial period, for its approval and forwarding to the CNMV.

The Committee has regularly supervised the progress of the auditing work, and, where appropriate, with the presence of the external auditors to inform on matters such as: (i) recognition of revenue; (ii) evolution of tax records; (iii) deferred tax assets; (iv) cash flow estimates for the projects; (v) evolution of deferred tax assets; (vi) review of the evolution of project conclusion, focussing on the projects that were more complex, both in their implementation and in conclusion; (vii) regulatory developments that will have an effect on the accounts of the Group; (viii) lawsuits and arbitration proceedings in progress, both administrative and operational; and (ix) periodic public reporting relating to the first half-year of 2019 (once the Committee had received an opinion from the external auditors on the limited review of that information for the first half-year).

Furthermore, in the last Committee meeting of 2019, it was informed by the external auditors, PwC and Deloitte, of the conclusions of the preliminary review of the audit for the 2019 financial period, and also going over the relevant issues involving year-end closing, all of which with the cooperation of the directors requesting additional information on certain matters or making specific points in relation to others. It specifically stated that there had been no disagreements with regard to the relationship between the two firms.

In its meetings the Committee has supervised various matters involving financial and non-financial reporting and, amongst others: (i) the preview of the information at year-end closing; (ii) the Group's cash position, in respect of which the directors spoke up to comment on certain points or questions; (iii) the periodic public reporting, both quarterly and half-yearly, for 2019; and (iv) financial presentations to analysts.

The Committee has been periodically informed on the internal control system of the Company's financial information (SCIIF). In particular:

- Various reports on the SCIIF were submitted by the internal auditor. In this respect, it informed on the conclusions of the SCIIF review (concluding that the Group had internal procedures in place that include the monitoring measures in respect of the financial information flows, establish responsibilities and define the transactions and supporting documents of that monitoring) as well as the recommendations to be implemented (amongst others, regarding the multiannual financial planning for EBIT and economic asset planning), with the directors actively participating in the assessment of the information submitted.

Moreover, during the first half-year of 2019 a review was made of the entire process corresponding to December 2018 for significant projects, the report of which was submitted in April 2019 and audited by the external auditor Deloitte with a favourable opinion given in May 2019. In addition, recommendations for improvement were submitted which were being monitored with scheduled commitments by the different sectors of management involved, and the evolution of which was reported by the Internal Auditing Department to the Committee.

In addition, the Committee has performed periodic monitoring and supervision on other matters:

- Verification of the financial information contained on the corporate web site, receiving information on legislation in force in that respect,

ensuring that it coincides with the information appearing on the Company on the web site of the CNMV and confirming that the information published on the corporate web site is up-to-date.

- Recognition of income from orders for change and complaints, in some cases with the collaboration of the internal auditor in its meetings.

b) Regarding transactions with related parties

The Committee unanimously approved the Report on Related Transactions corresponding to the year closing on 31 December 2018 and which will be submitted to the Board of Directors.

c) Regarding the Corporate Social Responsibility policy and how it has been implemented during the financial year.

In its meeting held on 27 February 2019 the Committee approved the non-financial reporting statement, as an integral part of the directors' report, which summarises the activity of the Company and its consolidated group on corporate social responsibility and its application during the year.

d) Regarding risk management and control

The Committee has been periodically informed on various issues within the scope of its competence and, amongst others, the following:

- The goals of the area for the 2019 financial period and, in particular: reassessment of criminal risks, development of a risk and control matrix, identification of the people holding particularly exposed positions, training matrix and schedule of periodic declaration of conformity, and training programme requirements.

In this respect, the Committee was periodically informed on the status of implementation of the goals of Regulatory Compliance, as well as of any procedures opened, and their status, following communications received through the Code of Conduct Mailbox.

- The first plan for the international implementation of the system of regulatory compliance, including the prioritising of countries. In this connection, the incorporation of a Compliance Officer for the Middle East was contemplated, to function as a Deputy Compliance Officer, which was approved by the Committee after examining the curriculum of the person proposed.

- At the request of the Committee members, the Compliance Officer drew up and presented a risk map according to countries, from the perspective of Compliance, which included the projects in place in each country with the size of the project or projects, if there were more than one; it was agreed to analyse the winding up of a branch, as well as a table with the most relevant information on the complaints received in the Mailbox.
- The plans for 2019 included updating the Code of Conduct to make it more accessible and introducing the Code of Conduct for approval by suppliers and sub-contractors.
- The Compliance clauses to be included in the general conditions for purchasing and/or sub-contracting.
- Monitoring the status of the dissemination of policies in the Group, and amongst others, the conflict of interests' policy and draft of the anti-fraud policy.
- The Compliance Officer submitted the budget for the Area, particularly taking into account that it has the support of a number of external consultants whose participation is essential.
- Within the framework of ongoing training on the subject of regulatory compliance and of the directors, the Committee authorised the Compliance Officer to programme a Compliance training session before the end of the 2019 financial period.

The D&O policy for directors and officers was presented to the Committees by the external consultant AON. To evaluate the cover of the policy, a comparative study with the Ibx 35 companies was also presented, with the Committee concluding that the cover was adequate.

The Committee has also been informed by the Finance Director in various meetings on different issues of a tax nature, such as the Tax Risk Guide in respect of taxes for 2018, in the framework of which the position of tax controller was created and a tax Mailbox for receiving communications on this subject; on the Company's tax position; and on possible negotiations with the State Tax Administration Agency (AEAT) and how they would affect other disputed minutes, if any. The Committee was also informed of contacts held with the AEAT in relation to the Company's tax position.

e) Regarding internal auditing

The internal auditor submitted to the Committee the Annual Internal Audit Report for the year 2018, which covered the following lines of action: subsidiary audits, special work in the scope of cost optimisation plan, SCIIF and income on account associated to contract amendments. Then, and in the same meeting, he submitted the 2019 Yearly Plan, which contained the following lines of action: cost optimisation project, subsidiary audits, SCIIF and technical analysis of the financial standing of providers/suppliers.

The Committee periodically monitors the Internal Audit Plan (approved in 2018 on a multi-year basis for the years 2018 to 2020). In this respect, in one of its meetings it decided to propose that the Finance Department analyse any cash generating assets, reviewing the measures and the different consequences to the cash position. In another meetings, the Committee was informed by the internal auditor on, amongst other issues, the work carried out on Human Resources and General Services, subsidiary audits, SCIIF, the income on account associated to contract amendments and the analysis of the financial standing of suppliers and sub-contractors.

f) Regarding external auditors

The internal auditor of the Company provided the Committee with the independence statements from the joint auditors, PricewaterhouseCoopers and Deloitte, copies of which were attached to the minutes of the meeting.

In accordance with the provisions of article 529 sub-section 4.f) LSC, the Committee unanimously approved the Report on the Independence of the External Auditor in relation to the 2018 financial period.

After the Chairperson reminded the Committee of the functioning of the joint auditing system in the Company, performed since 2017 by the auditing firms, PwC and Deloitte, it was proposed that the Committee should consider re-electing PwC as joint auditors of the Company and its consolidated Group for the 2019 financial period, and after a brief debate, it was unanimously approved to propose to the Board of Directors that the proposal for re-electing PwC as auditors for the Company and its consolidated Group for the 2019 financial period should be brought to the Annual General Meeting of Shareholders of the Company.

The Committee has also periodically supervised any factors which may have affected the independence of the external auditors. In this respect, it unanimously reported the increased fees of the external auditors for the auditing work, in view of the data submitted. The Internal Auditing

Department Report was also submitted to the Committee regarding the supervision of compliance with the regulations on providing non-auditing services and the quote for services other than auditing.

g) Regarding the monitoring of the Committee's action plans

In each meeting the Committee reviewed the fulfilment of the 2019 yearly plan of the Audit and Control Committee.

In its last meeting the Committee reviewed and unanimously approved the schedule of meetings for 2020 after making the pertinent changes depending on its availability, as well as the annual plan of activities of the Audit and Control Committee for 2020, which establishes the topics to be dealt with by the Committee in each of the sessions.

h) Nature and scope of any communications with the regulators

The Secretary of the Committee has informed of the communications received from the CNMV (in particular, a) 25 March 2019, request of additional information or clarifications on IAGC an IARC; b) 25 March 2019, about inside information; and c) 13 December 2019, request of additional information or clarifications about the financial statements and interim financial report) and, besides, read out the full text of a letter from the CNMV dated 25 March 2019 on the use of privileged information, which contained the specific request that it should be read out in the next Audit and Control Committee meeting.

i) Other activities

After a brief debate, the Committee, unanimously decided to report favourably to the Board of Directors on the Company's issue of uncovered, unsecured and non-subordinated bonds as well as on the main terms of the issue.

After the pertinent debate among its members and the information received from the Finance Director, the Committee unanimously approved reporting favourably to the Board of Directors on a potential treasury share transaction so that the Board can adopt resolutions on both the terms of the transaction and on delegating powers, all of which in the terms it considered most appropriate.

In addition, the Committee unanimously approved its performance report for the 2018 financial period, agreeing to submit it to the Board.

Lastly, it is reported that during the 2019 financial period there were no deviations with regard to the procedures adopted by the Company, nor has any irregularity been brought before the Board of Directors on issues within the competence of the Committee, as none have come to its attention.

## 5. MEETINGS

Under the provisions of article 13 of the Regulations for the Board, the Committee will generally meet on a quarterly basis, for the purpose of reviewing the periodic financial reports that must be submitted to the stock exchange authorities, together with the information that the Board of Directors must approve and include within its annual public reporting. Likewise, it will meet each time it is convened by the Chairperson, which must be done whenever the Board of Directors or the Chairperson of the Board requests the issuance of a report or the adoption of proposals from the Committee and, in all cases, when requested by any member of the Audit and Control Committee or whenever it is appropriate for the satisfactory fulfilment of its duties.

Likewise, members of the management team or personnel from the Company and its group will be obliged to attend Committee sessions and to cooperate and provide access to the information available to them at the Committee's request. The Committee may likewise require the attendance of the auditors at its meetings.

In this respect, the Technical Guide 3/2017 recommends that the presence of any members of management or other directors, whether executive or not, in the audit committee meetings is upon the invitation of the Chairperson of the committee and is limited strictly to those points of the Agenda for which they have been called; their presence should not be allowed to become a regular practice, but rather something which, in principle, is occasional and whenever necessary. Moreover, the Technical Guide 1/2019 of the CNMV, on appointments and retributions committees, published in February 2019 provides that the minutes of the meetings must record the entry and exit of the various guests invited and that, except in specific cases for which an appropriate justification must be stated in the minutes, the guests may not be present at the debating and voting stages of the committee. The Guide also extends this provision to the audit committees.

In accordance with the provisions of article 13.6 of the Regulations for the Board, and in line with the Recommendations of the Technical Guide 3/2017, the Audit and Control Committee may obtain advice from external experts whenever it considers necessary for adequately fulfilling its functions.

In the period comprised between 1 January 2019 and 31 December 2019, the Audit and Control Committee met on 9 occasions, having been called by the Secretary, upon instructions of the Chairperson of the Committee, by individual notice sent to each of its members.

All members of the Committee attended in person, (except in one meeting, in which Mr Pedro Luis de Uriarte Santamarina attended by telephone) and were present at all the meetings held. Only on one occasion, Mr José Nieto de la Cierva and Mr Pedro Luis de Uriarte Santamarina each apologised for their absence, giving their proxy to the Chairperson of the Committee.

Apart from its members, the following people, upon invitation from the Chairperson of the Committee, were also present at the meetings of the Audit and Control Committee, to address certain points on the Agenda:

- Finance Director.
- Compliance Officer.
- Internal Auditor.
- The external auditors, Deloitte and PwC.

Specifically, the internal auditor attended 9 meetings, and the external auditors, 5 meetings in the case of Deloitte and 4 meetings in the case of PwC.

Similarly, when it was considered appropriate, external advisors also participated in the meetings of the Audit and Control Committee to deal with topics specific to their field, as mentioned in sub-section 4 above, of this report.

All guests of the Committee were previously invited by the Chairperson to be present for speaking on the points of the Agenda for which they had been summoned, and none of them were present at the debating and voting stages of the Committee meetings; the minutes recorded the entry and exit of the various guests in the meetings.

## 6. OPINION OF THE COMMITTEE ON THE INDEPENDENCE OF THE AUDITOR

With regard to the independence of the external auditors, the Committee has received from Deloitte and PwC written confirmation of their independence from the Audit and Control Committee, as well as the information relative to the non-auditing services that the external auditors provided to the Company and its Group during the 2019 financial period. That statement expressly says that during the 2019 financial period they were not involved in any of the causes for

incompatibility established for the purpose in the Law on Account Auditing; and in the light of the information available, the Committee has not identified any factors that might jeopardise the independence of the auditors Deloitte and PWC.

## 7. EVALUATION

During the 2019 financial period an assessment was made of the Board of Directors and its Committees, corresponding to the 2018 financial period, carried out with the help of the external consultant KPMG, for which the Committee drew up and submitted to the Board its performance report for 2018.

The directors gave a positive evaluation of the Committee's performance during the year, considering that it had adequately carried out its duties. As for the actions included in the action plan provided for in article 529 sub-section 9 LSC, the main recommendation of the directors regarding the Committee was to continue reinforcing the planning for items to be dealt with during the year.

## 8. CONCLUSIONS

On the basis of the above, the Audit and Control Committee has assessed its composition and performance during the 2019 financial period, considering that:

- The composition of the Committee is in line with the provisions of the LSC and of its internal regulations, its members have the knowledge and experience suited to the competencies of the Committee and the business sector activity in which the Company operates, with the majority of its members being independent directors.
- The Committee has met more often than established in Article 13 of the Regulations of the Board and Technical Guide 3/2017, whenever such meetings have been considered appropriate, and in order to discuss the issues addressed in those meetings.
- The majority of Committee meetings have been attended in person by all its members.
- Lastly, the Committee has deliberated and adopted informed resolutions on the matters falling within its competence, following discussions in which there was constructive dialogue and a critical approach, promoting diversity of opinions, as provided for in the Technical Guide 3/2017. Also, whenever necessary, the Committee has been advised by external experts.



Accordingly, the Audit and Control Committee has in general terms complied with the standards provided for in the Law and its internal regulations in respect of composition, frequency of holding meetings, attendance and the informed participation of its members; the Committee also dealt with the matters within its competence, with its activity during the 2019 financial period being given a very positive evaluation.

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*This Report on the performance of the Audit and Control Committee during the 2019 financial period* was drawn up by the Committee on 26 February 2020 and submitted to the Board of Directors of the Company at its meeting on 26 February 2020.