



## **REPORT ON ACTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE FOR THE YEAR 2018**

### **I.- Introduction**

This report on the functions and activities of the Audit and Compliance Committee of Corporación Financiera Alba, SA is prepared following the recommendations on good corporate governance of listed companies and, in particular, those included in the Good Governance Code of Listed Companies, approved by the National Securities Market Commission – Comisión Nacional del Mercado de Valores (“CNMV”) – on 18 February 2015, in line with what was already provided for in the Unified Good Governance Code of Listed Companies, approved by the CNMV on 22 May 2006, as well as the CNMV Technical Guide 3/2017, on Audit Committees of Public Interest Entities.

The Audit Committee was created by the Board of Directors on 29 March 2000, following the recommendations of the so-called “Olivencia Code” (Good Governance Code).

Subsequently, Law 44/2002, of 22 November, on Reform Measures of the Financial System (“Financial Law”), established the mandatory existence of this Committee in listed companies and certain requirements related to its composition, powers and standards of operation.

In compliance with the provisions of said Law, Corporación Financiera Alba, SA modified its Bylaws and its Regulations of Board of Directors, setting the Committee’s powers and the rules of its operation.

As a result of the approval of Law 12/2010, of 30 June, which amended the Audit Law, the Spanish Securities Market Act, extending the powers of the Audit Committees, the Regulations of the Board of Directors were amended to adapt them to the legal provisions in relation to the Audit Committee, but, in addition, this modification was used to introduce into the Regulations of the Board of Directors the recommendations derived from the document of the National Securities Market Commission regarding “Internal control over financial information in listed companies” (June 2010).

Law 31/2014, of 3 December, which amended the Capital Companies Act to improve Corporate Governance, introduced into the Capital Companies Act – Ley de Sociedades de Capital (“LSC”) – Article 529 quaterdecies, relating to the Audit Committee, including provisions relating to its composition, organisation and functions, which were incorporated into the Regulations of the Board of Directors by means of the amendment agreed on 5 May 2015.

Meanwhile, Law 22/2015, of 20 July, on Account Auditing, modified, in its Final Provision 4, Article 529 quaterdecies of the LSC, relating, as has been indicated, to Audit Committee, in aspects that mainly affect the composition of this Committee and its functions, and therefore, once it came into effect, the Regulations of the Board of Directors were amended once again, by resolution of 3 May 2016, to reflect these changes and, likewise, the name was changed to the Audit and Compliance Committee (the Board's resolution was reported to the General Shareholders' Meeting held on 8 June 2016, and it was registered in the Mercantile Registry on 15 July 2016).

Finally, following Recommendation number 19 of the Technical Guide of the CNMV 3/2017, on Audit Committees of Public Interest Entities, in 2017 the Board of Directors approved the Regulations of the Audit and Compliance Committee.

## **II.- Functions of the Audit and Compliance Committee**

In Article 3 of the Regulations of the Audit and Compliance Committee of Corporación Financiera Alba, SA, as well as in the Regulations of the Board, in its Article 22, following the provisions of the Article 529 quaterdecies of the LSC, the following functions are entrusted to the Audit and Compliance Committee, without prejudice to those others that may be assigned by the Board of Directors:

- a) Inform the General Shareholders' Meeting about the issues that arise in relation to those matters under the authority of the Committee and, in particular, about the outcome of the audit, explaining how the audit has contributed to the integrity of the financial information and the role the Committee has played in this process.
- b) Supervise the effectiveness of the company's internal control, internal audit and risk management systems, as well as discussing with the auditor any significant weaknesses in the internal control system detected in the course of the audit, all without impinging upon their independence. For this purpose, and where appropriate, they may submit recommendations or proposals to the Board of Directors and inform the same of corresponding deadline for their follow-up.
- c) Supervise the process of preparing and presenting the mandatory financial information, and submit recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity.
- d) Submit to the Board of Directors proposals for the selection, appointment, re-appointment and replacement of the accounts auditor, taking responsibility for the hiring process, in accordance with the provisions of Article 16 Sections 2, 3 and 5, and Article 17.5 of Regulation (EU) No. 537/2014 of 16 April, and the terms and conditions of their recruitment and to obtain regular information from them on the audit plan and its implementation, while preserving their independence in the performance of their duties.

e) Establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to their independence, for examination by the Committee, and any others related to the process of carrying out the audit of accounts, and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, Section 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as foreseen in Section 3 of Chapter IV of Title I of Law 22/2015, of 20 July, on the Auditing of Accounts, on the independence regime, as well as those other communications provided for in the account auditing legislation and in the auditing standards. In any case, they must receive the declaration of their independence in relation to the entity or entities directly or indirectly related to it on an annual basis from the external auditors, as well as detailed and individualised information on the additional services of any kind provided and the corresponding fees received from these entities by the external auditor or by the persons or entities related to him/her in accordance with the provisions of the regulations governing the account auditing activity.

f) To issue, prior to the issuance of the audit report, an annual report in which it expresses an opinion on the independence of the accounts auditor or audit firm. This report must, in any case, contain an assessment of the provision of each and every one of the additional services referred to in the previous paragraph, individually and as a whole, other than those under a statutory audit and in relation to the system of independence or the regulations governing the auditing of accounts.

g) To report, in advance, to the Board of Directors on all the matters provided for in the Law, its Bylaws and its Regulations of the Board of Directors and, in particular, on:

1. The financial information that the Company must publish periodically,
2. The creation or acquisition of shares in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens; and
3. Transactions with related parties.

h) Supervise compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy.

### **III.- Committee Membership**

The Audit and Compliance Committee is an internal body of the Board and, therefore, is composed of Directors of the Company. The members are appointed by the Board of Directors and, in accordance with the provisions of the LSC, following the amendment made by Law 22/2015, of 20 July, all the members of this Committee must be external or non-executive directors, the majority of whom must be independent directors and at least one of whom must be appointed on the basis of his or her knowledge of accounting and/or auditing matters. As a whole, the members of the Commission must have the relevant technical knowledge in relation to the sector of activity to which the Company belongs.

The Chairman of the Committee must be an independent Director and, in accordance with the provisions of the Law and the Company Bylaws, the Chairman must be replaced every four years and may be re-elected after a period of one year has elapsed since his removal.

The composition of the Audit and Compliance Committee of Corporación Financiera Alba complies with the new legal requirements, since it is made up of three Directors, and all of them are independent.

The composition of this Committee as of 31 December 2018 was as follows: Mr Carlos González Fernández as Chairman, and Ms Claudia Pickholz and Ms María Eugenia Girón Dávila as members. All of its members have the status of Independent Directors, with Mr González having been appointed in 2015, Ms Pickholz in 2016 and Ms Girón in 2018.

In accordance with the recommendations of the Unified Good Governance Code of Listed Companies, the information on the profile of all the Directors of Corporación Financiera Alba is made available on the company's website. Following the recommendations of the CNMV Technical Guide 3/2017, it can be noted that Mr González has extensive experience in the world of auditing, having worked in a large number of sectors and with a wide range of companies, as well as advising on business operations and strategic matters. Ms Pickholz has held management positions in large multinationals in various sectors, in particular with responsibilities in the areas of marketing and strategy, and that Ms Girón has extensive experience in the business world, strategy formulation, brand creation, international expansion and sustainable development.

#### **IV.- Operation and Activity**

The internal functioning of the Audit and Compliance Committee is governed by the provisions of Article 47 of the Bylaws and by the provisions of Articles 29 to 34 of the Regulations of the Board and Articles 12 to 18 of the Regulations of the Audit Committee and Compliance, which regulate everything related to its meetings, calls, quorum, adoption of resolutions, minutes, relations with the Board, with the Company's Management, and with the auditor and the internal auditor, and the powers to request information on any aspect of the Company and to seek the advice of external professionals.

During the year 2018, the Audit and Compliance Committee held eight meetings, in which it worked, within the functions mentioned above, in the areas indicated below, and for which it had the necessary information and documentation at its disposal:

- Review of the periodic financial information to be submitted to the National Securities Market Commission.
- External audit of the financial statements and relations with the external auditors.
- Risk identification and internal control system.
- Internal audit
- Review of non-financial information
- Compliance with the legal system and internal regulations.

The meetings of the Audit and Compliance Committee were attended, by invitation, by the external and internal auditors, the Chief Financial Officer and the Company's risk managers, to discuss the items on the agenda that were their responsibility. As for the external auditors of the company, they have been invited to participate in four meetings. As for the internal auditors, in 2018 they were invited to participate in two sessions of the Audit and Compliance Committee.

In connection with the management of risks that may affect the Company, the Audit and Compliance Committee regularly includes a point in the agenda of its meetings dedicated to this matter, either to conduct the relevant monitoring of risks or to have the person in charge of this area within the company present the this to the Committee. During 2018, six of their meetings addressed issues related to the management and monitoring of risks.

At the end of each year, the Audit and Compliance Committee approves its Activities Schedule for the next year, in relation to the areas mentioned above and follows these up accordingly.

#### **a) Review of Periodic Financial Information**

In relation to the periodic financial information, the Audit and Compliance Committee has analysed, prior to its presentation, the quarterly and half-yearly financial information sent to the National Securities Market Commission, and are made public, as well as the complementary information leaflets that are published, in accordance with the requirements established by Royal Decree 1362/2007, of 19 October (modified by Royal Decree 875/2915, of 2 October), and by CNMV Circular 1/2008, of 30 January (modified by Circular 5/2015, of 28 October).

This analysis is carried out by the Company's Chief Financial Officer, who is responsible for the preparation of the information mentioned above, in order to explain to the Commission the accounting process followed to prepare said financial information, and the decisions and criteria adopted.

The Commission gave its approval to this information, after the introduction of certain suggestions raised by it.

A meeting was also held to examine the Financial Statements prior to their preparation by the Board of Directors.

Finally, in accordance with the provisions of recommendation 43 of the CNMV 3/2017 Technical Guide, the Committee ensures that the financial information published on the company's website is up to date and in line with that prepared by the Board of Directors and made public.

#### **b) External Audit of the Financial Statements and Relations with the External Auditors**

As regards the External Audit, it is worth mentioning that the Auditors attended the meetings of the Committee at which they examined the financial information corresponding to the close of the 2017 financial year and the Financial Statements for said year. The External Auditors reported at length to the Committee, as they did at the Board meeting in which annual accounts were drawn up, on their auditing work performed, the most important issues raised and the criteria followed. In particular, the Financial Statements were the subject of an unqualified report, without any significant risks being detected in the company, and the internal control of the company was considered adequate. The external auditors were assisted in the performance of their duties by the persons responsible within the Company. The planning of the audit work for 2018 was also explained.

External auditors submitted to the Audit and Compliance Committee the limited review of the financial statements in the first half of 2018 and the audit planning for the fiscal year 2018.

In addition, and in accordance with the provisions of Article 529 quaterdecies of the Capital Companies Act, the Audit and Compliance Committee received written confirmation from the auditors of their independence from the related entity or entities and issued a report expressing its opinion on the independence of the auditors.

Likewise, in accordance with the Policy for the provision of services other than legal auditing by the external auditor, during 2018 the Committee approved a service other than the legal auditing and has accounted for two different audit services of the ones outlined as pre-approved in the cited Policy. None of these services were incompatibility nor did they pose any threat to the independence of the auditor.

#### **c) Risk Identification and Internal Control System**

With regard to the risk identification and internal control system, it should be noted that the Finance Department is in charge, within the Company, of the internal control of the same, which has a series of operating rules that establish the internal control criteria.

The Audit and Compliance Committee has powers in this area and evaluates whether the Company has the adequate organisation, personnel and processes to identify and control its main operational, financial and legal risks, and is authorised to investigate any aspect of the risk identification system and internal control that it considers appropriate.

In this regard, in the Additional Report that the auditor submitted to the Audit and Compliance Committee for the year 2017, it was stated that while undergoing the risk assessments due consideration was given to the internal control with regard to the company's preparation of their annual accounts and the accounting system, in order to design adequate auditing procedures and not to express an opinion on the effectiveness of the internal control of the company. However, it was noted that there were no internal control deficiencies assessed as significant or which needed to be reported to the company.

Likewise, in 2015, following the recommendations of the Code of Good Governance of Listed Companies, the Board of Directors, at the proposal of the Audit Committee, resolved to establish a Risk Control and Management Unit as an advisory and control body at the service of the Audit Committee, independent of the business, and aimed at ensuring the establishment of adequate control and efficient and prudent risk management. The Risk Control and Management Function Statute was approved by the Board of Directors on 26 October 2015 and, in addition, a Risk Management Methodology and Monitoring Model have been adopted.

In this regard, the Company has defined an Integrated Risk Management System focused mainly on: enabling the proactive and efficient identification and evaluation of risks at the Company level, as well as their monitoring and follow-up; to integrate, coordinate and manage the different efforts made by the Company in the area of risk management; to enable responsible acceptance of risk and strengthen the responsibility of the Company's personnel; to ensure that the control systems are aligned with respect to the real risks of the Company; and to facilitate and speed up the application of corrective measures.

This Integrated Risk Management System has been implemented to mitigate the risks to which the Group is exposed, given the nature and degree of complexity of its operations and the environment in which it operates, and it consists of three key elements:

- The continuous process of risk management, understood as those activities carried out by all the people of the Company focused on identifying potential risk events that may affect them, managing the risks identified, and providing reasonable assurance on the achievement of the company's objectives. In this regard, the company's Risk Map has also been reviewed in order to confirm that it continues to represent the company's risk profile.

- An organisational approach with clearly defined roles and responsibilities, in such a way that, although comprehensive risk management affects and involves all Company personnel, the main participants are: Risk Managers, the Risk Control and Management Unit, the Audit and Compliance Committee and the Board of Directors.

- A monitoring model, which defines and provides the necessary and timely information so that all participants in the risk management process can make informed decisions regarding the same.

The Audit and Compliance Committee, as part of this Integrated Risk Management System, is responsible for supervising the effectiveness of the company's internal control, internal audit and risk management systems, assessing whether the Group has adequate organisation, personnel, policies and processes to identify and control its main risks and, in particular, operational, financial, non-financial and legal risks.

In relation to risk management processes, in addition to the Risk Control and Management Unit mentioned above, Corporación Financiera Alba has compliance processes, which are mentioned below, as well as the Internal Audit Service, to which reference has already been made.

In 2018, two Business Risk Monitoring Reports were prepared and presented (corresponding to the second half of 2017 and the full year and the first half of 2018, respectively), in accordance with the approved Risk Management Methodology and Monitoring Model. These Reports examine the aggregate risk situation and the individual analysis of the risks (the ten most critical risks, according to the Risk Map, last reviewed in October 2017). To assist in their preparation, meetings are held with those responsible for the risks, the defined controls and indicators are checked, and the assessment being monitored is reviewed and analysed. The conclusion of the reports was that the controls were effective and that the indicators requiring some attention had led to appropriate explanations or clarifications being obtained, without any special action plans being necessary.

Finally, within this area, it is worth mentioning that the assessment of the risks (impact and probability) has also been reviewed and analysed with the different risk managers, in order to check whether it was still valid for the year, having concluded that the critical risk assessment adequately reflects the current situation of Alba and that, therefore, it is not necessary to make any modifications or updates to it.

#### **d) Internal Audit**

In 2011, and following the recommendations of the CNMV document "Internal Control Over Financial Information in Listed Companies" (June 2010), the Audit Committee proposed, and the Board of Directors agreed, to establish an Internal Audit service as an instrument for the better development of the functions entrusted to the Board of Directors and the Audit Committee, in relation to the control and management of risks and the monitoring of the internal information



and control systems. The person in charge of this service was also appointed and it was decided that an audit firm would support the performance of the Internal Audit functions. In 2017 the Audit and Compliance Committee agreed to provide a favourable report of the internal audit function to the firm Ernst & Young, S.L., with the Secretary General assuming the task in coordination with the Company, under the supervision of this Committee, which was approved by the Board of Directors. This contributes to the independence of internal audits.

In relation to the internal audit, it is worth mentioning that it has a Statute approved by the Board (the last one, by agreement of 27 February 2017), which has drawn up a Risk Map of the Company, (at the inherent and residual level and as regards the degree of effectiveness of internal control) - which has already been reviewed three times, most recently in 2017 - and which follows the Business Plan approved by the Audit and Compliance Committee.

In 2018, in accordance with the Audit and Compliance Plan that was submitted to the Audit and Compliance Committee, some internal procedures were audited, no significant issues were found, and suggestions for improvement were made for some of them.

Likewise, in relation to the Company's Internal Control over Financial Reporting (SCIIF) Manual, its forecasts were followed during 2018 and the Audit and Compliance Committee was informed of this and informed of the results of the internal audits and the follow-up to the IFRS.

#### **e) Review of non-financial information**

The Audit and Compliance Committee has overseen the Corporate Social Responsibility Policy and in this area, pursuant to Recommendation 55 of the Code of Good Government of the Listed Companies, since 2016 the Company has been reporting on corporate social responsibility issues through the Sustainability Annual Report, which is reported by the Audit and Compliance Committee prior to its approval by the Board of Directors and made available to the convening of the General Shareholders' Meeting.

By Royal Decree Act 18/2017 of November on non-financial information and diversity, applying to the fiscal years started on 1 January 2017, several precepts of the Code of Commerce, the Capital Companies Act and the Audit Law were changed, entering the obligation to include a non-financial information status if the companies met a number of requirements.

As Alba was not eligible to prepare the statement of non-financial information, for the year 2017 it continued to publish the Sustainability Annual Report, which was reported favourably by the Audit and Compliance Committee.

The 2017 Sustainability Annual Report, to a large extent, although the Company is not obligated to do so, compiles the content of the statement of non-financial information required by the regulations reviewed. Thus, reference is made to the following: the business model, the alignment with international sustainability standards; Alba's commitment to its stakeholders and the channels of dialogue with them; the commitment to shareholders and investors; the commitment to employees, and the commitment to society.

The Sustainability Annual Report also describes the Corporate Policies that apply and management and control of non-financial risks.

The Sustainability Annual Report is compiled in accordance with the ten principles of the UN Global Compact, to which Alba is signatory since 2015, and is based on one of the world's most widely used global regulatory frameworks, as is the Global Reporting Initiative (GRI).

#### **f) Regulatory Compliance and Others**

With regard to compliance with the legal system and internal regulations, a more detailed statement is made than in the previous points, since, in accordance with the provisions of both the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee (Articles 26.c and 9.c, respectively), the Audit and Compliance Committee must prepare a report on this matter.

##### *Internal Regulations*

First of all, it should be pointed out that the Company, in order to ensure compliance with the applicable regulations, has an appropriate organisation, which includes a Legal Department, a Tax Department and a Finance Department, each of which, in its own area of competence, ensures compliance with current regulations (external and internal). Likewise, within the scope of the Board, its Regulations provide that the Secretary shall be responsible for ensuring the formal and material legality of its actions, for the statutory regularity thereof and for compliance with its procedures and rules of governance.

In this sense the Committee has been informed of the tasks undertaken by the Company to adapt to the new Regulation on data protection, which came into effect on 25 May (EU Regulation 2016/679, of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR), effective as of 25 May 2018).

On the other hand, one of the functions of this Committee is to ensure the existence of an effective internal system to monitor the Company's compliance with the laws and regulations governing its activity, and to verify that the necessary procedures have been established to ensure that the management team and the employees comply with the internal regulations. It should also be noted that the meetings of the Committee are attended, when required and at the invitation of the Chairman, by the Chief Financial Officer responsible for the company's internal control, who reports on developments relating to this matter.

In addition, as indicated above, the Company has an Internal Audit Service and a Risk Control and Management Unit, and a Risk Management Methodology and Monitoring Model have been adopted.

In the same sense, in 2016 the Company formalised and implemented a function of the Compliance Regulation, and in terms of health and safety it has a Crime Prevention Manual since 2015. More detailed information is provided in later sections of this Report.

On the other hand, during 2015 the Company adopted or updated, following a report from this Committee, the following policies, which are planned for various provisions or recommendations of good corporate governance: Corporate Governance Policy; Corporate Social Responsibility Policy; Communication Policy; Dividend Policy; Treasury Policy (also modified, following a report from this Committee, on 14 November 2016); Investment Policy (modified on 23 October 2017); Tax Policy; Board of Directors Remuneration Policy (modified on 18 June 2018); Selection of Candidates for Director Policy; Risk Management Policy; and Criminal and Fraud Prevention Policy.

In 2017, the Audit and Compliance Committee approved a Policy for the Provision by the External Auditor of Services other than Statutory Audit, in accordance with the provisions of article 529m. 4. e) of the Law on Capital Companies, as amended, which entered into force on 17 June 2016.

As regards the existence of internal procedures, as mentioned above, the Company has a series of operating rules that establish the internal control criteria, as well as the Manuals of the Internal Control over Financial Reporting (SCIIF), Risk Management Methodology and Monitoring Model and Crime Prevention.

A new Code of Ethics and Conduct has been approved in 2018 that has taken into account, in particular, the updates in the legal regulation of the responsibility of legal persons. In addition, given the importance of internal reporting channels, an annex to the Code of Ethics and Conduct approved in 2018 is now included, which outlines a more detailed procedure for handling reports that allows you to communicate, in a confidential manner, any acts or conduct committed that may be contrary to applicable regulations or the Code of Ethics and Conduct within the company, in the performance of third parties that are in contract with the company or to its detriment. During 2018 there were no reports submitted.

In addition, since 2016, the company has a new Internal Rules of Conduct related to the Securities Market, adapted to market abuse regulations.

## *Regulatory Compliance*

In addition to the internal regulations mentioned in the previous paragraphs, Corporación Financiera Alba, as a complement to other actions that have been carried out in recent years to adapt to new requirements and best practices in corporate governance matters (such as, for example, the Internal Audit Service, the Financial Information Control System, the creation of the Risk Control and Management Unit, or the development of a crime prevention model and manual), in 2016, carried out the formalisation and implementation of a Regulatory Compliance function within the General Secretariat in order to coordinate, systematise and monitor the different actions and efforts it had been making in this area, with the collaboration of Ernst & Young.

The purpose of this function is to provide reasonable assurance that Alba complies with its key legal and regulatory requirements, to which end: (i) the main legislative and regulatory obligations that the Company must comply with have been identified; (ii) a compliance model has been designed; and (iii) a monitoring and follow-up model for compliance activities has been established, with early warnings and semi-annual reviews, with the aim of avoiding potential non-compliance.

In the monitoring reports, the identified requirements are verified, with details of which have been met, those that have not been applied, and, where appropriate, the opportunities for improvement.

During 2018, the Regulatory Compliance Monitoring Reports for the second half of 2017 and the full year were prepared, as well as for the first half of 2018. In the last of these periods it has been verified that, in relation to the 95 requirements identified, 78 of them have been met and the remaining 17 have not been applied (during the semester), without any proposal for improvement having been made. These monitoring reports are subject to presentation and examination in the Audit and Compliance Committee.

In 2018, in a further step of action and compliance culture in the Company's activity, with the favourable report of the Audit and Compliance Committee, the Company's Board of Directors has approved the Regulatory Compliance Function Charter, and has mandated the Secretary of the Board of Directors, the Management of the Regulatory Compliance Unit, reporting to the Audit and Compliance Committee and with the external collaboration of Ernst & Young, S.L.

## *Crime Prevention*

As a result of the regulations on the criminal liability of legal persons, especially following the reform of the Criminal Code by Organic Law 1/2015, a new Manual on Crime Prevention was approved (26 October 2015) and, during 2015 and 2016, various initiatives were launched, particularly regarding the application of the new corporate regulations and the means of monitoring, detection and response. In this respect, monitoring reports have been drawn up analysing various risks and their controls in accordance with the strategic plan and the annual plan, and general compliance with them has been observed and only a few recommendations have been made.

In 2018, the effectiveness of the Crime Prevention Model was monitored accordingly, with two reports being submitted, one for the full year 2017 and another in the first half of 2018, resulting in an overall situation of compliance regarding the risks analysed, with some recommendations being put forward. The Audit and Compliance Committee has considered the monitoring to be satisfactory.

## *Transactions with related parties*

In addition, within this area of regulatory compliance, reference should also be made to the examination of transactions with Directors, significant shareholders or their representatives, or persons linked to them, or with investees (“transactions with related parties”), which have been reported favourably, as they meet the conditions for doing so. In addition, in accordance with the provisions of the Good Governance Code of Listed Companies (recommendation 6), the Audit and Compliance Committee approved a report on the aforementioned transactions with related parties and published it on the company’s website.

## *Other*

The Audit and Compliance Committee also examined the draft Annual Corporate Governance Report, which was subsequently approved by the Board of Directors, and the monitoring reports prepared by the control bodies of the Internal Rules of Conduct, the Code of Ethics and Conduct and the Crime Prevention Manual on the actions taken to comply with them.

A specific reference should be made to monitoring the tax risk, which has resulted in the Company’s tax status being examined by the Audit and Compliance Committee.

With respect to the communications with the National Securities Market Commission (CNMV), which include the communications of financial information, relevant events and other requests for information, all the necessary communications were made during the year. In 2018, an internal audit of the relations process with the CNMV was carried out, without any issues having been identified in this process.

It also reported, on three occasions, in relation to the creation or acquisition of shares in special purpose entities, as a consequence of investments that were expected to be made.

Finally, the Audit and Compliance Committee has monitored the operation of the company's website, which was modified as a result of the approval of CNMV Circular 3/2015, of 23 June, and which is fully adapted to the provisions in force.

#### *Assessment of the External Audit, the Internal Audit and the Audit and Compliance Committee*

Following the Recommendation 71 of the CNMV Technical Guide 3/2017, the Audit and Compliance Committee evaluated the external auditor, reviewing its submissions to the Committee and the various reports issued, with consideration given to the fact that during 2017 the external auditor successfully completed its role in compliance with the Plan established for the year, without any incidents and contributing to the integrity of the Company's financial information.

In connection with the internal audit, and following Recommendation 58 of the CNMV Technical Guide 3/2017, the Committee has assessed this area of the company, and in view of the work submitted and the Annual Report of the Internal Audit Service, it has considered that during 2017 the Internal Audit Service successfully completed its function, meeting the objectives of the Plan established for the year and no incidents occurred. In addition, the Internal Audit Officer has been deemed to have properly performed his role.

Following Recommendation 76 of the CNMV Technical Guide 3/2017, as part of the Board's annual assessment (compiled in the Board's Evaluation Questionnaire and its Evaluation Report), the Audit and Compliance Committee evaluated its performance in 2017. The Board's Evaluation Questionnaire contained the opinion of all Directors on the performance of this Committee, informing the Board of the assessed aspects and the outcome thereof. The assessment of the Audit and Compliance Committee has not resulted in any changes to the internal organisation and procedures of company.

#### **V.- Conclusions**

In view of the foregoing, the Audit and Compliance Committee considers that the Company has an adequate organisation and a sufficient regulatory framework to ensure satisfactory compliance with the regulations, and that effective compliance by the Company with the external and internal regulations applicable to it, as well as the provisions and recommendations on good corporate governance, is satisfactory.

In addition, it considers the Company to have adequate mechanisms for the Audit and Compliance Committee to properly exercise the functions it has legally assigned and in the internal regulations of the company, in connection with periodic reporting of financial information, the external audit, internal audit, non-financial information and the internal control and risk identification systems, and that compliance on behalf of the Company in relation to these matters is satisfactory.

Madrid, 21 February 2019