

## **REPORT ON THE FUNCTIONING AND ACTIVITIES OF THE AUDIT AND REVIEW COMMITTEE**

Reporting period: 1 January to 31 December 2016

### **1.- Composition, duties and operation**

The Audit and Review Committee was created by the Board of Directors on 14 April 2002.

Its composition, responsibilities and operating rules have subsequently been amended to comply with applicable obligations and recommendations which have arisen since its creation.

#### **a) Composition**

This Committee is an internal body of the Board of Directors and therefore it comprises Company directors. The Committee must be composed of five members who shall all be non-executive directors. The majority of its members should be independent directors and all of its members, particularly its chairman, should be appointed taking into consideration their knowledge and background in accounting, auditing and risk management matters. The President must be elected from the independent directors and replaced every four years. He should be re-elected once a period of one year from his departure down has transpired.

At 31 December 2016, the Audit and Review Committee was composed of the following members:

<b>Post</b>	<b>Member</b>	<b>Date of appointment</b>	<b>Type</b>
President	Carlos Colomer Casellas	12/12/12	Independent
Member	Marcelino Armenter Vidal	26/05/09	Proprietary
Member	Maria Teresa Costa Campi	24/11/15	Independent
Member	Susana Gallardo Torrededia	29/11/16	Proprietary
Member	Miguel Ángel Gutiérrez Méndez	24/04/12	Independent
Secretary	Marta Casas Caba	27/11/07	Non-director Secretary

On 31 May 2016, the Board of Directors appointed as President of the Audit and Review Committee, the member of the said Committee and independent director, Mr. Carlos Colomer Casellas, in place of Mr. Miguel Ángel Gutiérrez Méndez by expiry of the legal term of four years.

The Board of Directors on its meeting held on 29 November 2016 appointed Mrs. Susana Gallardo Torrededia as member of the Audit and Review Committee to fill in the vacancy left by OHL Emisiones, S.A.U. (represented by Mr. Tomás García Madrid) which had resigned as director.

## **b) Responsibilities**

Pursuant to Article 23 of the Corporate Bylaws of **Abertis** and Article 15 of the Board of Directors' Regulations, the basic duties of the Audit and Review Committee are as follows:

a) To propose to the Board of Directors for submission to the Shareholders' General Meeting proposals for the selection, appointment, re-election and replacement of statutory auditors or audit firms, the conditions of employment, the scope of professional mandate and, where appropriate, the revocation or non-renewal, all in accordance with the applicable regulations, as well as to regularly collect information from the aforesaid on the audit plan and the implementation thereof and to maintain their independence in the exercising of their duties. In the event that the external auditor resigns, to examine the circumstances which may have led to said resignation.

b) Report to the General Shareholders' Meeting on questions that may arise regarding its competencies.

c) To review the company accounts, monitor compliance with legal requirements and the correct application of the generally accepted accounting principles, and report on proposals to modify the principles and accounting criteria suggested by the management.

d) To serve as a channel of communication between the Board of Directors and the accounts auditors or auditing companies, to evaluate the results of each audit and the responses of the management team to their recommendations and to mediate in the event of discrepancies between the two with regard to the applicable principles and policy in the preparation of financial statements.

e) To supervise the efficacy of the company's internal control, the internal audit services that ensure the proper functioning of the internal information and control systems reporting directly to the Chair of the Audit and Review Committee; to ascertain the suitability and integrity of the same and propose the selection, appointment, re-election and dismissal of its managers; to propose the budget for the internal audit services and approve its direction and work plans, ensuring that its activity focuses principally on the relevant risks for the company; to receive periodic information on its activities; and to verify that the senior management

takes into account the conclusions and recommendations made in its reports.

f) To supervise the risk management systems, including the evaluation of all risks (financial, tax, operational, technological, legal, social, environmental, political, reputational and any other non-financial risks). To monitor both the adoption of and compliance with the appropriate surveillance and control measures by the risk control and management services to prevent the commission of criminal offences, and the systems for managing compliance with all applicable regulations, and discussing with the auditors any significant weaknesses of the internal control system detected during the audit.

g) To supervise the drafting process and integrity of the financial information relating to the company and its group by reviewing compliance with regulatory requirements, the appropriate boundaries of the scope of consolidation and the correct application of accounting criteria.

h) To supervise the execution of the auditing contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drawn up clearly and precisely.

i) To supervise compliance with the corporate Code of Ethics.

j) To establish and supervise a mechanism which allows employees to report, in confidence, any potentially relevant irregularities detected inside the company, especially those regarding finance and accounting and those that may constitute criminal liability for the company.

k) To establish appropriate relations with the accounts auditors or auditing companies in order to receive information on issues that could place their independence at risk, for examination by the Committee, and any other information relating to the accounts auditing process as well as any other disclosures provided for in account auditing legislation and technical standards. It shall ensure that the remuneration paid for work done by the accounts auditors and audit companies does not adversely affect their quality or independence. In particular, the Committee shall ensure that the company and the external auditor respect the current regulations on the provision of non-audit services, the limits on the scope of the auditor's business and, in general, all regulations concerning the independence of auditors. In all cases, written confirmation shall be received annually from the accounts auditors or auditing companies confirming their independence from any entity or entities directly or indirectly related to the company, as well as information on any additional services provided to, and the corresponding fees received from, these entities by the aforementioned auditors or auditing companies, or by persons or entities linked to them, in accordance with Royal Decree 1/2011 of 1 July, approving the redrafted text of the Accounts Auditing Act.

l) To issue, on an annual basis, prior to the issuance of the Audit Report, a report expressing an opinion on the independence of the accounts auditors or auditing companies. This report shall address, in all cases, the valuation of the provision of additional services other than the legal audit referred to in the preceding paragraph, considered individually and as a whole, and with regard to the system of independence or to the audit regulations.

m) To ensure that the external auditor meets annually with the Board of Directors to inform the latter on the work conducted and on the evolution of the accounting situation and the risks to the company.

n) To oversee that the company notifies the National Securities Market Commission of any change of auditor as a relevant event, along with a statement on any disagreements with the outgoing auditor and, where applicable, the content thereof.

o) To consider any proposals made by the Chair of the Board of Directors, the Board members and Company directors or shareholders.

p) To report to the Board of Directors, in advance, on the financial information that the Company must publish periodically, the creation or acquisition of shares in special purpose vehicles or bodies domiciled in countries or territories considered to be tax havens and operations with related parties, as well as on any other matters provided for by law, the Corporate Bylaws and the Board of Directors' Regulations.

q) Provide information in relation to the transactions that involve or could involve conflicts of interest and, in general, on the subjects considered in chapter IX of these Regulations.

r) The supervision, where applicable, of compliance with any internal protocol governing the relationships between the company or companies in the group quoted on the stock market.

### **c) Operation and functioning**

The Spanish Law on Capital Companies and the Board of Directors' Regulations set out the basic rules of procedure and internal operation of the Audit and Review Committee.

The Committee is an advisory and informational body without executive duties. It has the power to inform, oversee, advise and make proposals within its area of activity.

The Audit and Review Committee must meet as frequently as required to perform its duties. Meetings are convened by the Committee President, whether on his own motion or at the request of the Chairman of the Board or of three Committee members.

The Committee may request that any member of the Company's management team or other personnel attend meetings of the Audit and Review Committee and offer their collaboration and provide access to the information available to them. The Committee may also request that the Company's auditors attend its meetings.

The Audit and Control Committee is validly assembled when the majority of its members attend in person or by proxy. Resolutions are adopted by the majority of the members attending, whether in person or by proxy.

Where applicable, the operating rules governing the Board of Directors shall alternatively apply.

## **2.- Activities**

During year 2016, the Audit and Review Committee met on 11 occasions and carried out the following activities:

### **a) Review of economic and financial information**

#### ❖ Financial statements

- In February 2016 the Audit and Review Committee knew and issued a favourable report on the **Abertis** individual and consolidated financial statements and Management Reports individual and consolidated for year 2015 prior to their submission to the Board of Directors for formal formulation.
- In this regard, and in addition to other issues, during that meeting the Committee:
  - It discussed the reasonableness of changes in key financial data, the most significant transactions or events in the period and changes in accounting policies and any other relevant information, with those responsible for their preparation.
  - It knew the conclusions of the external auditor's work on the individual and consolidated financial statements for the year.

#### ❖ Half-yearly financial statements

- In July 2016, the Audit and Review Committee knew and informed issuing a favourable report to the Board of Directors on the half-yearly financial statements prior to their approval.
- During that meeting the Committee followed the same procedures as above i.e. discussing and checking with the persons responsible for preparing the information and reporting the conclusions of the auditor's limited review.

- ❖ Quarterly economic and financial information and other requests
  - The Committee reviewed the process of preparing the other regulated (quarterly) economic and financial information following discussion and verification with those charged with its preparation as described above, verifying that such information is presented under the same accounting and consolidation principles as those used to prepare the financial statements. It has also been notified of any other request made by the Securities Exchange Commission (*Comisión Nacional del Mercado de Valores*) in relation to matters within its competence.
- ❖ System of Internal Control over Financial Reporting (ICFR)
  - The Committee had received the explanations on the validation for internal controls of the financial information at each quarterly closing.
  - The Committee has reviewed the section on the system of Internal Control over Financial Reporting (ICFR) which is part of the Annual Corporate Governance Report pursuant to the Restated text of the Securities Market Law and Securities Exchange Commission (*Comisión Nacional del Mercado de Valores*) Circular 7/2015.
  - It has also known of the findings of the external auditor's review of this report and of the outcome of the reviews carried out during the year by Internal Audit during year 2016 in relation to the control matrices as part of the oversight of the ICFR system.
- ❖ Other information: Impairment estimates, dividends and treasury shares
  - The Committee reviewed the results of the impairment tests carried out on the Group's main assets (which involved some of the main judgements and estimates contained in the financial statements at year-end) and analysed the main assumptions for the calculations that support the figures and their consistency with previous years and with those used by analysts and other companies in the same industry.
  - At the October 2016 meeting, and prior to submitting its findings to the Board of Directors, the Committee reviewed statements evidencing the existence of sufficient profit for it to distribute an interim dividend and forecast accounting liquidity statements evidencing the existence of sufficient liquidity to proceed with the distribution.
  - Monthly monitoring of the performance of the treasury shares of Abertis Infraestructuras, S.A.

## **b) Relationship with the auditors**

### ❖ Fees, independence and renewal

- The Committee has monitored the fees for audit services and those for other professional services provided to Abertis and its Group. It should be noted that the other professional services provided in 2016 are not in conflict with the auditing activity and that they comply with the rules on conflicts of interest as stated in Law 22/2015, dated 20 July, on Accounts Auditing.
- The Committee has verified that there are no objective reasons to question the auditor's independence (by obtaining letters confirming their independence and reviewing the fees received for audit and non-audit services according to the internally established limits). It has issued a report on the independence of the auditors in compliance with Article 529 quaterdecies 4.f) of the Spanish Law on Capital Companies.
- The Committee met with the auditor to ascertain the planning of its audit work on the financial statements and also the outcome of the preliminary phase of its review.
- The Committee unanimously agreed to propose to the Board of Directors the appointment of the current external auditor (Deloitte) for a period of two years and, therefore, the appointment of Deloitte as auditor of the financial statements for 2017 and 2018 will be proposed at the Annual General Shareholding' Meeting.

## **c) Monitoring regulatory developments and good practices**

The Committee has been informed of the development in the legislation and the measures undertaken in the accounting (NIIF 16 Leases) and financial reporting areas as well as the next steps for the analysis of the new integrated report's implementation and the updating of the diagnosis of the risk management model and internal control based on COSO.

The Committee has approved the final wording of the fiscal, risk control and management and exchange rate heading policies (within general review and homogenization of the content of the entire book of policies).

The Committee was informed of the tax policies applied by the Company in the consolidated income tax return for 2015 prior to its filing, in compliance with the Code of Best Tax Practices to which Abertis adhered in 2014.

## **d) Overseeing Internal Audit**

One of the Audit and Control Committee's duties is to oversee the effectiveness of the internal control system at the **Abertis** Group. This function is undertaken mainly by Internal Audit.

#### ❖ Functions

The Internal Audit-related functions are as follows:

- To evaluate whether the internal control system guarantees a reasonable level of internal control as regards:
  - Safeguarding the Group's assets
  - Compliance with applicable external and internal regulations
  - Effectiveness and efficiency in the transactions and corporate and support activities
  - Transparency and completeness of the financial and management information
- To cooperate with the external auditors in order to coordinate their tasks concerning internal control levels.
- To report to senior management and the Audit and Review Committee any anomalies or irregularities identified, as well as any corrective action proposed.

#### ❖ Activities

The main activities carried out by Internal Audit and supervised by the Audit and Review Committee in 2016 were as follows:

- **Reviews**
  - The reviews were included in the 2016 Audit Plan, or performed at the request of senior management or at the request of Internal Audit.
  - Periodical monitoring of the recommendations proposed in the reviews.
- **2017 Audit Plan**

The Audit and Review Committee has approved the 2017 Annual Review Plan based on:

- The classification, by risk and materiality factors, of the companies controlled by the Group.
- The definition of the activities to be reviewed: top level transactional processes (revenues, procurements, fixed assets, employees, financial management, technology, etc.), other transactional

processes (travel, maintenance and warehouse expenses, etc.) and compliance (ICFR, etc.).

- The definition of the review frequency for each of the foregoing processes based on the company classification.

- **Internal Audit budget**

The Audit and Review Committee has monitored resources and costs of the internal audit function and approved the budget and the allocation of resources for year 2017.

## **e) Oversight of Risk Control**

One of the functions of the Audit and Risks Committee is to oversee the risk management systems of the Abertis Group. This is carried out by the Risk Control department.

### ❖ Functions

Risk Control establishes mechanisms to identify, assess, prioritise and monitor the key risks and mitigating actions (control activities and action plans) defined by the various businesses and corporate areas to minimise these risks so that the Group can achieve its objectives.

### ❖ Activities

In 2016, the Committee carried out the following activities:

- Monitoring of the priority risks (Key Topics) in the meetings held in February, April, July and November with an emphasis on political, social and regulatory aspects.
- Review of the risk maps with full update in the April meeting (including control activities and action plans) and monitoring of any changes in risks in the November meeting (main changes and identification of emerging risks).
- Monographic sessions of certain business units (brief general description, characteristics of concessions, achievements, difficulties, development of the economic environment and actions undertaken).

## **f) Oversight of Compliance systems**

One of the functions of the Audit and Review Committee is to oversee Compliance with the Company's Code of Ethics and to oversee the Compliance system's surveillance and control measures to prevent the commission of criminal offences and the communication mechanisms of

irregularities, which is performed as part of the activities of the Compliance department.

❖ Activities

In 2016, the Committee carried out the following activities:

- Monitoring a progressive deployment of Compliance Group's function.
- Information received on the update process of the management model and organization about crime prevention.
- Information received on the process and development work results of the Group's criminal risk map.
- Information received on the internal legislative developments on compliance with the company's code of ethics and penal prevention.

**g) Assessment of the Audit and Review Committee's operations**

In order to comply with the provisions of Article 529 nonies of the Spanish Law on Capital Companies and in the Recommendation 36 of the Good Governance Code for Listed Companies concerning the assessment of the Audit and Review Committee's operations, the Committee prepared a self-assessment report on its own operations, which it classified as satisfactory.

Barcelona, 21 February 2017