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*ANNUAL REPORT OF THE FUNCTIONS AND THE ACTIVITIES OF THE*

*AUDIT AND CONTROL COMMITTEE*

*2018-2019*

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**COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA HOLDINGS, S.A.**

**(THE COMPANY)**

**Audit and Control Committee**

**Report on functions and activities**

**Fiscal year 2018-2019**

**1.- REGULATION**

The Company's Audit and Control Committee ("the Committee") was constituted by the Company's Board of Directors in the meeting held on 4 June 2014, before the shares were approved for listing on Spain's Official Stock Exchanges, and the general aim is to assist the Board of Directors in the supervision of the financial statements, while exercising the function of controlling and ensuring good corporate governance.

The Committee is regulated by Article 43 of the Bylaws, by Articles 15 and 17 of the Board of Directors' Regulations, Consolidated Text of 26 January 2016, modified on 19 December 2017, and by the Regulations of the Audit and Control Committee, approved at the Board of Directors' meeting of 19 December 2017, in accordance with the recommendations of the Technical Guide on Audit Committees of public-interest entities, approved by the CNMV (*Comisión Nacional del Mercado de Valores*: National Securities Market Commission), on 17 June 2017.

Pursuant to the aforementioned standards, the Board of Directors will form an Audit and Control Committee, with a minimum of three and a maximum of seven Directors, appointed by the Board of Directors, who will take account of the Directors' knowledge, aptitudes and experience and the tasks of the Committee, at the proposal of the Appointments and Remuneration Committee, who will decide on the profile of the people most suitable to form part of it. Most of the Committee's members will be independent Directors.

Additionally, the Board of Directors will ensure that the members of the Audit and Control Committee, and especially its Chairperson, have knowledge and experience of accounting, auditing or risk management, and also of other fields which may be appropriate in the performance of the Committee's functions as a whole, such as finance, internal control and information technology, although they do not necessarily need to be experts in these latter fields.

In addition, and having due regard to ensuring the promotion of diversity of sex and of geographical origin, the members of the Audit and Control Committee, who will be appointed because they have the necessary dedication to the performance of the functions entrusted to them, will, as a whole, have the technical knowledge which is pertinent to the Company's sector of activity.

The members of the Committee will leave the Committee when they cease to be Directors, or when the Board of Directors so decides.

The members of the Audit and Control Committee will elect a Chairperson from among the Independent Directors who form part of it, who will be replaced every four years and may be re-elected once a period of one year has elapsed since he or she stepped down.

The Secretary of the Committee will be the Secretary of the Board of Directors or the Vice-secretary, if applicable.

Notwithstanding other roles assigned by the Board, the Audit and Control Committee will have the following responsibilities:

In relation to control over financial reporting:

- a) Reporting at the General Shareholders' Meeting on the questions raised by shareholders about subjects within its area of responsibility, and in particular, about the result of the audit, and explaining how it contributed to the completeness of the financial information and to the role which the Committee performed during this process.
- b) Supervising the process of drawing up the required financial information and its completeness and submission, and making recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, checking compliance with regulations, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- c) Supervising compliance with legal requirements and the correct application of generally accepted accounting principles, and reporting on the proposals for modification of accounting principles and criteria suggested by Management, and of the risks on and off the balance sheet.
- d) Ensuring that the Board of Directors arranges to submit the accounts to the General Shareholders' Meeting without limitations or qualifications in the audit report and that, in the unlikely event of there being qualifications, that both the Chairperson of the Audit and Control Committee and the auditors clearly explain to the shareholders the nature and extent of those limitations or qualifications.
- e) Reporting to the Board of Directors on the Company's Annual Accounts, and on the financial information which the Company has to publish regularly, and which has to be sent to the bodies that regulate or supervise the markets.

In relation to the supervision of internal control and of internal auditing:

- f) Supervising the effectiveness of the Company's internal control systems, and in particular, those for financial reporting and the Company's risks systems, reviewing the appointment and replacement of its managers, and discussing with the accounts auditors or auditing companies the weaknesses of the internal control system, detected during the audit, all

of this without compromising its independence. To that end, and where appropriate, recommendations or proposals may be submitted to the Board of Directors in keeping with the corresponding period for follow-up activities.

- g) Supervising the services and activities of the Internal Audit Unit and, in particular, assuring the independence of the unit handling the internal audit function, which will report functionally to the Committee's Chairperson and will ensure the effectiveness of the reporting and internal control systems; proposing the selection, appointment, re-election and cessation of the head of the internal audit service; proposing the service's budget; approving its priorities and work programmes, ensuring that it focuses primarily on the main risks to which the Company is exposed; receiving regular reports on its activities; and verifying that the senior managers are acting on the findings and recommendations of its reports.

The head of the unit handling the internal audit function will present an annual work programme to the Committee, inform it of any incidents arising during its implementation and submit a report on its activities at the end of each year.

- h) Setting up and supervising a procedure which allows employees of the Company's group, confidentially and, where possible and deemed appropriate, anonymously, to report irregularities of potential importance, especially financial and accounting irregularities within the Company or its Group.

In relation to the supervision of the management and control of risks:

- i) Supervising the effectiveness of the Company's risk systems, reviewing the appointment and replacement of the managers, and also, when appropriate, submitting recommendations or proposals to the Board of Directors, and the corresponding period for their following-up.
- j) Supervising the risk control and management unit, which will have, among other duties, that of ensuring that the risk control and management systems are functioning correctly, and in particular, that the major risks to which the Company is exposed are correctly identified, managed and quantified; that of actively participating in the preparation of risk strategies and in key decisions about their management; and that of ensuring that the risk control and management systems are mitigating risks effectively within the framework of the policy established by the Board of Directors.

In relation to the accounts auditor:

- k) Referring to the Board of Directors the proposals for the selection, appointment, re-election and replacement of the auditor, assuming responsibility for the selection process pursuant to the provisions of the European regulations, as well as for the terms and conditions of the auditor's engagement, and regularly gathering information from the auditor about the Auditing Plan and its implementation, while preserving his or her independence in the exercise of his/her functions.

- l) Establishing appropriate relationships with external auditors or audit firms in order to receive information about those matters which may represent a threat to their independence, so as to have them examined by the Committee, and about any other matters related to the process of auditing the accounts. When appropriate, authorising services other than those prohibited under the terms of the regulations applying to the independence of auditors, and any other communications envisaged by the legislation on the Auditing of accounts and by the Auditing regulations.

In any event, the Committee will have to receive from the external auditors or auditing firms an annual, written declaration of their independence in relation to the Company and companies directly or indirectly linked to it, and detailed, individual information about additional services provided, of any kind, and about the corresponding fees received from those entities by the said auditors or firms, or by persons or entities connected with them, in accordance with the regulations governing the auditing of accounts. The Committee will ensure that the Company and the external auditor adhere to the current regulations governing the provision of services other than auditing services, the limits on the concentration of the auditor's business, and the other rules about the independence of auditors.

In this regard, the Committee will ensure that the remuneration for the external auditor's work does not adversely affect its quality or independence.

- m) Annually issuing, prior to the issue of the audit report, a report in which an opinion is expressed about whether the independence of the auditors or auditing firms has been compromised. This report, which will be published in the Company's website sufficiently in advance of the Company's Annual General Meeting, will have to include, in any event, a reasoned evaluation of the provision of each and every additional service referred to in the preceding paragraph, considered individually and as a whole, apart from the legal audit, and in relation to the independence of the accounts auditing and to the regulations governing that auditing.
- n) Ensuring that the Company notifies the CNMV of any change of external auditor as a material event, and that such notification is accompanied by a statement about any disagreements with the outgoing auditor, and the reasons for the same.
- o) Investigating the circumstances of any resignation of an external auditor.
- p) Ensuring that the external auditor attends, annually, the plenary session of the Board of Directors to inform it about the work done and about developments in the Company's risk and accounting situations.
- q) Reporting in advance to the Board of Directors on transactions connected with the creation or acquisition of interests in special-purpose entities, or entities domiciled in countries or territories treated as tax havens, and on obligations, actions, activities and transactions that involve, or could involve, conflicts of interest, particularly in relation to transactions with related parties, and also, in general, on the duties envisaged in chapter IX of the Regulations.

The report, if any, issued by the Audit and Control Committee on transactions of related parties will be published in the Company's website sufficiently in advance of the Annual General Meeting.

- r) Supervising compliance with the rules of corporate governance and with the Company's Internal Codes of Conduct. In particular, the Audit and Control Committee has to:
- (i) Supervise compliance with the Internal Codes of Conduct, including the Internal Rules of Conduct of the Securities Markets, with these Rules and with the Company's rules on governance, and make proposals for its improvement.
  - (ii) Oversee the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
  - (iii) Regularly evaluate the adequacy of the Company's corporate governance system, to confirm that it is fulfilling its purpose of promoting the corporate interest and catering appropriately for the legitimate interests of the other stakeholders.
  - (iv) Evaluate all aspects of the non-financial risks to which the Company is exposed, including operational, technological, legal, social, environmental and political risks and risks to its reputation.
  - (v) Propose to the Board of Directors the Annual Report on Corporate Governance.
  - (vi) Give a prior report to the Board of Directors on any structural or corporate changes which the Company is planning to make, on their economic conditions and accounting impact and, when applicable, on the exchange ratio proposed.
  - (vii) Gather information and, if appropriate, issue a report on disciplinary measures for senior managers of the Company and its Group.
- s) Supervising compliance with the Company's policy on corporate social responsibility. In particular, the Audit and Control Committee will:
- (i) Review the Company's policy on corporate social responsibility, ensuring that it is orientated towards the creation of value.
  - (ii) Monitor corporate social responsibility strategies and practices and assess the degree of compliance in these areas.
  - (iii) Monitor and evaluate the Company's interaction with its stakeholder groups.
  - (iv) Co-ordinate the processes of reporting non-financial information and diversity, in accordance with the applicable regulations and international standards.
  - (v) Ensure that the Company's policy on corporate social responsibility includes the principles and commitments which the Company will voluntarily adhere to in its dealings with stakeholder groups, and that it specifies at least:

- a) The aims of the policy on corporate social responsibility and the supporting instruments to be deployed;
- b) The corporate strategy with regard to sustainability, the environment and social issues;
- c) Specific practices in matters relating to: shareholders, employees, customers, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct;
- d) The methods or systems for monitoring the results of the practices referred to above, the associated risks, and their management;
- e) The mechanisms for supervising non-financial risk, ethics and business conduct;
- f) The channels for communicating with stakeholders, and for participation and dialogue;
- g) Responsible practices in communication which avoid the manipulation of information and protect integrity and honour.

The report issued by the Audit and Control Committee on the Company's Policy on Corporate Social Responsibility will be prepared using one of the internationally accepted methods, and will be published in the Company's website sufficiently in advance of the Annual General Meeting.

- t) Preparing for the Board of Directors an Annual Report on the functioning of the Audit and Control Committee over the year. This Report will serve as the basis for an evaluation by the Board of Directors, which will be published in the Company's website sufficiently in advance of the Annual General Meeting.
- u) Any other duty of reporting or proposing, of a general or specific nature, which is entrusted to it by the Board of Directors.
- v) Any other responsibility or function assigned to it by Law, by the Bylaws or by these Regulations.

The Audit and Control Committee will meet at agreed intervals, and at least four times per year. One of the meetings will necessarily be devoted to evaluating efficiency and the observance of the Company's rules and governance procedures, and to preparing the information which the Board of Directors has to approve and include in its annual public documentation. In connection with these subjects, the Committee will have to include the internal auditor in its meetings, and if any kind of review report is issued, will also include the external accounts auditor, but neither auditor will be present in the decision-making part of the meeting, when the Audit and Control Committee adopts the appropriate decisions.

In addition, it will meet whenever called to do so by its Chairperson, when the latter deems this necessary for the correct performance of its functions or when requested to meet by two of its members, and it will have to meet whenever the Board or its Chairperson asks for a report to be issued or for the adoption of resolutions by the Audit and Control Committee.

The meetings of the Committee will be called by its Secretary, on the orders of the Chairperson, with at least ten days' notice, unless there are urgent reasons which justify an immediate calling or a shorter period of notice, and the call will be by letter, telefax, electronic mail or any other method which provides proof of receipt.

The call will always include the agenda of the meeting and will be accompanied by the necessary information, even when, in certain circumstances, all or part of the information is justifiably supplied during the meeting itself.

The Audit and Control Committee will prepare an annual report on its functioning, highlighting, among other matters, any incidents which arose in connection with its own functions. In addition and when the Audit and Control Committee deems it appropriate, it will include in that report proposals for improving the Company's rules of governance. The report of the Audit and Control Committee will be made available to shareholders and investors through the website, sufficiently in advance of the Annual General Meeting.

Any member of the management team or personnel of the Company or Group who is so required will be obliged to attend the meetings of the Audit and Control Committee and to provide them with collaboration and access to any information that they possess, and the Committee may require them to attend without the presence of any other director. Other people (executive directors, experts, external Accounts Auditors, etc.) may also attend, but only by invitation of the Committee's Chairperson, and only to deal with the specific items of the agenda for which they were summoned. In particular, other directors, whether executive directors or not, will be present only occasionally in the Committee's meetings.

In order to fulfil its functions, the Audit and Control Committee may request advice from external professionals.

## 2.-. COMPOSITION

As at 30<sup>th</sup> September 2019, the Committee was composed of the following:

Position:	Members	Date of Appointment	Nature
Chairman	Mr. Alain Minc	25.09.2018	Independent
Member	Mr. Gregorio Marañón y Bertrán de Lis	09.06.2014	Independent
	Mrs. Cristina Garmendia Mendizábal	09.06.2014	Independent
	Mr. Richard Hathaway	24.04.2018	Proprietary
Non-Member Secretary	Mr. Rafael de Juan López	09.06.2014	-----

During financial year, there was the replacement of the previous Chairperson, Mrs. Cristina Garmendia Mendizábal, after four years of her term of office, by the independent Director, member of the Committee, Mr Alain Minc, effective from April 2019 meeting.

## 3.- ACTIVITIES

During the 2018-2019 fiscal year, the Company's Audit and Control Committee held eight meetings:

### 1st SESSION – 30 OCTOBER 2018

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr. Richard Hathaway, Mr Gregorio Marañón y Bertrán de Lis, and Mr. Alain Minc (Members), and Mr. Rafael de Juan López (Non-member Secretary).

Also present were the Chief Executive Officer of the Company (Mr Luis Egido Gálvez), the Corporate Director of Finances (Mr Manuel Suárez Noriega), the Corporate Internal Audit Director (Ms. Laura Templado), and the Accounts Auditors (Deloitte: Mr. Jose Luis Aller and PricewaterhouseCoopers: Mr. Raúl Llorente).

The Audit and Control Committee carried out the following activities:

**- Review of the Annual Accounts of the Company (2017-2018)**

- The Company's Individual and Consolidated Accounts were studied.
- Prior to the presentation of the conclusions of the review of the Annual Accounts, the Accounts Auditors reported, among others, on the following matters:
  - i) No uncorrected errors or significant omissions of information had been detected.
  - ii) They considered that they are, and have been, independent in the exercise of their auditing work, in accordance with the regulations governing accounts auditing in Spain, and handed over letters dated 30th October, confirming that independence, and signed by Deloitte and by PricewaterhouseCoopers.
  - iii) Figures: 10 million at Logista SAU, 5 million at Logista France and 5 million at Logista Italy.
  - iv) They had followed the Accounts Auditing Plan, which they had presented to the Audit and Control Committee on 24th July, 2018.
  - v) 'Going concern': No doubt had arisen in this connection.
  - vi) There were no significant irregularities or breaches of the law.
  - vii) They had checked the main methods of valuation used by the Logista Group in the preparation of the Annual Accounts, and they agreed with the accounting policies used, the most important of which had already been identified as Key Auditing Matters (KAM):
    - Impairment of goodwill and other intangible assets
    - The valuation of tobacco stocks
    - The provisions for fiscal risks and the estimate of the amount of the deferred taxation
  - viii) In the performance of the audit, there had been no disagreements with the Group's Management, they had received full co-operation from the Management, had had free access to the Organisation, and had not been denied access to any auditing evidence.
- The Auditors' Opinions
  - 1) On the Individual and Consolidated Accounts closed on 30th September, 2018:

"In all the important aspects, the annual individual and consolidated accounts show a true reflection of the equity and of the financial state of the Company (Individual Accounts) and of the Group (Consolidated Accounts) on 30th September, 2018".

## 2) Report on the Internal Control Over Financial Reporting (ICOFR):

There had been no evidence of any inconsistencies or incidents which could have affected the information relating to the ICOFR.

The Committee unanimously proposed that the Board draw up the Annual Individual and Consolidated Accounts of the Company.

### **- Annual Report on Corporate Governance**

A favourable opinion was issued with regard to the Annual Report on Corporate Governance (2018-2019), and approval thereof was proposed to the Board of Directors. The Annual Report incorporates the Report of the Accounts Auditors relating to the Company's Internal Control Over Financial Reporting (ICOFR).

### **- Independence of the Auditor**

The Committee approved the Report on the independence of the Accounts Auditors (Deloitte and PwC), the end result being, in the opinion of the Committee, that Deloitte and PwC had acted independently in relation to the examination and verification of the 2018-2019 Individual and Consolidated Accounts of the Compañía de Distribución Integral Logista Holdings, without that independence being affected, during the abovementioned period, by Deloitte providing permitted services to the Company and its group of companies, in addition to those of the Accounts Auditing service.

The Committee also agreed to publish the Report in the Company's website, sufficiently in advance of the Ordinary General Shareholders' Meeting.

### **- Report on Corporate Social Responsibility**

The Committee unanimously approved the Logista Group's 2018-2019 Report on Corporate Social Responsibility, and submitted it to the Board for its information and validation.

### **- Report about the Activities of the Committee**

The Report on the Committee's Functions and Activities for the period 2018-2019 was unanimously approved, and submitted to the Board of Directors, pursuant to article 17.2 of the Board's Regulations, and it was agreed to publish it in the Company's website, sufficiently in advance of the Ordinary General Shareholders' Meeting.

### **- Calendar of meetings in 2019**

The Committee approved the calendar of meetings in 2019, and their content by activities (among others, Finances, External Audit, Internal Audit, Corporate Governance, Risks Maps and Training).

## 2nd SESSION – 26 NOVEMBER 2018

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr. Richard Hathaway, Mr Gregorio Marañón y Bertrán de Lis, and Mr. Alain Minc (Members), and Mr. Rafael de Juan López (Secretary, Non-Member).

Also present were the Chief Executive Officer of the Company (Mr Luis Egido Gálvez), the Corporate Director of Finances (Mr Manuel Suárez Noriega), and the Corporate Internal Audit Director, (Ms. Laura Templado).

The Audit and Control Committee carried out the following activities:

### **- Annual Report (2017-2018) on Internal Auditing Activities.**

Technical Guide 3/2017 on Audit Committees of Public-Interest Companies, published on 27th June, 2017, by the CNMV, suggests, among its recommendations for the supervision of Internal Auditing, *that there should be presented, every year, a report on activities which should contain, as a minimum, a summary of the actions and reports completed during the year, detailing the work which had been foreseen in the annual plan but had not been done, and the work which had been done although not foreseen in the original plan, and also a list of the weaknesses, recommendations and action plans included in the various reports.*

The Corporate Director of Internal Auditing, Mrs. Laura Templado, presented the Annual Report on the 2017-2018 Internal Audit Activities.

#### 1. Internal Auditing Activities

##### 1.1 Implementation of the 2017-2018 Internal Auditing Plan

The Internal Audit Plan for the FY1718 has reached 89% (80% in the previous year).

At the end of the year, a number of activities related mainly to warehouse reviews and activities related to the SCIIF, in a high degree of progress, remain in draft, pending definition of the action plans.

##### 1.2 Audit coverage

The coverage of the audit plan has been oriented mainly to warehouse control, SCIIF reviews of the main stock, sales and corporate processes, as well as regulatory compliance and information systems.

### 1.3 Audit Qualifications

During the year 2017-2018, 45 audits have been concluded, for which 27 (50 %) present a satisfactory level of internal controls, 24% improvable, and none of the audits were qualified as insufficient.

In general terms, no significant internal control deficiencies have been identified.

Within the **SCIIF framework**, the processes of tobacco stocks in Spain, France and Portugal have been reviewed; stocks of convenience and the processes of sale to the collection of Spain, France and Italy (the latter in course). The corporate processes of taxes, HR, and purchases of non-inventorial goods (in progress) have also been subject to audit, concluding satisfactorily on the efficiency of the controls described in the corresponding ICFR documentation. As a result of the reviews, no weaknesses have been detected in Internal Control nor significant adjustments have been made to financial statements.

All audit findings carried out an audit recommendation and an associated action plan, a responsible and a deadline.

### 1.4 Monitoring of Recommended Actions

Ninety per cent (90%) of the total action plans agreed during the audit in order to mitigate the risks detected and increase the control environment in those areas where necessary have been implemented by the end of the year, which 4% have suffered delays with respect to the dates defined for their implementation.

## 2. Other activities performed by the Management of Internal Auditing

### 2.1 Compliance with Regulations

- Corporate Defence

Relating to specific reviews of the **Corporate Defence model**, none of the audits carried out (Crimes of Prevention of Money Laundering, Against Public Health, Fraud of the Public Treasury and Punishable Insolvencies), have revealed any significant control weakness, controls described are compliant with the objective of mitigating risks events identified at the Corporate Defence Risk and Control Matrix, and also the aim of ensuring, reasonably, prevention and detection of fraudulent acts and behaviours at Logista Group in Spain.

- Decree 231/01 - Italy

Monitoring activity for Decreto Legislativo 231/01 in Italy has not revealed control weaknesses or relevant aspects that revealed a risk the activities of prevention and detection of possible actions and behaviors with criminal impact.

During the second quarter, the DL 231/01 model was updated to adapt it to the new regulations.

## 2.2 Map of Risks

A full update of Logista Group Risk Register and Risk Map has been performed in the first and third quarter of the fiscal year, and their results have been presented for approval to the Audit and Control Committee and Board of Directors on its respective sessions held on November 2017 and July 2018.

In the months of January and July 2018, the Audit and Control Committee has been informed of the evolution of the risks, having not occurred any exceptional fact during the period that could lead into a risk materialization, new risks, or relevant changes in impact and/or probability.

From a fiscal perspective, no new risks have been identified related to tax inspections.

## 2.3 The External Auditor

An analysis of companies' subject to be audited by law for the year 2018, including the analysis of companies' subject to voluntary audits has been done in order to guarantee an adequate audit coverage of the financial statements subject to review by the external auditor, and therefore, obtain a reasonable security level over the annual accounts of different Group companies, and also ensuring that the companies are compliant with legal audit requirements. Audit coverage of Group consolidated financial statements reaches 99.8%.

As a consequence of the above, audit fees have been set up for the year, being presented the result to the Audit Committee held on November 28<sup>th</sup>, 2017.

The drafts of the annual accounts of those Group companies with a closing date of September 30<sup>th</sup> and December 31<sup>st</sup>, 2017 have been reviewed before being formulated and filed with the Mercantile Registry to ensure that they do not contain errors and there are no omissions of mandatory information, as well as new audit reports of the said subsidiaries.

On the other hand, audit reports of Spanish subsidiaries have been reviewed, according to new Audit report legislation in Spain, before they are published by the auditor.

Finally, the limited review of the consolidated financial statements for the first half of the year has been planned with the external auditor, and work has been done on the definition of the closing calendars and planning of the audit of accounts for the year 2018.

## 2.4 'Whistleblowing' channel

No notifications of malpractice were received during the financial year.

## 2.5 Other

In Italy, week of 16 October 2017, FDA inspectors completed the external audit over a significant customer activity, concluding satisfactorily and without any recommendation, and finalizing, therefore, Internal Audit participation once achieved the objective. Likewise, the internal audit preliminary audit review on SSAE18 in Bologna was performed, before the external audit will be carried out. On the other hand, internal audit has collaborated in the preparation and execution of the audit carried out by PwC to obtain the SSAE report<sup>16</sup>, required by this customer for the Bologna warehouse, with the external auditor issuing a favourable report.

Internal Audit has collaborated in the drafting of the Annual Corporate Governance Report of GRUPO LOGISTA, specifically in the drafting of sections E- Risk Management System, and F- Internal Control System over financial Statements.

Finally, a response letter has been prepared to the request for information on the operation of the Audit Committee by the CNMV, which was sent to the mentioned Body on October 17<sup>th</sup>, 2018.

## 2.6 Organisation of the Internal Audit Department

The Committee was informed of the personnel changes in the Department and of the professional certifications obtained by such personnel.

In the first quarter of the year, the Variable Remuneration Objectives for the members of the Internal Audit Department have been set.

### **- Fees for the external Auditing of the Accounts of the Company and the Group in Fiscal Year 2018-2019.**

The Committee unanimously approved the fees indicated for the auditing of the Company's Individual and Consolidated Accounts, as well as of the Individual Accounts of its subsidiaries, broken down by companies and countries, and also the proposal of appointments of individual auditors for those subsidiaries for the fiscal year.

The fees proposed for the current year amounted to 1,346,552 euros (+0.9% compared with last fiscal year), including an annual price increase of 1.8% (the CPI of the services sector, excluding rentals).

In addition, the Committee approved the provision by the Accounts Auditors of other non-audit services (verification services of the half-year financial statements (NIC 34) amounting 35,596 euros; reporting package for Imperial Brands PLC, amounting to 219,917 euros, and the Report on the ICOFR, amounting to 22,822 euros), and other permitted services, for an amount of 86,317 euros (Coleggio Sindacale Italia).

**- Diagnosis on the Cybersecurity of the Group: external hiring.**

The Director of Internal Auditing reported the following:

On 30th October, the Company's Board of Directors had entrusted the Audit and Control Committee and the Internal Audit Directorate with the task of arranging for an analysis of the Group's cybersecurity by contracting the services of an external expert.

The Internal Audit Directorate had prepared a file for the contracting-out, the specification documents required for that procedure, and the award criteria (technical and financial).

Four companies specialising in cybersecurity were invited to tender.

The services requested were the following:

1. An assessment of the degree of exposure to cybersecurity risks, and of the extent of the Group's vulnerability in all the countries in which it operates, covering all its businesses.
2. Following the completion of the aforementioned analysis, an evaluation of its effectiveness for each sub-process.
3. The subsequent identification of key aspects of cybersecurity with a view to increasing protection and prioritising the actions to be undertaken.
4. Advice on a future strategy for the security of the Group's IT systems, and ongoing advice for the duration of the tests.
5. The determination by the cybersecurity experts, in accordance with their professional judgement, of the scope of the procedures to be applied in the services required, as indicated in this document.

The Audit and Control Committee unanimously recommended awarding the contract for the analysis of the Group's cybersecurity to S2 GRUPO, because they had similar technical solidity to the other participants, and their offer was financially more attractive.

**- Updating of the Group's Risks Map**

The Director of Internal Audit gave a summary of the Group's Risks Map (Audit and Control Committee of 24<sup>th</sup> April, 2018).

She recalled that the number of detected risks in the third quarter of the financial year stood at 104, and is currently standing at 100, being only 5 critical Risks, all of them situated outside the Group scope of action, and in consequence, not manageable.

In particular, the Cybersecurity Risk is significantly increased: the protection of information and possible fraud situations as a result of unauthorized access to the Group's systems acquires greater relevance in the last financial year.

The Internal Audit Director gave a list of the terminated Risks, and listed Risks by category.

Once the control measures of the 25 most important Gross Risks have been implemented, 5 are located in the critical area, 5 in the surveillance area, and the rest are in the area under control.

#### **- Annual Evaluation of the Internal Audit Unit**

Technical Guide 3/2017 on Audit Committees of Public-Interest Entities, issued by the CNMV (*Comisión Nacional del Mercado de Valores*: National Securities Market Commission) on 27th June, 2017, stipulates, among its recommendations, that *“every year, the audit committee must evaluate and approve the performance of its duties, action plans and resources in order to ensure that they are appropriate for the real needs of the entity”*. *“Finally, as part of this process of supervision, the audit committee must evaluate the functioning of the internal auditing”*.

The Regulations of the Audit and Control Committee of 19th December, 2017, in their Article 5.1ii) b) also stipulate that among its functions is the annual evaluation of the Internal Auditing Unit.

Finally, the Audit and Control Committee unanimously evaluated very positively the functioning of the Internal Auditing Unit in fiscal year 2017-2018.

#### **- Evaluation of the Business Objectives and Individual Objectives for the Short-Term Variable Remuneration (Bonus) of the Corporate Director of Internal Auditing.**

Technical Guide 3/2017 on Audit Committees of Public-Interest Entities, issued by the CNMV on 27th June, 2017, stipulates, among its recommendations, the *“evaluation of the performance of the person responsible for Internal Auditing and the inclusion of an assessment of the degree of achievement of the objectives and the criteria laid down for the purpose of fixing the variable components of that person’s remuneration, in the determination of which the audit committee must also take part.*

The conclusions of the evaluation made by the audit committee must be notified to the person responsible for internal auditing and taken into account by the entity when finally determining that person’s annual variable remuneration”.

The Audit and Control Committee unanimously assessed the achievement of the Financial Objectives and of the Individual Objectives, setting the overall degree of achievement of the Objectives set for the determination of the 2017-2018 Bonus of the Corporate Director of Internal Auditing.

### 3rd SESSION – 29 JANUARY 2019

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, and Mr. Alain Minc (Members), and Mr. Rafael de Juan López (Non-Member Secretary). Mr. Richard Hathaway (Member) delegated Mrs. Garmendia.

Also present were the Chief Executive Officer of the Company (Mr Luis Egido Gálvez), the Corporate Director of Finances (Mr Manuel Suárez Noriega), and the Corporate Internal Audit Director (Ms. Laura Templado).

The Audit and Control Committee carried out the following activities:

#### **- Quarterly Financial Report**

The Corporate Director of Finances presented to the Committee the Quarterly Financial Report (first quarter of the fiscal year – 1 October to 31 December 2018), which was sent to the CNMV and to the markets on January 31<sup>st</sup>, 2019.

#### **- Report on the limited review by the Accounts Auditors**

The Committee received the Report of the limited review carried out by the Accounts Auditors, Mrs. López (Deloitte) and Llorente (PwC), stating that the scope of their work on financial reporting to 31st December, 2018 had involved identifying important aspects arising in the first quarter of the fiscal year, anticipating their impact on the closure of 31st March, 2019, and following up on aspects previously identified.

They said that although the purpose of their analytical reviews of the situation at 31st December had not been to obtain assurance about the financial reporting up to that date, in the course of their review they did not identify any important points which should have been notified to the Audit and Control Committee.

The Committee unanimously agreed to issue a favourable report on the abovementioned Financial Report and to submit a proposal to the Board to prepare and send it to the CNMV and disseminate it via the Company's website.

#### **- Cessation as Auditor of Mr. Jose Luis Aller (Deloitte)**

Mr. Aller informed the Committee that the regulations governing the rotation of partners in auditing companies obliged him to cease working as an auditor representing Deloitte. He introduced the new partner who would represent Deloitte, Mrs. María Victoria López Téllez.

### **- Verification Process of non-financial Information,**

The Accounts Auditors also informed the Committee on the verification process of non-financial information, derived from Law 11/2018, of December 28, that establishes the obligation for public interest entities to formulate a Non-Financial Reporting Statement – which is legally part of the Management Report – and the need to verify such Non-Financial Information by independent expert.

The Company must present this Non-Financial Reporting Statement in this financial year 2018-2019.

### **- Quarterly Report on Internal Auditing (1st October to 31st December, 2018)**

The Corporate Director of Internal Auditing, Mrs. Laura Templado, referred to the internal auditing work completed in the first quarter of the fiscal year and to its results, with the conclusion that neither control weaknesses nor significant impacts were detected on the Group's Consolidated Accounts.

She also reported on the degree of implementation of the actions recommended by Internal Audit, which reached 81%.

- **Compliance with Regulations**

- Corporate Defence.

During the quarter, an audit was carried out on the checks used to prevent fraud in subsidiaries, and they were found to be adequate.

- Legislative Decree no.231/01

The main activities carried out during the quarter were the supervision of the fieldwork done by Grant Thornton, preparation of risk assessment for each Italian business - and the subsequent three-year plan – and finally, the updating of the Rules and Directives so that they conform to the new model that was published in 2018.

Members of the Internal Audit Department also attended sessions held by the *Organismo di Vigilanza*.

- **Map of Risks**

In the first quarter of the fiscal year, the Logista Group's Register of Risks and Map of Risks were completely updated, and the results were presented to the Audit and Control Committee and Board of Directors on 26th November, 2018.

There were no significant differences from the Map of Risks that was presented in the Audit Committee last November.

- Complaints ('Whistleblowing') Channel

No complaints had been received during the quarter.

- External Auditing

The companies subject to the obligation of auditing in fiscal year 2019 had been analysed, as had the companies which voluntarily submitted themselves to auditing ("audit coverage"), and the fees for the fiscal year had been fixed and notified to the Audit and Control Committee on 26th November, 2018.

The draft annual accounts of certain subsidiaries whose fiscal year closed on 30th September were reviewed before their formulation and deposit in the Mercantile Registry, in order to ensure that they contained no errors or omissions of compulsory information. In addition, there was a review of the draft audit reports, the financial support letters and the representation letters of each subsidiary.

Finally, a limited review of the consolidated financial statements for the first quarter had been planned jointly with the external auditors.

- Organisation of Auditing

The Committee was informed of the Variable Remuneration Objectives for the members of the Internal Audit Department and of organizational changes thereof.

**- Authorisation for Deloitte to provide LOGISTA, S.A.I., with services other than accounts auditing**

Deloitte had been asked to carry out an agreed procedure to support, before the CNMC, the economic sales of LOGISTA SAU's cigarettes, in fiscal year 2016-2017, in the Peninsula, Ceuta and Melilla.

The Audit and Control Committee noted that those services were not on the list of services prohibited to Accounts Auditors under Article 5 of EU Regulation 537/2014 of 16th April, or under the Law of Accounts Auditing of 20th July, 2015, and consequently, in accordance with Article 5.1 iv) k) of its Rules of 19th December, 2017, unanimously approved the provision of the said services by Deloitte.

#### 4th SESSION – 26th MARCH 2019

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr. Richard Hathaway, Mr Gregorio Marañón y Bertrán de Lis, and Mr. Alain Minc (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

The Audit and Control Committee carried out the following activities:

#### **- Appointment of the Chairperson of the Audit and Control Committee**

The Committee's Secretary, Mr. De Juan, reported the following:

Article 529.2 quaterdecies of the Capital Companies Act, approved by Royal Legislative Decree 1/2010 of 2nd July, modified by Law 31/2014 of 3rd December, Article 43º of the Bylaws, Articles 15.3 and 17.1 of the Rules of the Board of Directors of 26th January, 2016 and Article 4 of the Rules of the Audit and Control Committee, lay down that the Chairman of the Audit Committee will be appointed by the members of that Committee from among the independent directors who form part of it, must be replaced every four years, and may be re-elected after one year has passed since that person stood down from the Chairmanship.

The Chairperson of the Audit and Control Committee, Mrs. Cristina Garmendia Mendizábal, was appointed to that position by a resolution of the Audit and Control Committee of 29th January, 2015, to begin the effective exercise of her role on the Audit Committee on 27th April, 2015, so her term of office as Chairperson ends in April, 2019.

Furthermore, Article 17.1 of the Rules of the Board of Directors and Article 3.2 of the Rules of the Audit and Control Committee lay down that the Committee's Chairperson must have the knowledge and experience of accounting, auditing and risk management, and also of other fields which, together, could be fitting for the Audit and Control Committee's performance of its functions, such as those of finance, internal control and information technology, without necessarily having to be an expert in those fields.

Mr. Marañón then took the floor, in his capacity of Chairman of the Board of Directors, to highlight, as he had already highlighted in the meeting of the Appointments and Remuneration Committee, the enormous contribution made by Mrs. Cristina Garmendia to the work of the Audit and Control Committee, as its Chairperson for the past four years; a period in which various legal regulations and recommendations of the CNMV (*Comisión Nacional del Mercado de Valores*: National Securities Market Commission) had been made concerning the capabilities and functioning of the audit committees of listed companies, so it was absolutely right to recognize, publicly, the effort, dedication and competence deployed and demonstrated by Cristina Garmendia as the Committee's Chairperson, and to record in the minutes the Company's satisfaction with her excellent performance of her duties.

The other members of the Appointments and Remuneration Committee concurred in this recognition.

In the meeting that it had held immediately before this meeting, the Appointments and Remuneration Committee noted that the director who combined the appropriate experience and knowledge to be appointed Chairman of the Audit Committee was Mr. Alain Minc because, to his indispensable status of independent director and member of the Audit and Control Committee, are added his experience as Chairman of the Audit Committee of another important entity and his proven knowledge of accounting, finance and risk management, by virtue of his academic and professional training.

Mrs. Garmendia continues as a Committee Member.

Consequently, the Audit and Control Committee unanimously resolved to appoint as Chairman of the Audit and Control Committee the independent director, and member of the same, Mr. Alain Minc, for a period of four years.

Mr. Alain Minc was present, accepted the post of Chairman of the Audit and Control Committee, and declared that he was not involved in any legal prohibition or incompatibility, and especially not in those mentioned in Law 5/2006 of 10th April, concerning the Regulation of Conflicts of Interest of members of the Government and of senior officials of the General State Administration, and in Law 14/1995 of 21st April, of the Community of Madrid, modified by Law 3/2008 of 29th December.

Mr. Alain Minc began the effective exercise of his office in the next meeting of the Audit and Control Committee (April 30<sup>th</sup>).

#### **- Approval of the Services Contract relating to Transfer Prices in fiscal year 2017-2018**

At the Chairperson request, Mr. de Juan presented this item of the agenda.

He began his presentation by informing the Committee about the concept and the obligation, for fiscal purposes, to document the fact that intra-group transactions are carried out at market prices.

The Corporate Financial Management proposed that the contract should be awarded directly to Deloitte, because it was the entity that had been providing this service since 2007, with all that that implies about its knowledge of the Group, and it had made a financial proposal, the same as that of last year.

Obviously, the study did not include either the provision of fiscal advice or assisting the Group with the defence of its policies on transfer prices.

Finally, he said that the purpose of the service was not included among the Services Prohibited to Accounts Auditors that are listed in Article 5 of EU Regulation 537/2014, nor was it one of the “incompatible” services under Article 16 of the Law of Accounts Auditing of 20th July, 2015.

Deloitte, one of the Company’s co-auditors, has confirmed that the provision of this service does not affect its independence as an Accounts Auditor for the Company. The other co-auditor, PwC, had previously given its own confirmation to the same effect.

Finally, the Audit and Control Committee unanimously resolved to award the contract for the documentation of the intra-group transfer prices in fiscal year 2017-2018, and in all the countries in which the Group is active, to Deloitte

#### 5th SESSION – 30 APRIL 2019

Present at this session were Mr. Alain Minc (Chairman), Ms Cristina Garmendia Mendizábal, Mr. Richard Hathaway and Mr Gregorio Marañón y Bertrán de Lis (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

Also attending were the Chief Executive Officer, Mr. Luis Egido Gálvez, Logista’s Corporate Director of Finances, Mr. Manuel Suárez Noriega, the Corporate Director of Internal Auditing, Mrs. Laura Templado Martín, and the External Auditors, Mrs. Victoria López Téllez, of Deloitte, and Mr. Raúl Llorente, of PricewaterhouseCoopers.

The Audit and Control Committee carried out the following activities:

#### **- Financial Report for the First Half Term of the Fiscal year 2018-2019**

The Corporate Director of Finances, Mr. Suárez, presented to the Audit and Control Committee the Financial Report on the Company and its subsidiary companies (the Logista Group), relating to the first half-year (to 31st March, 2019), which was sent to the CNMV (*Comisión Nacional de Mercado de Valores*: National Securities Market Commission) and to the markets on 8th May.

The Half-Yearly Financial Report was presented in the format required by the CNMV’s Circular 3/2018 of 28th June, which implements Royal Decree 1362/2007 of 19th October, on regulated information. The Report includes the condensed annual accounts and the consolidated Management Report as of 31st March, 2019.

Mr. Suárez reported on the evolution of the basic figures of the first half-term (Revenue, Economic Sales and EBIT), and on the foreseeable evolution of the Business for the remaining of the financial year.

Mrs. López Téllez (Deloitte) referred to the scope of the work done in the six months ended on 31st March.

On the one hand, work had been done in accordance with IAS 34 “Interim Financial Reporting”, verifying the Financial Report relating to the first half-year of the fiscal year, and involving a limited review of the same – which could not, however, be regarded as a substitute for an audit (ISRE2410) – with a materiality of 4.9 million euros.

In addition, a limited review of the Logista Group’s consolidation package had been carried out and sent to the auditors of the Imperial Brands P.L.C. Group.

She explained the extent of the work, as laid down in the ISRE 241, and the procedures that were pending before the Review Report could be submitted.

Mrs. López Téllez then reported on the important events in the period:

- On 12th April, 2019, la CNMC (*Comisión Nacional de los Mercados y la Competencia*: National Markets and Competition Commission) made known its ruling following the investigation, begun in February, 2017, of several companies suspected of practices that were anti-competitive due to an alleged exchange of information between certain tobacco manufacturers (during the period 2008-2017), and imposed a penalty of 20.9 million euros on Logista, S.A.U.

She said that, with the legal backing of their external advisor, the parent company’s Administrators considered that the said ruling was not final, and in any case was not legally sound. As a result, a contentious administrative appeal is to be lodged against that ruling before the *Audiencia Nacional* (National High Court). It was considered improbable that there would be any effect on the Group’s assets or results. No provision had therefore been recorded in this connection.

That decision had been made appropriately clear in the Logista Group’s condensed consolidated interim financial statements as at 31st March, 2019.

- Situation of the “Social Contribution” in France (Logista France)
- Tax assessments
- Provisions for restructuring

During the first half-year of fiscal year 2018/2019, the Group recorded a new provision for staff restructuring, amounting to approximately 6.7 million euros and relating mainly to SAF (2.8 million euros) and to Logista France (3.5 million euros).

In addition, in that period there was a reversal of a provision of 1.2 million euros for Social Security matters, based on an assessment of the risks in the light of the latest rulings on assessments.

- Result of the sale of a fixed asset

The sale of the industrial building in Sintra, owned by Logista's branch in Portugal, was approved in November, 2018, for the sum of 5 million euros. It produced a profit of approximately 2.5 million euros, which was recorded in the P & L account at 31st March, 2019.

- Changes in the consolidation perimeter

On 14th March, 2019, the subsidiary company José Costa & Rodrigues, Lda was merged into MIDSID – Sociedade Portuguesa de Distribuição, S.A. – through acquisition by the latter. This involved the dissolution and the transfer *en bloc* of José Costa's assets to MIDSID, the absorbing company.

On 27th March, 2019, an Extraordinary General Meeting of Logista Publications agreed to the merger through acquisition between the Compañía de Distribución Integral de Publicaciones, S.L.U. (the absorbing company) and Distribérica, S.A.U. (the absorbed company), all the shareholders' equity being transferred *en bloc* from the absorbed company to the absorbing company, without liquidation.

The joint auditors indicated that, after the Board's approval of the financial statements in question, and after the completion of the procedures for subsequent events, the conclusion would be the following:

*“As a result of the limited review, which at no time may be considered as an audit of accounts, no matter came to our knowledge to lead us to the conclusion that the condensed consolidated interim financial statements relating to the six-month period ended on 31st March, 2019, had not been prepared in accordance with the requirements of the International Accounting Standard (IAS 34) that was adopted by the European Union under Article 12 of R.D. 1362/2017, for the preparation of condensed consolidated interim financial statements”.*

Mr. Llorente then referred to the following points:

- Accounting policies

The international financial reporting standards IFRS 9 – Financial Instruments – and IFRS 15 – Revenue from Contracts with Customers – will apply from the fiscal year beginning on 1st October, 2018:

- IFRS 9: The Group has chosen the option which allows it to avoid re-presenting the figures from 2017 that were presented for comparative purposes. The principal impact of the IFRS 9 on the Group was the recognition in the opening balance of the correction for impairment of other financial assets amounting to 56,000 euros.

- IFRS 15: The entry into force of this standard has not had a significant impact on the Group.

From the fiscal year beginning on 1st October, 2019, the international financial reporting standard IFRS 16 – Leases – will apply. It stipulates that companies which act as leaseholders will have to recognize an asset (the right to use the leased element) and a financial liability to pay the rents. The only exceptions will be short-term leases and those of low value.

- Significant legal irregularities or instances of non-compliance

When planning our examination we took account of the possible occurrence of errors or irregularities which would have a significant effect on the interim consolidated condensed financial statements.

Although the limited review is not specifically designed to detect irregularities of all kinds and amounts – so these should not be expected to be among its findings – we did not identify any significant aspect that would be worth reporting..

- Independence

To the best of our knowledge and belief, we have been independent, in accordance with the requirements laid down by the Spanish Law of Accounts Auditing in connection with independence.

- Lack of difficulties in carrying out the limited review

The Group's Management co-operated fully with us in the limited review of the interim condensed consolidated financial statements for the period ended on 31st March, 2019.

The Audit and Control Committee unanimously reported favourably, and proposed to the Board the drawing-up of the Condensed Consolidated Financial Statements relating to the six-month period ended on 31st March, 2019, and the Interim Management Report of that date, and that these should be sent to the CNMV and disseminated through the Company's website.

#### **- Quarterly Report on Internal Auditing (1st January to 31st March, 2019)**

The Corporate Director of Internal Audit, Mrs. Laura Templado, referred to the internal auditing work completed in the second quarter of the fiscal year and to its results, with the conclusion that neither control weaknesses nor significant impacts were detected on the Group's Consolidated Accounts.

She also reported the percentage of achievement of Recommended Actions by the Internal Audit, that was of 82%.

She also referred to the following:

- Compliance with Regulations

- Corporate Defence.

Judging by the evidence and the checks made during the audits, no situations were detected in which representatives of the Logista Group could commit offence of bribery, influence peddling and corruption against a civil servant.

During the current fiscal year a complete updating of the risks from crime is going to be carried out, in compliance with Organic Law 1/2015 of 30th March, by which Organic Law 10/1995 of 23rd November, of the Penal Code, was modified. The purpose of this updating is to incorporate the latest legislative changes into the map of risks from crime that we already have, and to adapt the map more precisely to the activities of each of the Group's companies in Spain. Within a model for crime prevention, one needs an analysis of risk which:

- Identifies the types of high-risk behaviour that are associated with each of the types of offences identified by the Penal Code as being liable to be committed by legal persons.
- Identifies the scenarios and occurrences which could give rise to penal consequences ('risky occurrences').

This activity will be undertaken jointly by the Internal Audit Department and the Legal Department.

- Legislative Decree 231/01

Two comprehensive audits had been completed. They included objectives that were necessary, and those required for the correct compliance with the Legislative Decree, at the DFT warehouses in Anagni and Crotone. Neither of the audits found any significant weaknesses in control.

- Map of Risks

The map of risks was completely updated during the quarter, and the conclusions were to be presented to the Audit and Control Committee during its meeting of 30th April.

- Complaints ("Whistleblowing") Channel

During the quarter, a complaint was received from an employee about alleged immoral practices committed by the employee's hierarchical superior. The Complaints Channel's Committee met on 11th February, 2019, and after analysing the situation, concluded by rejecting the complaint, on the grounds that the alleged immoral practices complained of had occurred in the context of some negotiations that were aimed at resolving a situation that was strictly an employment matter, and they informed the complainant accordingly.

#### - External Auditor

The draft annual accounts of certain companies in the Group with year-ends on 30th September and 31st December, 2018, were reviewed before being drawn up and deposited in the Commercial Registry. This was done to ensure that they contained no errors and that no mandatory information was omitted. The drafts of the audit reports of the Spanish subsidiaries were also reviewed before being issued by the external auditor.

The external auditors' letter of recommendations for FY 18-19 was also co-ordinated and reviewed: it mentioned no significant aspects for improvement.

Finally, a limited review of the consolidated financial statements for the first half-year of the fiscal year was planned with the external auditor.

#### - Obstacles to independence and objectivity

During the quarter, independence and objectivity in the performance of the work were not endangered, as there were no situations of conflict of interest, limitations on scope, restrictions on access to records, personnel or property, or limitations on resources.

Furthermore, the work was carried out with due professional care.

#### - Organisation of the Auditing Department

The Committee was informed of the personnel changes in the Department and of the professional certifications obtained by such personnel.

#### - Updating of the Map of Risks

The Director of Internal Auditing presented this item of the agenda.

##### Aim:

To carry out a complete re-evaluation of the risks which could affect the Group, by country, company and business line:

- Updating the status (in terms of impact and probability) of the risks already identified in previous periods;
- Adding those which could arise as new risks this year;
- Eliminating those which either disappeared or materialised during the period under review.

Work completed:

Taking as the reference the record of risks that was presented in the meeting of the Audit and Control Committee of 28th November, 2017, the Group's strategic objectives were reviewed, as the starting point for identifying risks which could affect them. Meetings were then held with the directors and managers of all the business lines and corporate and support functions, during March and April, 2018.

Each risk was individually assessed, as were the control measures existing to reduce those risks. Finally, the risks detected were ranked according to their criticality.

104 risks were identified in the Group.

- Since the previous updating, of November, 2018, there had been a slight increase in the number of the Group's risks. New risks had appeared during the period, but their appearance was partly counterbalanced by the disappearance of other risks.

Mitigation of risks:

The Group's practice is to reduce the criticality of the risks, by managing them and by implementing more robust control measures which reduce the impact of the risks when they materialise. The controls identified do indeed reduce both the impact and the probability of materialising of a large number of the risks to which the Group is exposed.

Evolution of the volume and criticality of identified risks

- i. Since the previous updating, the observed trend had been towards a slight decrease in the number of critical risks, but there had been an increase in the number of risks that needed to be watched carefully. This could be partly explained by the appearance of two new risks during the period: the risk of BREXIT and the EU-wide regulatory trend towards single-use plastic.
- ii. Also becoming more significant are risks related to compliance with the regulations governing competition and taxation, the latter being evidenced by the current inspection activities in some of the Group's companies in Spain.

New risks

Ten new risks have arisen, two of which are in the area to be watched carefully, and five in the low-risk area. The others were formerly classified under "Identification and management of talent and succession planning", which is now broken down into three different risks to facilitate their management (Succession Plan, Attraction of Talent and Retention of Talent).

She placed each of the Top 15 of the Map of Net Risks in the appropriate Area (Critical/ To Be Watched Carefully/Under Control).

The Audit and Control Committee unanimously gave its initial approval of the updating of the Map of Risks, and resolved to present it to the Board of Directors.

**- Approval of the contract for Deloitte’s services in connection with the preparation of documents and complementary reports for justifying the transfer prices before the Inspectorate, and in connection with Deloitte’s certification of the rate of the ‘Social Contribution’ at Logista France.**

This item of the agenda was presented by the Corporate Director of Internal Auditing.

Deloitte had been providing the service connected with transfer prices – in the Group – and therefore have the experience and knowledge to be able to assist Logista Italy with the administrative procedure for transfer prices, before the Italian fiscal inspectorate.

Finally, Mrs. Templado confirmed that the purpose of this service was not included among those that are prohibited for accounts auditors, which are included in Article 5 of EU Regulation 537/2014, nor among the incompatible services specified in Article 16 of the Law of Accounts Auditing of 20th July, 2015.

She finally proposed to the Committee that it award directly to Deloitte the contract for the service of advising on the issue of certificates in connection with the Social Contribution in France.

Finally, the Audit and Control Committee unanimously resolved to award the contracts for the said services to Deloitte.

**- Approval of the policy governing the “General Principles of Conduct of Suppliers of the Logista Group”**

The Secretary of the Committee stated that this Policy was proposed in the context of the Logista Group’s Compliance with Regulations, and to comply with Law 11/2018 of 28th December, which governs Companies’ non-financial information and relates to the inclusion, in their Purchasing Policies, of the need to consider and take account of, in their dealings with sub-contractors and suppliers, their social and environmental responsibilities.

He then listed the principles included in the Policy, and which are divided into three sections:

- Business Integrity
- Responsible Commercial Practice
- Trust, Respect and Social Responsibility

These principles are binding on the Logista Group, and also – obviously – on the Group’s suppliers, who will be asked, prior to contracting, for an affidavit confirming that they will comply with the principles, a copy of which will be included in every contract that is made,

together with an express termination clause to cover the eventuality of non-compliance by the supplier.

The Audit and Control Committee unanimously reported in favour of the Policy entitled “General Principles of Conduct of Suppliers of the Logista Group”, with the content shown in Appendix 1 to these minutes, and proposed that it be approved by the Board of Directors.

**- Approval of a modification to the Logista Group’s Purchasing Policy.**

The Audit and Control Committee unanimously agreed to propose to the Board the inclusion, in section 5 of the Purchasing Policy, of the following additional paragraph:

*“vii. **General Principles of Conduct of Suppliers.** All Suppliers of the Logista Group who participate in a Procurement Procedure or in Purchasing/Ordering must accept and comply with the General Principles of Conduct of Suppliers that the Logista Group may have in force at any time. In case of any unexpected non-compliance with these Principles, after the initiation of the commercial or contractual relationship, the Logista Group will ask the Supplier to adopt the necessary measures to remedy the non-compliance, reserving the right to terminate the relationship if this is not done.”*

**- Approval of a modification to the Logista Group’s Internal Auditing Policy.**

The Director of Internal Auditing indicated a need to make certain changes to the present wording of the Internal Auditing Policy, specifically that relating to the composition and functioning of the Internal Audit Department in the Logista Group.

The proposed changes were the following:

- Alignment with the stipulations of the following Group Policies, particularly with regard to the activities and functions of the Internal Audit Department:
  - Policy 1/2016 of 26th April, 2016, on Complaints of Malpractice.
  - Policy 1/2017 of 25th April, 2017, on Internal Control and its associated procedure.
- Alignment with the International Framework for the Professional Practice of Internal Auditing, updated in January, 2017.
- Technical clarifications, and improvement in the wording of the Policy to make it easier to understand.

The Audit and Control Committee unanimously reported in favour of the Policy on “Functions and Responsibilities of the Logista Group’s Internal Audit Department”, with the content shown in Appendix 2 to these minutes, and proposed that the Board approve it.

When that Policy has been approved, the current Policy, of 27th April, 2015, will lapse.

**- Information about lawsuits in progress in the Logista Group**

The Secretary of the Committee presented this item of the agenda, distinguishing between the proceedings in which the Group is the defendant and those in which it is the plaintiff.

**- Information about activities and/or resolutions of the Internal Control Committee, the Unit for the Prevention of Risks from Crime, and the Information Security Unit.**

This item was presented by the Director of Internal Auditing, Mrs. Laura Templado Martín.

**- Meeting of the Group's Internal Control Committee, of 20th February, 2019**

The Committee analysed the following matters:

1. The Degree of Compliance by the Businesses with the recommendations of the Internal Audit Department.  
The Internal Auditing Management indicated that the evolution had been positive (pending overdue actions had declined from 10% to 9%).
2. Internal auditing actions in relation to Teseo software and to the regional warehouse at Croissy  
The Committee received information about those actions and about the weaknesses observed.
3. Information received from the Management of the Internal Control Department about the main internal control activities for the current fiscal year, and about the results of the Stock Control Programme in the Group, which were generally satisfactory.
4. The proposal to approve the Group's General Principles of Conduct of Suppliers.

At the suggestion of the Unit for the Prevention of Risks from Crime, the Internal Control Committee proposed that those Principles be approved.

**- Meeting of the Unit for the Prevention of Risks from Crime, of 20th February, 2019**

The Unit dealt with the following matters:

- It received information about the degree of compliance, during FY 2017-2018, with the Group's Model for the Prevention of Risks from Crime.
- It received information about the Internal Auditing Plan for the current fiscal year, and, in particular, about the review of compliance with the Model's controls for certain offences.
- It received, from the Director of Internal Auditing, information about the review of the degree of compliance with the Model's controls over 'Subsidy Fraud', which it found adequate.

- It received, from the Legal Department, information about the programmes of on-line and face-to-face training in Risks from Crime and in the Code of Conduct.
  - It laid down a calendar for the review of the Risks and Controls Matrix, in order to update the activities for the control of all the offences included in the Model.
  - It resolved to update the Group's Map of Risks from Crime, and estimated that this work would be concluded in September, 2019.
  - It proposed that the Logista Group's General Principles of Conduct of Suppliers be approved.
- Meeting of the Group's Information Security Unit of 20th February, 2019

The Unit analysed the following:

- Information about the Group's Policy and Procedure in relation to Information Security, and the degree of implementation of the same.
- Information about the remedies currently being applied to correct weaknesses in security that were discovered during internal auditing.
- Information about the recently introduced security solutions: "Forcepoint", for the protection of post, "Sealpath", for the protection of confidential documents, and "Privileged Access Management", for monitoring the use of privileged access to systems, and for the selection of access to servers.
- Information about several security incidents.

#### 6th SESSION - 25th JUNE 2019

Present at this session were Mr. Alain Minc (Chairman), Mrs. Cristina Garmendia Mendizábal, Mr. Richard Hathaway and Mr Gregorio Marañón y Bertrán de Lis (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

Also present were the Chief Executive Officer of the Company (Mr Luis Egido Gálvez), the Corporate Director of Finances (Mr Manuel Suárez Noriega), and the Corporate Internal Audit Director (Ms Laura Templado).

The Audit and Control Committee carried out the following activities:

**- Proposal to engage an Independent Expert to verify the Statement of Consolidated non-financial Information for fiscal year 2018-2019.**

The Director of Internal Auditing, Mrs. Laura Templado, reported the following:

On 28th December, 2018, the Spanish Law governing 'EINF' (Non-Financial Information and Diversity) was passed, obliging certain companies to provide more details and more meaningful information about environmental, social and personnel matters and those relating to the observance of human rights, the fight against corruption and bribery, as well as information about the company itself, by means of a Statement of Non-Financial Information.

This law applies to the fiscal years from 1st January, 2018 onwards; in the Logista Group, the information will have to be submitted at the closure of 30th September, 2019. It can be published either in the Report on Management which is presented together with the Annual Accounts, or in a separate report. The Logista Group has opted to include it in its Report on Management.

The procedures to be followed for formulation, approval, deposit and publication have to be the same as those for financial information. The information included in the statement of non-financial information will be verified by an independent provider of verification services, and may be an external auditor.

Three of the four big auditing firms have been asked to quote.

The criteria for awarding the contract were: technical quality and price.

As is now becoming customary in this field, the approach will be that of a Limited Review, in accordance with the 'International Standard on Assurance Engagement 3000 (ISAE-3000)' and the *Guía de Actuación sobre trabajos de revisión de Informes de Responsabilidad Corporativa* ('Guide to Action in reviews of Reports of Corporate Responsibility'), issued by the Spanish *Instituto de Censores Jurados de Cuentas*.

Two bids were submitted. As they were similar technically, the award was made to PwC based on their price.

The Audit and Control Committee unanimously reported in favour, and proposed to the Board the engagement of PwC as the independent firm of experts that would verify the Statement of Consolidated Non-Financial Information for fiscal year 2018-2019.

PwC had presented a letter dated 24th June, 2019, confirming that the service in question was not one of the services prohibited to accounts auditors under Article 39 of the Law of Accounts Auditing (Law 22/2015), and was in conformity with the Reply of the ICAC (the Spanish Institute of Accounting and Accounts Auditing) of 12th February, 2019.

**- Proposal to contract internal auditing services at Logista France.**

The Director of Internal Auditing, Mrs. Laura Templado, reported the following:

Since 2011, EY has been doing specific types of work included in the Internal Auditing Plans in France, under the supervision of the Manager of Auditing in France.

On 25th September, 2018, the Audit and Control Committee approved the Internal Auditing Plan for fiscal year 2018-2019, the 'Resources' section of which proposed the inclusion of part of the budget for the contracting of EY for auditing services in France.

During that fiscal year, EY temporarily ceased to provide service because it was heavily involved as a candidate in the selection of accounts auditors for Imperial Brands, and there would be incompatibility with auditing its accounts from the fiscal year prior to a putative appointment of EY.

After being appointed as an auditor for Imperial Brands for the forthcoming fiscal year, EY stated that it would be unable to provide internal auditing services because that would be incompatible with the provision of accounts auditing for the parent company.

So a selection procedure with a view to contracting internal auditing services for Logista France was begun in May.

Bids were invited from five firms. The criteria for the award were: technical quality (with weighting of 70%) and price (weighting of 30%).

The following factors were taken into account in the evaluation of the technical offers presented:

- The degree of understanding of the business/sector/ Logista
- The method to be used
- The equipment to be used
- Credentials
- General presentation

The best technical offer presented was that of KPMG, who also offered the second-best price.

The Audit and Control Committee unanimously proposed to award the contract for services of internal auditing at Logista France, in the current fiscal year, to KPMG.

**- Fraud in the Business of electronic transactions in France.**

The Director of Internal Auditing reported the following:

On 4th June a cyber-attack was detected in the Telecom Business in France. It resulted in a loss of 0.7 M€.

Measures were taken immediately to try to prevent a new attack, and the method, origin and source of the attack were now being investigated by a company specialising in this field.

Additional measures would be taken, both by the I.T. Department and by the Business, to strengthen the controls, to try to reduce the likelihood of a re-occurrence and to minimise the financial impact of any repeated attack.

The Committee acknowledged the information.

#### 7th SESSION: 23rd JULY 2019

Present at this session were Mr. Alain Minc (Chairman), Ms Cristina Garmendia Mendizábal, Mr. Richard Hathaway and Mr Gregorio Marañón y Bertrán de Lis (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

Also attending were the Chief Executive Officer, Mr. Luis Egidio Gálvez, Logista's Corporate Director of Finances, Mr. Manuel Suárez Noriega, the Corporate Director of Internal Auditing, Mrs. Laura Templado Martín, and the External Auditors, Mrs. Victoria López Téllez, of Deloitte, and Mr. Raúl Llorente, of PricewaterhouseCoopers.

The Audit and Control Committee carried out the following activities:

#### - The Company's Financial Report for the Third Quarter of the fiscal year (April 1<sup>st</sup> to June 30<sup>th</sup> 2019).

In relation with this subject,

- i) the Corporate Director of Finances disclosed to the Committee the exact content of the Financial Report on the Company and its subsidiary companies for the third quarter of the fiscal year, which was sent to the CNMV on 24 July.
- ii) Mrs. López Téllez (Deloitte) and Mr. Llorente (PwC) informed the Committee of, among other things, the actions taken by the External Auditors and the next steps which had to be taken in order to formulate the Annual Accounts for the Board Meeting of 29<sup>th</sup> October, as well as of other relevant aspects of this period, already reported.

Regarding the auditing procedures carried out on 30th June, 2019 they reported:

#### - Scope

The main aims of the procedures applied to the financial information on 30th June were to update relevant aspects which had been identified previously and to anticipate aspects relevant to the closure of 30th September. In particular:

- A substantial part of the evaluation of the internal control and information systems had been carried out, and would be completed as a final task.

- Significant events occurring during Q3 were identified and analysed, as was the monitoring of subjects previously reported on.
- A lot of work had been done in specific areas.
- Reviewing procedures were applied to Logista's consolidation package for the nine-month period ended on 30th June, 2018, for the Imperial Brands, PLC Group, and had been carried out entirely by PWC.

- Result

Although the purpose of the procedures on 30th June had not been to obtain assurance of the accuracy of the financial information on that date, in the course of the review no relevant aspects were identified as not having been communicated to the Audit and Control Committee.

- Independence

To the best of their knowledge, they had been independent, in accordance with the requirements of the Law of Accounts Auditing.

They then referred to the following regulatory innovations:

- European Single Electronic Format (ESEF)

In May, 2019, the regulation related to the initiative of the European Commission on the European Single Electronic Format (ESEF) was finalised. ESEF is the name of the set of new requirements for all issuers of securities listed in regulated markets in the EU, when they report financial information in their financial statements. It stipulates that:

- The annual report must be in xHTML format.
- The financial information in the consolidated annual accounts, in conformity with IFRS-EU, must be linked with machine-readable coding, in iXBRL format.

The presentation of the annual financial statements of the entities concerned must be in conformity with the ESEF for the fiscal years which begin on or after 1st January, 2020:

- For FY 2020, only main financial statements, and some of the information from the Report.
- For FY 2022, the whole Report, at least by blocks of information.

The CNMV will begin the public dissemination of the new regulations. In addition, the European Commission will provide guides to the role of the auditor in connection with the ESEF.

*Important considerations:*

- Involvement of financial management teams and investor relations teams.
- Important for the Audit Committee and the Board of Directors, because it will affect the financial information which is the subject of formulation.

*Aspects to be planned:*

- Selection of technological solutions.
- Linking of the financial statements to the taxonomies of the ESEF.
- The training required.
- The effect on processes and monitoring.
- The calendar for implementation.

iii) The Audit and Control Committee unanimously reported in favour of this Financial Report, proposed to the Board that it be validated, and proposed that the Announcements of Results be sent to the CNMV and publicly disseminated via the Company's website on 24th July.

**- Interim Dividend for Fiscal year 2018-2019**

The Corporate Director of Finances stated that, in accordance with the policy on dividends, it was proposed to distribute an interim dividend against the results of the 2019 fiscal year, which, if approved, would be paid through the Banco Santander on 29th August, 2019.

The amount of the proposed interim dividend was 0.37 euros per share.

The Audit and Control Committee unanimously reported in favour of the proposal to distribute an interim dividend of 0.37 euros per share, and suggested that the Board approve it.

**- Quarterly Report on Internal Auditing – Third Quarter (1st April, 2019, to 30th June, 2019)**

The Group's Director of Internal Auditing, Mrs. Laura Templado, presented to the Committee a report on this subject.

✓ Completed audits

She said that at the end of the third quarter 20 audits had been completed, representing 56% of the actions that had been envisaged in the 2018/2019 Internal Auditing Plan. In general, the audits had not revealed any aspect that was worthy of note.

✓ Internal Control over Financial Reporting

She informed on the progress of the work of Internal Control over Financial Reporting (definition and evaluation of the risk matrices, control activities, standards and flowcharts).

✓ Corporate Defence

She said that the audits carried out in relation to the Prevention of Risks from Crime (the crime of Smuggling) did not reveal any weaknesses in control.

✓ Legislative Decree 231/01

During the quarter, controls over certain processes at the Bari warehouse were reviewed:

The procedures for breakdowns and for the destruction of tobacco were reviewed, and the review of Logesta's controls over the management of transport and the management of sales was in progress.

✓ Risks Map

During the quarter there was a special updating of the risks map, taking as its starting point the conclusions presented in the meeting of the Audit and Control Committee on 30th April.

With regard to fiscal risks, the following were open to inspection in Spain: special taxes in FY 2016, and Corporation Tax, VAT and Income Tax for the period 2013-2016. The following were open to inspection in France (Logista France): Corporation Tax, VAT and deductions for fiscal years 2016 to 2018.

The updating of the Map of Risks from Crime was also begun during the current quarter, with the defining of the model and guidelines to be used in the updating, which began with *Logista Libros*.

✓ Litigation

There had been no significant changes in connection with litigation, or with the fiscal lawsuits explained to the Audit and Control Committee on 30th April, 2019.

✓ Complaints Channel

A complaint was received during the quarter for alleged malpractice. The complaint was dealt with by the Complaints Channel Committee in accordance with Policy and Procedure 2/2016 governing the Management of the Group's Complaints Channel. The Committee deemed that inappropriate behaviour on the part of the person accused was proved. The Complaints Channel Committee therefore proposed the termination of the accused person's contract of employment, and that proposal was accepted and implemented.

✓ External Auditing

The annual accounts of those of the Group's companies with closure on 31st December, 2018, were reviewed before their formulation and deposit in the Commercial Registry, to ensure that they did not contain errors and that there were no omissions of mandatory information. The new audit reports of those companies were also reviewed.

Work was also done to fix the dates for closures and to plan the accounts auditing for FY 2019.

**- Plan for Accounts Auditing in the Fiscal Year**

Deloitte and PwC, joint auditors of the consolidated Group, gave a summary of the Auditing Plan for FY 2019-2020, and said that they aimed to perform an audit of high quality.

To achieve that objective, they had a multi-disciplinary team at their disposal, had organised themselves so as to anticipate, as far as possible, any kind of risk, continually reviewed the work and the audit evidence in order to assure maximum security, and were going to concentrate on the internal control of the Company's Businesses.

They explained the most significant auditing risks, the audit procedures and strategies applied by the auditors to eliminate or reduce them, and the automatic controls which the Group had over the most critical processes (Sales, Procurement, Stocks, Excise Duties, Consolidation and Analysis of Manual Entries).

As significant risks the identification of which is required by the International Auditing Standards, the following stand out:

- 1) Fraud in the recognition of revenue (KAM)
- 2) The Management's avoidance of controls.

They also identified the companies included in the Group's consolidation, and explained the division of work between the co-auditors of each individual account in the Group's companies.

With regard to the establishment of the materiality to be applied, they indicated the calculation criteria, both quantitative and qualitative, as well as the threshold of materiality, for the purpose of the Group's subsidiaries reporting.

Finally, they referred to the planning of the work and the calendar for the auditing up to the close of the fiscal year.

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**- Analysis of the Group's Cybersecurity. Conclusions about the Warehouses for Tobacco and Pharma (Leganés).**

This item was presented by Mr. Jan Babst, the Group's Corporate Director of IT.

The results of the first stage were presented. They included an evaluation of the industrial security of the tobacco warehouses and Pharma's warehouse in Leganés.

He then presented the preliminary conclusions of this first analysis by S2 Grupo.

All the committee members and the Chief Executive Officer then debated the appropriateness or otherwise of creating an organisation for cybersecurity, separate from IT.

**- Report/Proposal to contract services to evaluate externally the quality of the Internal Auditing**

The Director of Internal Auditing indicated the following:

The International Standards for the Practice of Internal Auditing stipulate, in paragraph 1312 'External Evaluations', that:

*"External evaluations of quality have to be carried out at least once every five years, by a qualified and independent evaluator or evaluation team from outside the Organisation."*

Moreover, the Logista Group's Programme of Assurance and Improvement of the Quality of Internal Auditing envisages such external evaluation for the current fiscal year, because five years have passed since the date of the establishment and admission to trading of Logista Holdings.

Bids were invited for a self-evaluation with external validation and for a completely external evaluation, and it was decided to award a contract for the latter option, because

- It gives complete and independent information.
- It provides the Audit and Control Committee with an objective tool to facilitate the fulfilment of its responsibilities in supervising the Internal Auditing function (Art.17 2 g) of the Board's Rules).
- It evaluates the efficiency and efficacy of the activity of Internal Auditing and identifies opportunities for improvement.
- It helps to identify the positioning of the function of Internal Auditing in that department's Maturity Model.

The restricted procedure envisaged in the Group's Policy 3/2016, on Purchasing, was followed, and a number of bids have been requested.

The criteria for awarding were: the technical quality of the bid and its price.

KPMG's technical proposal was better, as it included in its fees an evaluation, not only of the degree of compliance with the standards, but also of the positioning of the Department of Internal Auditing, based on good practices and current trends.

Based on the foregoing, it was proposed to award the contract to KPMG.

Finally, the Audit and Control Committee unanimously approved the award of the contract to KPMG.

**- Information about activities and/or agreements of the Unit for the Control and Monitoring of Risks from Crime.**

The Committee had been informed about the content of the meeting of the said Unit on 25th April, 2019, when it had dealt with the following matters:

- A programme of online training in the prevention of risks from crime, intended for all those employees of the Group who possess a computer and an e-mail address. (Followed by 88% of those employees).
- A programme of face-to-face training in centres with more than 25 workers. The sessions began on 30th June, and it is estimated that they will be completed by 30th September.
- A monitoring of the updating of the Map of Risks from Crime, which was agreed upon in the meeting of 20th February, 2019, because of the amendments made to the Criminal Code by Organic Law 1/2019 of 20th February (on stock-market crime).

**8th SESSION: 24th SEPTEMBER 2019**

Present at this session were Mr. Alain Minc (Chairman), Ms Cristina Garmendia Mendizábal, Mr. Richard Hathaway and Mr Gregorio Marañón y Bertrán de Lis (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

Also attending were the Chief Executive Officer, Mr. Luis Egidio Gálvez, Logista's Corporate Director of Finances, Mr. Manuel Suárez Noriega, and the Corporate Director of Internal Auditing, Mrs. Laura Templado Martín.

The Committee discussed the following issues:

**- Approval of the Group's Internal Audit Plan 2019-2020**

The Committee analysed and unanimously approved the content of the Logista Group's Internal Auditing Plan for 2019-2020, proposed by the Director of Internal Auditing.

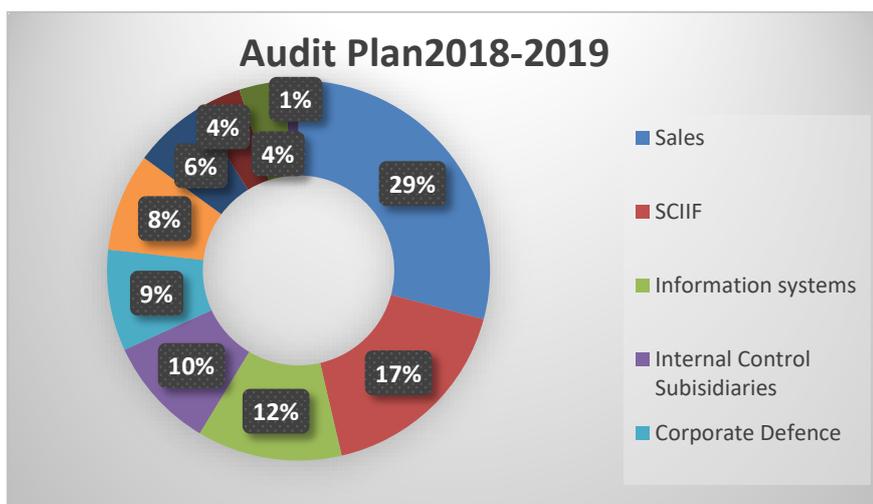
The said Plan is part of the strategic Plan 2018-2020, which is valid for three years, and is based on the following key elements:

- ✓ The identification of the Auditable Universe, which includes all of the Logista Group's processes, companies and countries.
- ✓ A preliminary assessment of the risks in the Group's processes, giving priority to the critical processes in the various companies, and using the record of the Map of Risks as the document of reference.
- ✓ Legal requirements, especially those related to the supervision of the Crime-Prevention Model.
- ✓ The CNMV's requirements for the system of Internal Control over Financial Reporting (ICOFR).
- ✓ A specific Internal Regulation which specifically assigns certain reviews and supervisory activities to the Internal Audit Department.
- ✓ Various conversations with the Management.
- ✓ The co-ordination of other assurance functions.

The Plan envisages the following basic strategic lines of action in Internal Auditing:

- i. Audits of business processes – operational audits
- ii. System of Internal Control over Financial Reporting (ICOFR)
- iii. Control of Subsidiaries
- iv. Corporate Defence and Legislative Decree 231/01

The indicated actions in the Annual Plan will be directed at the following general areas:



The 2019-2020 Internal Auditing Plan gives details of the activities and specific actions for Iberia, Italy, France and Information Systems, as well as the Budget for that fiscal year.

**- Annual Report on Corporate Governance 2018-2019**

The Committee examined a first draft of the Annual Corporate Report on Corporate Governance 2018-2019.

**- Self-Evaluation of the Functioning and Composition of the Audit and Control Committee during fiscal year 2018-2019.**

The Committee took note of its Members' evaluation of its functioning and composition, and proposed actions for improvement.

**- Information on the system of Internal Control Over Financial Reporting (ICOFR) of Logista Group**

The Internal Audit Director informed the Committee on the most important legal regulatory framework in this area, and on internal regulation of ICOFR within Logista Group, which is part of the General Framework of the Internal Control System of the Logista Group, set up by Policy 2/2017 and Procedure 2/2017 on the Internal Control, that establish the processes of the Logista Group Internal Control System, under "COSO" Framework.

**- Information about the activities of the Internal Control Committee of Logista Group**

The Director of Internal Audit reported on the content of the meeting of the Internal Control Committee on 8<sup>th</sup> July, on the stock review process, and the Risks Map.

**- Information about activities of the Information Security Unit, of the Internal Control Committee**

The Committee received information on the commission of a fraud (between the 1<sup>st</sup> and the 4<sup>th</sup> of last June) of 0.7 million euros, in the E-Recharge Business in France, as well as the measures and actions that are being taken to avoid and prevent their recurrence.

**- Independence of the Internal Audit function**

The Corporate Director of Internal Audit provided the Secretary of the Committee with a letter, signed by her, in which, in accordance with paragraph 4 of the Internal Audit Policy of the Logista Group, of 30 June 2019 , she states her functional dependence (of the Audit and Control Committee), and includes the following manifestations:

- She has had no responsibilities for activities likely to be audited.
- She has had full access to all people, goods, files, data, applications, documents and meetings she has considered necessary for the performance of her function.
- The Internal Audit function has been free in the execution of its work, and in the recommendations derived from it.

This Report was unanimously approved by the members of the Audit and Control Committee in their meeting of 29<sup>th</sup> October, 2019.

Leganés, 29<sup>th</sup> October, 2019

The Committee's Secretary,

Rafael de Juan López