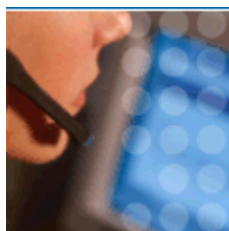


***ANNUAL REPORT OF THE FUNCTIONS AND THE ACTIVITIES OF THE  
AUDIT AND CONTROL COMMITTEE  
2017-2018***



*TRANSLATION FOR INFORMATION PURPOSES ONLY. SPANISH VERSION PREVAILS*

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

### **(THE COMPANY)**

#### **AUDIT AND CONTROL COMMITTEE**

### **Report on functions and activities**

#### **Fiscal year 2017-2018**

##### **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 September 2018, the Committee was composed of the following:

<b>Position:</b>	<b>Members</b>	<b>Date of Appointment</b>	<b>Nature</b>
Chairperson	Ms. Cristina Garmendía Mendizábal	09.06.2014	Independent
Member	Mr. Gregorio Marañón y Bertrán de Lis	09.06.2014	Independent
	Mr. Alain Minc	25.09.2018	Independent
	Mr. Richard Hathaway	24.04.2018	Proprietary
Non-Member Secretary	Mr. Rafael de Juan López	09.06.2014	-----

The following changes occurred in the composition of the Committee during the Fiscal Year:

- Mr. David Resnekov, proprietary Director and member of the Committee since 9 June 2014, resigned from his position on 24 April 2018, and was replaced as a member of the Committee, on the same date, by Mr. Richard Hathaway, proprietary Director.
- Mr. Eduardo Zaplana Hernández-Soro, independent Director, and member of the Committee, resigned from his position on 29 May 2018, and was replaced on 25 September 2018, by Mr. Alain Minc, independent Director.

### **3.- ACTIVITIES**

During the 2017-2018 fiscal year, the Company's Audit and Control Committee held eight meetings:

#### **1<sup>st</sup> SESSION – 31 OCTOBER 2017**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr Eduardo Zaplana Hernández-Soro (Members), and Mr. Rafael de Juan López (Non-member Secretary).

Also present were the Chief Executive Officer of the Company (Mr Luis Egidio 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 (2016-2017)**

- 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 arising from the new additional Report for the Audit Committee (Article 36 of the Law of Accounts Auditing of 20th July,2015, and Article 11 of EU Regulation 537/2014 of 16th April):
  - i) 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 31st October, confirming that independence, and signed by Deloitte and by PricewaterhouseCoopers.

- ii) 'Going concern': no significant doubt had arisen in this connection.
- iii) There were no significant irregularities or breaches of the law.
- iv) 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.
- v) In the performance of the audit, there had been no disagreements with the Group's Management which had an effect on the audit, 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.
- vi) The 'Key Audit Matters' (KAM) identified for the Consolidated Accounts are as follows:
  - Recognition of revenue from sales of tobacco
  - Deferred taxes and provisions for fiscal risks
  - Impairment of goodwill and other intangible assets

For the Company's Individual Accounts, the valuation of the Company's long-term investments in the Group had been regarded as a KAM.

- The Auditors' Opinions

- 1) On the Individual and Consolidated Accounts closed on 30th September, 2017:

*"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 Group (Consolidated Accounts)".*

- 2) Report on the Internal Control Over Financial Reporting (ICOFR), in accordance with circular E14, dated 19 July 2013, of the Spanish Institute of Chartered Accountants:

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

**- Annual Report on Corporate Governance**

A favourable opinion was issued with regard to the Annual Report on Corporate Governance (2016-2017), 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 2016-2017 Individual and Consolidated Accounts of the Compañía de Distribución Integral Logista Holdings, without that independence being affected, during the abovementioned period, by Deloitte and PwC 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 2016-2017 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 2015-2016 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.

### **- Report on the Unit for the Control and Monitoring of Risks from Crime**

The Corporate Director of Internal Auditing, Mrs. Laura Templado, informed the Committee about the following activities performed by the Unit for the Control and Monitoring of Risks from Crime:

1) Information about conformity with the Model for the Prevention of Risks from Crime (Policy 8/2015, of 24th November). Fiscal year 2016-2017

It was recorded that the managers responsible for the controls in the Matrix of Risks had issued, and sent to the Management of the Internal Control Department, the appropriate self-assessment declarations, showing that the Model had indeed been introduced and implemented.

2) Recommendations to modify/update certain controls over certain offences:

Certain recommendations were made to update the controls contained in the Model.

These recommendations for the modification/updating of the controls in the Matrix of Risks and Controls were unanimously approved by the Unit. The Unit's Secretary, Mr. Arturo Rainer, was entrusted with the updating of Annexe II to Procedure 1/2015 of 16th March, concerning the Prevention of Risks from Crime.

3) Programme of Training in the Prevention of Risks from Crime, for Employees in Spain

A report was presented on the implementation, during FY 2016-2017, of a programme of training dealing with the Risks from Crime, and unanimous approval was given to the proposal of a new mandatory training programme in the current fiscal year.

4) Action Programme of the Management of Internal Control, in accordance with the Model for the Prevention of Risks from Crime.

At the proposal of the Director of Internal Control, there was unanimous approval of an Action Programme, for FY 2016-2017, related to the Model.

5) Internal Audit Actions in FY 2016-2017, in accordance with the Model.

There was a report on the actions taken by the Management of Internal Auditing in FY 2016-2017 in connection with the Model, and with certain specific offences. None of those actions exposed any significant weaknesses in control.

**2<sup>nd</sup> SESSION – 28 NOVEMBER 2017**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr. Eduardo Zaplana Hernández-Soro (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 (2016-2017) 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 2016-2017 Internal Audit Activities, with the following main contents:

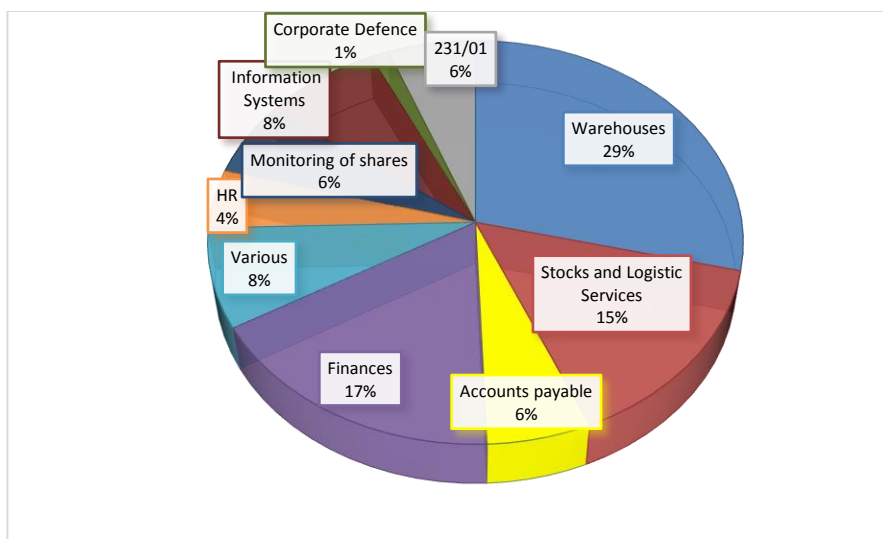
### 1. Internal Auditing Activities

#### 1.1 Degree of Achievement of the 2016-2017 Internal Auditing Plan

80% of the Auditing Plan was completed (compared with 92% the previous year). She explained the reasons why there were delays in the completion of the Plan, and she detailed those activities that remained unfinished due to undefined plans of action. The activities which had not been begun would be carried out in FY2017-2018.

#### 1.2. Coverage of the Audit.

The Auditing Plan had been orientated towards covering risks in the areas of strategy, operations and compliance with regulations, in the proportions shown below:



#### 1.3. Result of the reviews

In FY 2016-2017, 50 audits were performed, of which 27 (54%) showed an adequate degree of control. 32% revealed improvable control, and none of the audits were described as insufficient.

Generally speaking, no significant deficiencies were detected in internal control.

- The limited review of the financial reporting in the first quarter of the fiscal year did not reveal any material adjustments or anything else affecting the reliability of the interim consolidated financial statements of the Compañía de Distribución Integral Logista Holdings, S.A.U. as at 31st December, 2016.
- Within the framework of the ICOFR, there was a review of the processes of inventory purchases/accounts payable in the Tobacco and Convenience businesses, in France, and in the Pharma business, and also of the process of corporate consolidation. This review did not reveal any errors or adjustments which could have a significant impact on the Financial Statements.
- The audit revealed that the Group's main servers had acceptable levels of security and configuration.

The review of the disaster recovery plans (DRPs) in the three SAP systems that were audited produced satisfactory conclusions, showing that in case of disaster, the degree of recoverability of the systems' critical information was reasonably high.

#### 1.4 Monitoring of Recommended Actions

Of all the actions agreed with the Businesses, 85% have been initiated.

## 2. Other activities carried out by the Corporate Directorate of Internal Auditing

### 2.1 Model for the Prevention of Risks from Crime

With regard to crime prevention, none of the audits carried out revealed any weakness in controls. The controls largely achieved their objective of mitigating the risks identified in the risk-and-control matrix of Corporate Defence, and the general objective of ensuring, in a reasonable manner, the prevention and detection of fraudulent acts and behaviour in the Logista Group in Spain.

- **Decree 231/01 (Italy)**

In relation to the compliance actions covered by Italian Legislative Decree 231/01 in the fiscal year in question, no weaknesses in control were revealed, nor anything which could jeopardise the prevention and detection of activities and behaviour with criminal impact.

During the year, the operation of the controls laid down in the prevention model was satisfactorily checked, covering 110 controls relating to twelve business processes for the three Italian companies.

## 2.2 Map of Risks

The annual updating of the Group's Register and Map of Risks had been completed, and was approved by the Audit and Control Committee in its meeting of 27th July, 2017.

## 2.3 External Auditor

The activities carried out during fiscal year 2016-2017, related to the External Auditors, were detailed: process of selection of, and negotiation with, the joint accounts auditors for fiscal years 2017-2019, renegotiation of the fees, discussion about the scope of the auditing and the calendars for closing, co-ordination of the work of the Accounts Auditors, review of the external auditors' letter with recommendations for FY15-16 (which does not present any important aspects for improvement), and review of the draft Annual Accounts of the Group's Companies before their presentation and deposit at the Commercial Register.

## 2.4 Review of Internal Regulations

A report was presented on the drafts of policies and procedures that were reviewed by the Internal Audit Department during the fiscal year.

## 2.5 'Whistleblowing' channel

No notifications of malpractice were received during the fiscal year.

## 2.6 Other

A study was made of the control environment of the master file of materials, prices and terms of business for the Convenience Businesses in France.

### **- Fees for the external Auditing of the Accounts of the Company and the Group in Fiscal Year 2017-2018.**

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 1,435,595 euros (+2.3% compared with last fiscal year), because of the inclusion of Logesta Poland in the corporate scope, and because of an annual price increase of 1.9% (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, especially a reporting package for Imperial Brands PLC,

---



amounting to 216,028 euros, and the Report on the ICOFR, amounting to 22,418 euros), and other permitted services, for an amount of 34,273 euros.

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

The Corporate Director of Internal Auditing then gave a summary of the Group's Map of Risks.

She recalled that the number of detected risks in the 3rd quarter of 2017 stood at 107, a new risk having been added during the year, deriving from the political situation in Catalonia. Nevertheless, that risk is in the 'under-control' area.

There had been no significant changes since the final quarter of 2017, so the map of risks had remained unchanged.

She highlighted that during the final quarter of the year, the risk connected with the current social and anti-smoking policies in France became more serious.

After applying the control measures, of the 25 most serious risks, 8 were in the critical area, 11 were in the area for vigilance, and the rest were under control.

#### **Analysis of e-business**

In response to a request from the Audit and Control Committee, the technological risk related to e-business was analysed and the conclusions were presented.

#### **3rd SESSION – 19 DECEMBER 2017**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr Eduardo Zaplana Hernández-Soro (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), and the Corporate Internal Audit Director (Ms. Laura Templado).

The Audit and Control Committee carried out the following activities:

#### **- Proposal to the Board of Directors of amendment to Articles 15, 17 and 46 of the Board's Rules**

The Secretary of the Committee and Board, Mr. De Juan, reported as follows:

The Regulations of the Board of Directors may be amended by the Board of Directors, following a request and prior favourable report from the Audit and Control Committee (Article 3 of the Regulations)

Technical Guide 3/2017, relating to Audit Committees of Public-Interest Entities and published by the CNMV on 27th June, 2017 ("the Technical Guide"), provides principles, recommendations and standards for the proper functioning of audit committees.

The main purpose of this proposed amendment to Articles 15, 17 and 46 of the Board's Regulations (dated 26<sup>th</sup> January 2016) is to incorporate into the rules of the Audit and Control Committee the recommendations of the Technical Guide.

The Secretary also gave details of the amendments:

❖ Article 15 – The Board's Committees

Sections 3 and 4 are amended, only in order to improve their wording.

❖ Article 17 – The Audit and Control Committee

- The Board of Directors will ensure that the members of the Audit and Control Committee (and particularly its Chairperson) have knowledge of accounting, auditing, risk management, finances, internal control and information technologies (Article 17.1).
- Diversity of sex and of geographical origin of the Committee members is encouraged (Article 17.1)
- Their functions and responsibilities are extended and systemised.
- There are improvements to the wording of Articles 17.3, 17.3 and 17.5

❖ Article 46 – Dealings with Auditors

Section 4 is deleted, as it has been incorporated as an additional function of the Committee.

Finally, the Audit and Control Committee unanimously resolved:

- i) To report in favour of the proposal to amend Articles 15 (*The Board's Committees*), 17 (*The Audit and Control Committee*) and 46 (*Relations with Auditors*) of the Board's Rules, Consolidated Text of 26th January, 2016.

- ii) To present to the Board of Directors the 'Report to the General Meeting on the amendment to Articles 15, 17 and 46 of the Board's Rules, Consolidated Text of 26th January, 2016', with a view to adapting the Report so that it conforms to the recommendations of the Technical Guide on Audit Committees of public-interest entities, approved by the *Comisión Nacional del Mercado de Valores*.

**- Proposal to the Board of Directors of Approval of the Regulations for the Audit and Control Committee, in implementation of the CNMV's Technical Guide on Audit Committees of Public-Interest Entities**

The Secretary of the Committee and Board reported that, in accordance with the recommendations of the Technical Guide, it is proposed to adopt specific Regulations for the Audit and Control Committee.

The Regulations of the Audit and Control Committee govern, among other matters, the following:

**1) The Composition of the Audit and Control Committee**

The following innovations are noteworthy:

- The Board of Directors will ensure that, in addition to knowledge and experience of accounting, auditing and risk management, the Committee's members have sufficient knowledge of financing, internal control and information technology, and of the Company's sector of activity.
- Among the members of the Committee, diversity of sex and of geographical origin will be promoted.

**2) Positions in the Committee: Chairperson and Secretary.**

**3) Duties of the Committee**

The duties of the Committee are those which are contained in Article 17 of the Board's Rules and arranged into five general sections:

- i) The control of financial reporting
- ii) The supervision of internal control and of internal auditing
- iii) The supervision of risk management and control

- iv) External accounts auditing
  - v) Other duties
- 4) The calling of meetings
  - 5) The legal framework of the meetings
  - 6) Their valid constitution and their system for adopting resolutions
  - 7) The minutes of the Committee's Meetings
  - 8) Access to the Company's information and to that of its Group, and professional external consultancy
  - 9) Means and Resources
  - 10) Relations of the Audit and Control Committee with the shareholders, the external auditor and the internal auditor.

Finally, the Audit and Control Committee unanimously resolved:

- i) To propose to the Board of Directors, and to report in favour of, the approval of the Regulations for the Audit and Control Committee.
- ii) To present to the Board of Directors the 'Report to the General Meeting on the approval of the Regulations for the Audit and Control Committee'.

**- Proposal to the Board of Directors of Approval of the Logista Group's General Policy on Information Security.**

The Committee's Secretary reported as follows:

The Logista Group, in the exercise and performance of its corporate and business activities, collects, stores, maintains, processes, uses and generally manages Information, either its own or that of employees, customers, suppliers and other persons, collected both in physical format (paper documents) and, especially, in digital format (computer files), the latter being contained in the Group's Information Systems.

The Group's Information Systems and the Information managed through them are definitely the competitive differentiating factor with the greatest added value for our customers and, without doubt, the most significant assets of the Logista Group, in which it has been investing heavily and regularly.

Guaranteeing the Security of Information and that of all the Group's assets (technological or otherwise) that are used to manage Information is a strategic priority for the entire Group. Failures in the Security of Information and of the assets that manage it is a Risk controlled by the Group, in accordance with the provisions of the Logista Group's General Internal Control Policy (Policy 1/2017), the Procedure for implementing that Policy, the Group's other internal regulations, the applicable laws, the Code of Good Governance for Listed Companies, the Group's General Risk Management Policy (Policy 5/2015) and the Risk Management Procedure of 23 June 2016.

It is necessary, however, to establish at Group level a general framework of reference, through the adoption of a "General Policy for the Group's Information Security".

The Logista Group's Internal Control Committee reported favourably on that Policy, and proposed its adoption.

The General Policy on Information Security governs the following subjects:

1) Competent bodies, Functions and Responsibilities

2) Policy Guidelines

2.1) Guidelines for Use

It establishes the obligations which all Employees and Business Associates who have access to and use the Group's Information are required to fulfil.

Control Guidelines

- Access to Information, Systems and Non-Technological Assets
- Protection of Information, Systems and Non-Technological Assets
- Ease of Control Activities
- Supervision and Auditing

2.3 Guidelines on Information Security Measures

The current Policy must guarantee the Security of Information, based on the following basic principles: Confidentiality, Integrity and Availability.

With regard to Security in the Processing of Personal Data, the Logista Group's Data Protection Policy establishes additional principles.

Finally, the Audit and Control Committee unanimously resolved:

To report in favour of the Group's General Policy on Information Security and to present it for the approval of the Board of Directors.

**- Proposal to the Board of Directors of Approval of the Logista Group's Data Protection Policy.**

The Secretary of the Committee and Board reported as follows:

The Group's concept of Information includes that which is related to the Personal Data of natural persons, the processing and circulation of which, whether automated or not, are subject to specific European and local regulatory provisions, which establish general principles and specific imperative requirements that must be observed, in order to protect the rights and freedoms of natural persons and their right to the protection of Personal Data.

Regulation (EU) 2016/679 of the European Parliament and Council of 27 April 2016, relating to the protection of individuals during the Processing of Personal Data, and to the free movement of those data ("GDPR") entered into force on 25th May 2016, and from 25th May 2018 must be complied with by all Member States, without requiring transposition to their internal rules.

The main purpose of the Logista Group's Policy on the Protection of Personal Data is to establish the rules governing the Processing, by Logista Group Companies, of the Personal Data which they possess, or to which they have access in the legitimate exercise of their business activities.

The European regulations - especially the European General Regulation on the Protection of Personal Data - and the related local legislation of a mandatory nature, will have preferential applicability over this Policy as well as over the Procedure for implementing it.

The GDPR envisages sanctions in the form of monetary fines which, in the most serious cases, can be of as much as 20 million euros, or 4% of the turnover of the company responsible for the processing (whichever is the greater).

The Logista Group's Internal Control Committee reported favourably on that Policy, and proposed its adoption.

The Secretary also reported on the content of the Data Protection Policy, as follows:

1. The essential principles applicable to the Processing of Data:

- Lawfulness/fairness
- Principle of limitation of purpose
- Principle of Integrity and Confidentiality
- Principle of accountability

2. Principles applicable to the Collection of Data

3. Principles in relation to contracting Processing Managers

4. The exercise of Rights by Data Subjects

5. Records of Processing Activities

6. The Assessment of the Impact on Data Protection for the Company responsible for the Processing, prior to the start-up of those Processing operations that are likely to carry a high risk for the rights of the Data Subjects

7. Breach of Data Security

8. International Transfer of Data

9. It appoints a Data Protection Officer ("DPO") in each Country, and a Corporate Data Protection Officer.

Finally, the Audit and Control Committee unanimously:

Reported in favour of the Logista Group's Policy on the Protection of Personal Data and proposed that the Board of Directors approve it.

**4th SESSION - 23 JANUARY 2018**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr Eduardo Zaplana Hernández-Soro (Members), and Mr. Rafael de Juan López (Secretary, Non-Member).

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

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 2017), which was sent to the CNMV and to the markets on February 1<sup>st</sup>, 2017.

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

The Committee received the Report of the limited review carried out by the Accounts Auditors, Messrs. Aller (Deloitte) and Llorente (PwC), stating that the scope of their work on financial reporting to 31st December, 2017 had involved identifying important aspects arising in the first quarter of the fiscal year, anticipating their impact on the closure of 31st March, 2018, 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.

The Accounts Auditors also referred to the Regulatory Changes and Innovations in the fiscal year:

1) Non-financial information and diversity:

On 25th November, 2017, Royal Decree/Law 18/2017, of 24th November, was issued. It related to non-financial information and diversity, and obliges large companies and certain groups to draw up a statement of non-financial information about: environmental issues, social issues and issues concerning personnel, human rights and the fight against corruption and bribery.



The above-mentioned statement must be included either in the report on management or in a separate report indicating that it forms part of the report on management, and is subject to the same requirements of approval, filing and publication as the report on management.

#### Effective date

Royal Decree/Law 18/2017 of 24th November will come into force for the fiscal years beginning on or after 1st January, 2017.

#### 2) The ESMA's priorities in the supervision of Financial Statements for 2017:

- The expectation of details about the effect of implementing the new standards: IFRS9, IFRS15, and IFRS16 (the latter in cases of early implementation), both quantitative and qualitative.
- Recognition, valuation and details of the record of combinations of businesses in accordance with IFRS3. Comments about recognition and valuation of intangibles, evaluation of any consideration given, aspects to consider in advantageous acquisitions, etc.
- Details relating to the implementation of the Directive on non-financial information and diversity.
- The details to be considered by the entity in the report on management, paying special attention to the Alternative Performance Measurements (APMs), which may be supervised by the CNMV.

#### **- Quarterly Report on Internal Auditing (1st October to 31st December, 2017)**

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 no significant impacts on the Group's Consolidated Accounts were detected.

#### Regulatory Compliance

- Corporate Defence.

During the quarter, an audit of the offence of Money Laundering had been carried out. It was at the draft stage, awaiting the definition of action plans by those responsible.

- Legislative Decree no.231/01

Activities in connection with the model for crime prevention in Italy had focused, during the quarter, on testing the 16 checks on the process of Selecting Suppliers and Services and on eight checks relating to Property.

#### Map of Risks

In this period there had been no unusual occurrences involving a materialisation of risks, new risks or important modifications to probabilities or impacts, so the Map of Risks remained unchanged from that of the previous quarter.

From the fiscal point of view, there had been no new risk of inspections.

#### Complaints ('Whistleblowing') Channel

During the period, no cases of malpractice had been notified to the bodies responsible for receiving complaints.

#### External Auditing

The companies subject to the obligation of auditing in fiscal year 2018 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, having been approved by the Audit and Control Committee on 28th November, 2017.

The draft annual accounts of certain Group companies which closed accounts on 30th September, 2017, 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, the drafts of the new audit reports on the Spanish subsidiaries were being reviewed before being issued by the external auditors.

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

#### Other

In Italy, during the week of 16th October, 2017, FDA inspectors completed the audit of the activities of Philip Morris MTB, concluding favourably and without recommendations, thus ending the involvement of the Internal Auditing Department after the objective had been

achieved. In addition, the reviews prior to the SSAE18 Audit had been begun in the Bolonia centre, before submission to external auditing.

#### Organisation of Auditing

The Auditing Manager joined us in October. The vacancy for a Junior Internal Auditor (Iberia) remained unfilled.

In addition, the objectives for the variable remuneration of the members of the Internal Auditing Department had been set.

#### **- Sundry Other Matters**

- Mr. Egido informed the Committee that he had just been informed that the Directorate of Competition in France was inspecting the headquarters of Logista France. The purpose of the inspection was the same as that of the one carried out last February by the CNMC in Spain.

He reiterated that Logista France had performed no action that was contrary to the antitrust regulations, and, in particular, had never participated in any price-fixing with the manufacturers.

- The Committee evaluated the achievement of the individual objectives and fixed the Short-Term Variable Remuneration (2017 Bonus) of the Corporate Director of Internal Auditing.
- The Committee's Chairperson proposed that, prior to discussing this matter with the Committee, she should hold a meeting with the External Auditors to gain a better understanding of the observations and the work of the Auditors, and the other Committee members expressed their agreement.

#### **5<sup>th</sup> SESSION – 21st MARCH 2018**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr Eduardo Zaplana Hernández-Soro (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

The Audit and Control Committee carried out the following activities:

**- Formal Constitution of the Audit and Control Committee**

The Committee's Secretary, Mr. De Juan, reminded those present that the Board of Directors, in its meeting of 23rd January, and at the proposal of the Appointments and Remuneration Committee, had resolved:

- i) to maintain the current number of members of the Audit and Control Committee, which was between the statutory minimum and maximum, and
- ii) subject to their re-election by the General Shareholders' Meeting as Directors of the Company, to designate the following Directors as Members of the Audit and Control Committee:
  - Mrs. Cristina Garmendia Mendizábal, Independent Director
  - Mr. Gregorio Marañón y Bertrán de Lis, Independent Director
  - Mr. Eduardo Zaplana Hernández-Soro, Independent Director
  - Mr. David Ian Resnekov, Proprietary Director

The General Shareholders' Meeting which had just been held had re-elected Mrs. Garmendia and Messrs. Marañón, Zaplana, and Resnekov as Directors of the Company.

The above-mentioned Directors had accepted their positions, had declared that they were not involved in any prohibition or incompatibility, and had taken office at once, in that selfsame General Shareholders' Meeting.

The re-elected Directors, being present, accepted their positions as Members of the Audit and Control Committee, and declared that they were not involved in any prohibition or incompatibility that would prevent them from exercising that rôle.

Consequently, the Directors who were present, members of the Audit and Control Committee, unanimously agreed to formally constitute the Audit and Control Committee, which would have the functions and responsibilities stipulated in Article 529 quaterdecies of the Law of Capital Companies, in Article 43º of the Bylaws, and in Articles 15 and 17 of the Rules of the Board of Directors.

It was expressly recorded that, in accordance with the provisions of the Bylaws and of the Rules of the Board of Directors, the Committee was composed of non-executive Directors, three of whom were independent, and one of whom was proprietary.

---

**- Ratification of the Chairperson of the Audit and Control Committee, until the end of the maximum initial term of office (April, 2019)**

The Board Secretary reported the following:

In accordance with the provisions of Article 529 quaterdecies of the Law of Capital Companies, Article 43<sup>o</sup> of the Bylaws, and Article 17.1 of the Rules of the Board of Directors, it is the members of the Audit and Control Committee who elect a Chairperson from among the independent Directors who compose it, and that person must be replaced every four years, but may be re-elected after one year has passed since their cessation.

The Board of Directors will ensure that the members of the Audit and Control Committee, and especially its Chairperson, have the knowledge and experience of accounting, auditing and risk management that are required for their functions, without necessarily being experts in those subjects.

In its meeting of 23rd January, 2018, the Logista Group's Board of Directors, without prejudice to the entitlement of the Committee Members to designate their Chairperson, recommended that the independent Director Mrs. Garmendia be ratified as Chairperson of the Audit and Control Committee until the end of her maximum statutory period of office, which will be in April, 2019.

Mrs. Garmendia possesses the knowledge and experience required by the Rules of the Board and of the Audit and Control Committee for the discharge of the duties of that position.

Mrs. Garmendia is classed as an independent Director.

Consequently, the Committee resolved to ratify as Chairperson of the Audit and Control Committee, Mrs. Cristina Garmendia Mendizábal, until the end of the maximum period of four years stipulated for the term of office, which will be in April, 2019.

**- Ratification of the Committee's Secretary**

The Board Secretary reported the following:

Article 15.1 of the Board's Rules stipulates that the Secretary of the Board of Directors will also be the Secretary of the Board's Committees.

In its meeting of today, the Appointments and Remuneration Committee had unanimously proposed to the Board the re-election of Mr. Rafael de Juan López as Secretary of the Board of Directors, so, subject to that re-election, the Committee unanimously resolved to designate, as Secretary (Non-Member) of the Audit and Control Committee, the Secretary of the Logista

Group's Board of Directors, Mr. Rafael de Juan López.

**- Intra-Group Loan Facility Agreement of 12th June, 2014**

At this point the meeting was joined by the Corporate Director of Finances, Mr. Manuel Suárez Noriega.

The Secretary of the Board of Directors reported that, on 12th June, 2014, on the occasion of the flotation and Initial Public Offering of the Company's shares, Imperial Brands Plc, through its indirect subsidiary Imperial Tobacco Finance Limited ("ITG Finance"), and the Company (Logista Holdings, S.A.), Logista Spain and Logista France signed the Intra-Group Loan Facility Agreement ("the Agreement" or "the Contract"), under which the Parties undertake to grant each other a financial facility, the Lender being recompensed at the European Central Bank's base rate of interest plus an annual margin.

Under Article 8 of that Agreement, ITG Finance may transfer the rights and obligations under the Agreement to another company in the Imperial Group.

Imperial Brands PLC. has given notice that ITG Finance intends to transfer the Agreement to Imperial Brands Finance PLC, a company which is also part of the Imperial Group.

The transfer of the Contract to another company in the Imperial Group does not require the consent of the other parties to the Contract.

Imperial Brands now proposes to extend the term of the Agreement until 12th June, 2024, with the same terms and conditions as at present.

Under this item of the agenda, the Corporate Director of Finances, Mr. Manuel Suárez Noriega, indicated that it would be financially desirable for the Group if the term of the Agreement were extended until 12th June, 2024.

The Audit and Control Committee, in the absence of the proprietary director Mr. David Resnekov and with his abstention from the deliberations and the resolution, with the unanimity of the other members present, and in accordance with Article 17.2 q) of the Board's Rules, finally resolved:

- i) To validate the transfer of the Intra-Group Loan Facility Agreement of 12th June, 2014, from ITG Finance to Imperial Brands Finance PLC, a company in the Imperial Group, in accordance with Article 8 of the said Agreement.
- ii) To report in favour of the approval by the Board of Directors of the extension of the term of the said Agreement until 12th June, 2024.

### **6<sup>th</sup> SESSION – 24 APRIL 2018**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis, Mr David Resnekov and Mr Eduardo Zaplana Hernández-Soro (Members), and Mr. Rafael de Juan (Secretary, Non-Member).

Also attending was the Director Mr. Richard Hathaway, who was proposed by Imperial Brands to be appointed a member of the Audit and Control Committee, replacing Mr. David Resnekov, an appointment which was agreed by the Board Meeting of that same date.

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, Mr. José Luis Aller, of Deloitte, and Mr. Raúl Llorente, of PricewaterhouseCooper.

The Audit and Control Committee carried out the following activities:

#### **- Financial Report for the First Half Term of the Fiscal year 2017-2018**

At the request of the Chairperson, the co-auditors began their presentation of this item of the agenda.

Mr. Llorente (PwC) and Mr. Aller (Deloitte) referred to the scope of the work in the six-month period ended on 31st March 2018.

On the one hand, work had been done in accordance with IAS 34 "Interim Financial Reporting", verifying the Financial Report on the first half-year of the fiscal year, and representing a limited review of it which could not be considered as a substitute for an audit (ISRE2410), with a materiality of 4.6 million euros.

And on the other hand, a limited review had been carried out by PwC on the Logista Group's consolidation package, which had been sent to the auditors of Imperial Brands PLC Group.

They explained the scope of the work, as laid down in the ISRE 241, the procedures still to be followed before the Review Report can be issued, and the following important events of the period:

- Tax credit due to double taxation of the capital gain on assets transferred in the separation of the branch of activity of Altadis in 1999.
- Reallocation of goodwill – José Costa
- New Incentive Plan, 2017-2022

- Partial reversal of deferred tax liability due to deductibility of dividends
- *Comisión Nacional de los Mercados y la Competencia* (Spanish National Markets and Competition Commission)

Mr. Llorente (PwC) also referred to the following matters:

- **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’s management has assessed the potential impact of applying this standard, and concludes that its entry into force will not have any material effect on the consolidated financial statements.
- IFRS 15: As part of the assessment of the impact of applying this standard, the Group’s management considers that there will be no significant impact, but is currently analysing the possible effects on the breakdown and presentation of the revenue from sales and services.

From the fiscal year beginning on 1st October, 2019, IFRS 16 – Leases – will apply, and the Group is in the process of assessing its possible future impacts.

- **Significant legal irregularities or instances of non-compliance**

The External Auditors planned their examination taking 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 – the auditors reported that they had not identified any significant aspect that should be reported.

- **Independence**

The External Auditors stated that *"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 performing 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, 2018".*

- **'Key Audit Matters' (KAM)**

They presented an analysis of the key audit matters which had been found by listed companies in Spain, by number and by subject. They said that although Logista was the pioneer in this field, because its fiscal year begins in October, the majority of the listed companies had identified between two and four KAMs (in other words, numbers similar to Logista's three).

The co-auditors indicated that, once the said financial statements had been approved by the Board, and once the 'subsequent events' procedures had been completed, the conclusion would be the following:

*"As a result of the limited review, which in no sense may be considered as an accounts audit, no matter came to our knowledge to lead us to the conclusion that the interim consolidated, condensed financial statements relating to the six-month period ended on 31st March, 2018, were not prepared in accordance with the requirements of International Accounting Standard IAS 34 that was adopted by the European Union in accordance with the provisions of Article 12 of 1362/2017, for the preparation of interim condensed consolidated financial statements".*

Messrs. Aller and Llorente left the meeting at this point.

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, 2018), which was sent to the CNMV and the markets on 9th May.

The Financial Report was presented in the format required by the CNMV's Circular 1/2008 of 30th January, which implements Royal Decree 1362/2007 of 19th October, on regulated information, and includes the condensed annual accounts and the consolidated Management Report as of 31st March, 2018.

The Audit and Control Committee unanimously reported in favour of the presentation to the Board of the condensed consolidated financial statements relating to the six-month period ended on 31st March, 2018 and the Interim Management Report of that date, the sending of the same to the CNMV, and their dissemination through the Company's website.

**- Quarterly Report on Internal Auditing (1st January, 2018, to 31st March, 2018).**

The Corporate Director of Internal Auditing, Mrs. Laura Templado, referred to the internal auditing work completed in the second quarter of the fiscal year and to its effect, with the conclusion that no significant impacts nor control weaknesses in the Group's Consolidated Accounts were detected.

She indicated that 84% of the Recommended Actions had been completed by Businesses and Corporate Directorates, with only 4% awaiting completion on the date agreed with the people responsible.

She also reported on the following matters:

- Compliance with Regulations
  - Corporate Defence

During the quarter, the audits relating to money-laundering crime and to crimes against public health were satisfactorily completed.

- Legislative Decree 231/01

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

- Map of Risks

The map of risks was completely updated during the quarter, and the conclusions were presented to the Audit and Control Committee on 24th April.

- Complaints ("Whistleblowing") Channel

No notifications of complaints were received during the quarter.

In order to comply with the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27th April, 2016, concerning the protection of individuals in the matter of the processing of personal data and the free circulation of those data (General Data Protection Regulation or GDPR), applicable as of 25th May, 2018, an evaluation of the existing technical security measures has been carried out in relation to the complaints channel and the completion of the related Record of Processing Activities.

- External Auditor

The draft annual accounts of certain companies in the Group with year-ends on 30th September and 31st December were reviewed before their formulation and deposit in the Commercial Registry, to ensure that they do not contain errors and that there are no omissions of mandatory information.

In addition, the drafts of the new audit reports of the Spanish subsidiaries were being reviewed before their issue by the external auditor.

The external auditors' letter of recommendations for fiscal year 2016-2017 was reviewed: it mentions no significant aspects for improvement.

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

- Other

In Italy, the Department had collaborated in the preparation and implementation of the audit carried out by PwC to obtain the SSAE16 report that was required by Philip Morris for the Bologna warehouse, after which the external auditor issued a favourable report.

There had been attendance at the March meetings of the Internal Control Committee and of the unit for the Prevention of Risks from Crime.

- Organisation of the Auditing Department

The vacancy for an internal auditor was finally filled in early February.

In March, the manager of auditing in Italy had voluntarily resigned in order to take up a new professional challenge.

### **- Updating of the Map of Risks**

The Corporate 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.

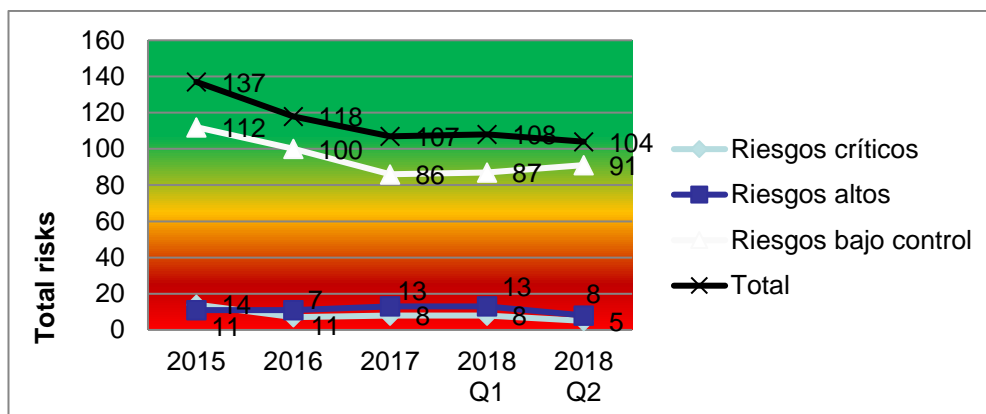
104 risks had been identified in the Group.

The Group’s tendency was to reduce the number of risks, eliminating those which could be actively managed, and establishing robust control measures which reduce the impact if the risks re-appear.

- Mitigation of risks:

The controls identified enable us to reduce both the impact of many of the risks to which the Group is exposed and the likelihood of their appearance.

- Evolution of the volume and criticality of the identified risks

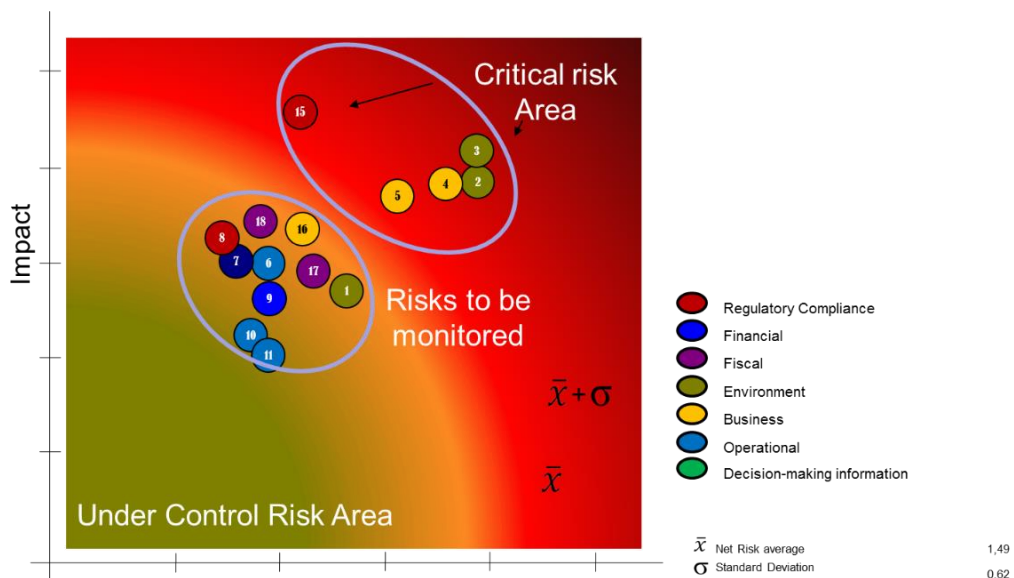


Little variation was noticed in the criticality of the risks already identified in previous periods. A lower potential impact and a better mitigating capacity were detected.

The main risks have the greatest effect on the following processes:  
Sales, Management of Financial Reporting, and Fiscal Management.

The Corporate Director of Internal Auditing said that, after taking into account the control measures established in the Group, a Top 25 of gross risks had been identified, which she listed.

She placed each of the Top 15 of the Map of Net Risks in the appropriate Zone (Critical/ To Be Monitored/Under Control), which produced the following diagram:



Finally, she referred to other risks of interest (National Competition Commission, Compliance with Data Protection Regulations, Cybersecurity, Identification and Management of Talent, and Succession Plans).

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 services in connection with transfer prices during fiscal year 2016-2017**

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

She began her presentation by informing the Committee about the concept, and the obligation, for fiscal purposes, to produce documents proving that all intra-group transactions are performed at market prices.

She described the proposals requested and the fees quoted by several entities, and finally proposed the selection of Deloitte, because that was the entity which had been providing this service since 2007, so it was familiar with the Group, and its quotation was equal to the best of those received.

The scope of the study obviously did not include either the provision of fiscal advice or assisting the Group to defend its policies on transfer prices.

Finally, she said that the purpose of the 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.

Deloitte, one of the Company's co-auditors, confirmed that the provision of the said service did not affect its independence as the Company's Accounts Auditor, and the other co-auditor, PwC, had replied in the same sense in a previous consultation.

Finally, the Audit and Control Committee unanimously resolved to award the contract for the documentation of the intra-group transfer prices in fiscal year 2016-2017, in all the countries in which the Group operates, to Deloitte, for the sum of € 105,000.

### **The Logista Group's current internal regulations**

The Corporate Director of Internal Auditing, following the Committee's instructions, presented the Group's current internal regulations, grouped into functions:

- Corporate Governance: Organisation and General Questions
- Auditing, Internal Control and Risk Management
- Corporate Defence
- Personnel (HR)
- Finances, Fiscal Aspects and Purchases
- Security and Information Security

### **- Report on the Minutes of the Group's Internal Control Committee's sessions**

The Corporate Director of Internal Auditing handed to the members of the Committee the minutes of the Internal Control Committee's sessions of 9th and 12th March, a summary of which is as follows:

- Session of 9th March, 2018 (plenary)

The Committee analysed and debated the following matters:

1. Recommendations made by the Internal Auditing Department which were awaiting implementation in each of the Businesses.
2. The main weaknesses in control which had been observed by the Internal Auditing Department (already reported to the Audit and Control Committee).
3. The current situation shown on the Logista Group's Map of Risks (the subject of item 4 of the agenda of these minutes).
4. The auditor's Letter of Recommendations, following the auditing of the fiscal year ended on 30th September, 2017.

- Session of 12th March, 2018 (Unit for the Control and Monitoring of Risks from Crime)

The Unit analysed the following matters:

1. Degree of Compliance with the Model for the Prevention of Risks from Crime in FY 2016-2017
2. Training in the Prevention of Risks from Crime
3. Review of the Risks and Controls Matrix
4. Proposal to Review the Corporate Defence Procedure and the Risks Matrix
5. Report of the Internal Auditing Department on the review of the controls introduced to prevent offences of money laundering and offences against public health.

**7th SESSION - 24<sup>th</sup> JULY 2018**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis and Mr Richard Hathaway (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), the Corporate Internal Audit Director (Ms Laura Templado) and the External Auditors (Mr. Jose Luis Aller (Deloitte) and Mr. Raúl Llorente (PwC)).

The Audit and Control Committee studied the following subjects:

**- The Company's Financial Report for the Third Quarter of the fiscal year.**

- 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 26 July.
- ii) Mr. Aller (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 30<sup>th</sup> October.

Regarding the auditing procedures carried out on 30th June, 2018 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.

---



In addition, the Accounts Auditors informed the Committee of the publication by the CNMV of Circular 2/2018, which modifies the current models of the Annual Report on Corporate Governance, of the Annual Report on the Directors' Remuneration - which will not be applicable to the Company until fiscal year 2019-2020 - and of Circular 3/2018, on regular information from listed companies.

- iii) The Committee issued a unanimous favourable opinion on the abovementioned Financial Report, and a proposal was put to the Board to prepare and send it to the CNMV and to disseminate it via the corporate website.

#### **- Interim Dividend for Fiscal year 2017-2018**

- 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 2018 fiscal year, which, if approved, would be paid through the Banco Santander on 30th August, 2018.

The amount of the proposed interim dividend was 0.35 euros per share.

The Audit and Control Committee unanimously reported in favour of the proposal to distribute an interim dividend of 0.35 euros per share, and suggested that the Board approve it.

#### **- Monitoring of the Internal Auditing Plan**

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

- ✓ Audits carried out

She said that in the third quarter 28 audits had been carried out, and that, as at today's date, 67% of the actions envisaged in the 2017-2018 Internal Auditing Plan had already been completed.

- ✓ Internal Control of Financial Reporting

She reported on the degree of progress in the work of the System of Internal Control over Financial Reporting (determination and evaluation of the risks and controls matrix, narratives and flowcharts).

✓ Corporate Defence

She stated that the audits carried out in relation to the prevention of risks from crime, to the infringement of workers' rights and to tax offences did not reveal any weaknesses in control.

✓ Legislative Decree 231/01

During the quarter, there was a satisfactory review of the controls applied by the regional warehouses to the following processes: management of the environment, the purchasing and warehousing of products, the distribution and invoicing of products. In addition, the following processes were reviewed by Grant Thornton: the management of purchases and general services, the management of administrative and control aspects, and the management of transport at Logesta Italia.

✓ Map of Risks

There were no significant changes to the Map of Risks which was presented to the Committee in April.

✓ Complaints ('Whistleblowing') Channel

No complaint was received during the period in question.

✓ External Auditing

The annual accounts of those of the Group's companies with closure on 31st December, 2017, 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 2018.

**- Accounts Auditing Plan for the Fiscal year**

Deloitte and PwC, the co-auditors of the Consolidated Group, gave a summary of the Auditing Plan for FY 2017-2018, 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 (especially in relation to

---

computing), and were going to concentrate on the internal control of the Company's Businesses.

They explained the most significant auditing risks, emphasizing the new risk to cyber-security, and they also explained the procedures and strategies which the auditors apply to eliminate or reduce those risks, and the automatic controls which the Group has over the most critical processes (Sales, Procurement, Stocks and Excise Duties), as well as the modifications made to the risks over the previous fiscal year.

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 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.

**- Authorisation for the Accounts Auditor to provide services other than those of accounts auditing.**

The Audit and Control Committee unanimously approved the provision by Deloitte to Logista France of the following services, other than accounts auditing:

- Report on the agreed procedures in connection with the 2017 declaration of eco-packaging, for the amount of € 2,550.
- Report on the agreed procedures in connection with the calculation of the 2017 social solidarity contribution, for the amount of € 4,500.

The Committee noticed that the provision by Deloitte of such services is not included in the "prohibited services" and does not affect Deloitte's independence as the Accounts Auditor of Logista France and the Group.

**8th SESSION - 25 SEPTEMBER 2018**

Present at this session were Ms Cristina Garmendia Mendizábal (Chairperson), Mr Gregorio Marañón y Bertrán de Lis and Mr. Richard Hathaway (Board Members), Mr. Rafael de Juan López (Secretary, Non-Member) and the independent Director Mr. Alain Minc, whose appointment as a Member of the Committee was included on the agenda of the Board Meeting which was held subsequently.

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 Director of Internal Auditing (Ms Laura Templado).

The Audit and Control Committee analysed the following subjects:

**- Annual Report on Corporate Governance, 2017-2018**

- The Committee examined a first draft of the Annual Corporate Report on Corporate Governance, 2017-2018.

**- Approval of the Group's Internal Audit Plan 2018-2019**

- The Committee analysed and unanimously approved the content of the Logista Group's Internal Auditing Plan for 2018-2019, at the proposal of the Director of Internal Auditing.

The said Plan is part of a new strategic Plan, 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 Auditing Department.
- ✓ Various conversations with the Management.
- ✓ The co-ordination of other assurance functions.

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

**i. Audits of business processes – operational audits**

This line of action, based on the nature of the Group’s operations and the high quality of service required by our customers, is regarded as taking priority over the others.

**ii. System of Internal Control over Financial Reporting (ICOFR)**

The Strategic Plan covers the key controls over the corporate processes of Consolidation, General Accounting, Cash Flow and Financing, Taxation and Human Resources, and the processes of negotiating Purchases, Stocks and Tobacco Sales in Spain, France and Italy. Also included will be the ICOFR controls over the other operational processes which are audited in the Annual Internal Auditing Plans.

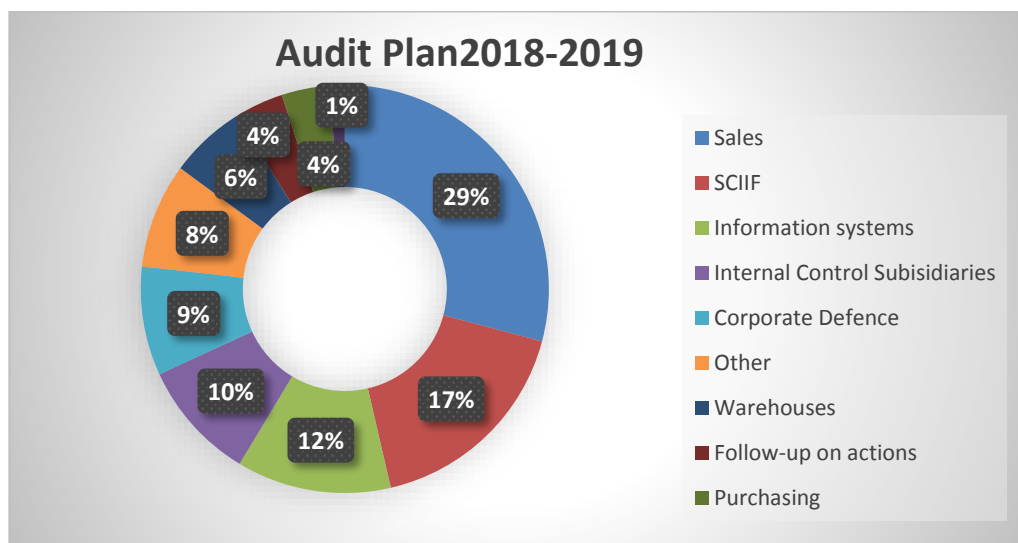
**iii. Control of Subsidiaries**

In order to evaluate the basic internal controls over the most important processes, a system of rotating reviews has been set up for certain subsidiaries of the Group and/or Business even though they do not represent a significant volume at consolidated level.

**iv. Corporate Defence and Legislative Decree 231/01**

It is proposed to review, over the coming three years, all the offences covered by both prevention models, both in Spain and in Italy.

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



The 2018-2019 Internal Auditing Plan gives details of the activities and specific actions for Iberia, Italy, France and Information Systems.

**Self-Evaluation of the Functioning and Composition of the Audit and Control Committee during fiscal year 2017-2018.**

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

**Communications from the CNMV**

The Committee's Secretary reported that two communications had been received from the CNMV, dated 5th and 13th September respectively:

The first required information about fulfilment of the obligations under the third Additional Provision of Law 22/2015 of 20th July, governing Accounts Auditing, which covers three areas:

- Information about the Committee's composition and functions
- Evaluation and/or verification by a third party
- A questionnaire about the Audit Committee, prepared by the Committee of European Oversight Bodies (CEAOB), with the intention of helping the competent national authorities to understand the functioning of the Audit Committees of public-interest entities.

The second communication, a copy of which was sent to our auditors Deloitte and PwC, asks for clarifications about various aspects of last year's Annual Accounts (goodwill, provisions, etc.)

**Information about the activities of the Internal Control Committee**

The Director of Internal Auditing reported on the content of the meeting of the Internal Control Committee on 19th July, concerning the Internal Control System's evaluation of the Group's operational processes, and in particular, of the improvements made, and the next landmarks in the continuing reinforcement of the key processes.

**Information about the meeting of the Unit for the Control and Monitoring of Risks from Crime, of 19th July, 2018**

- Following-up on the Action Programme of the Management of Internal Control, in connection with the 2017-2018 Model for the Prevention of Risks from Crime.

- The actions taken by the Internal Audit Department in FY 2017-2018, in connection with certain offences.

This Report is the one which was unanimously approved by the members of the Audit and Control Committee in their meeting of 30th October, 2018.

Leganés, 30th October, 2018

The Committee's Secretary,

Rafael de Juan López