



**CIE** Automotive

Internal Control over Financial  
Reporting ("ICFR") Policy

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## 1. Purpose

The purpose of this document is to define the Internal Control over Financial Reporting ("ICFR") Policy of CIE Automotive, S.A. ("**CIE Automotive**" or the "**Group**", interchangeably) to:

- ✓ Define the scope of the ICFR.
- ✓ Define the roles and responsibilities of the ICFR.
- ✓ Lay the groundwork to facilitate the adaptation of the ICFR to the changes that may take place both within the organisation and in the regulatory framework and with regard to best practices. In this connection, the ICFR model must:
  - Identify the critical risks and controls to ensure the reliability of the financial reporting.
  - Monitor and anticipate any potential corrective measures.
  - Make efficient use of the registration, processing and preparation of financial reporting, as well as the execution of the controls themselves.
- ✓ Determine the methodology to follow to properly implement ICFR.

## 2. Scope of application

ICFR is a process that affects all levels of the organisation and is implemented by all its staff taking into account the Three Lines of Defence model; where the first line of defence is the party responsible for assessing risks and establishing measures to mitigate them; the second line of defence assesses the appropriateness of the control activities in force; and the third line of defence (Internal Audit) carries out tasks aimed at verifying the ICFR model, reporting to senior management and the Audit Committee (see Paragraph 3).

In particular, this process covers the risks that threaten the objectives of the financial reporting (existence and occurrence; integrity, assessment; presentation, cut-off of transactions, breakdown and comparability; and rights and obligations) however, it also takes into account the effects of other types of risks covered by the comprehensive risk system of CIE Automotive (operational, strategic, technological, etc.).

The scope of the ICFR model will be reviewed at least annually at the start of each year and whenever there is a notable variation in the Group (such as, for example, relevant acquisitions of companies that must be included in the model implemented in the Group).

## 3. Roles and responsibilities

- ✓ The Board of Directors is the highest body in charge of approving and supervising the financial statements of the Group and is responsible for their existence and maintenance.
- ✓ The Audit and Management Control Departments and the Treasury and Finance Department are responsible for their design, implementation and operation.
- ✓ The Audit and Compliance Committee ("**ACC**"), through the Internal Audit Department, is responsible for their supervision.

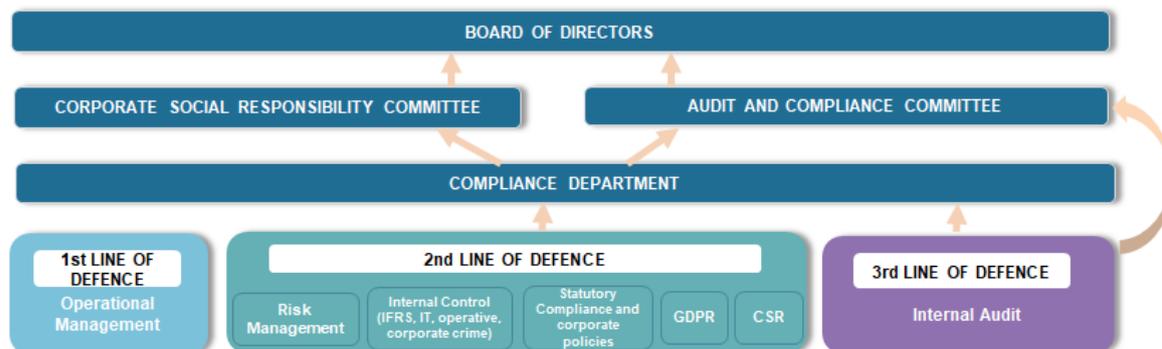
The various roles involved in the ICFR are grouped in a model known as the "*Three Lines of Defence*" published by the *Federation of European Risk Management Associations (FERMA)* and the *European Confederation of Institutes of Internal Auditing (ECIIA)*. Likewise, the Institute of Internal Auditors' "*Framework for Internal Audit's Relations with Other Assurance Functions*" is taken into account to coordinate Internal Audit and the insurance functions, as

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well as the recommendations included in the Code of Good Governance for listed companies published by the CNMV.

In addition, when implementing these lines of defence, we use standard reference frameworks that allow for independent third-party opinions regarding the model's effectiveness.



#### 4. Overview of the ICFR process

Taking as reference the internal control framework set out in the COSO (*Committee of Sponsoring Organizations of the Treadway Commission*) report and the definition included in the document entitled "*Internal Control Over Financial Reporting in Listed Companies*" of the CNMV, ICFR is defined as the set of processes carried out by the entity to provide reasonable assurance regarding the reliability of financial reporting disseminated in the market.

To that end, the ICFR of CIE Automotive must ensure the following objectives are met:

- ✓ **Existence and occurrence:** transactions and other events contained in the financial reporting actually exist and have been recognised at the appropriate time.
- ✓ **Integrity:** the information reflects all the transactions and other events in which the entity is the party affected.
- ✓ **Evaluation:** the transactions and other events are recognised and assessed in accordance with the applicable legislation.
- ✓ **Cut-off of transactions:** The transactions and events have been recognised at the appropriate time.
- ✓ **Presentation, breakdown and comparability:** the transactions and other events are classified, presented and disclosed in the financial reporting in accordance with the applicable legislation.
- ✓ **Rights and obligations:** the financial reporting reflects, at the corresponding date, the rights and obligations through the corresponding assets and liabilities, in accordance with the applicable legislation.

Likewise, safeguarding the Company's assets and preventing/detecting fraud are considered ICFR objectives due to the impact they have on the preceding six basic objectives.

The principles and best practices in relation to internal control and, specifically, ICFR, are based on internationally recognised integrated control frameworks. In this context, the ICFR of CIE Automotive is inspired by the 2013 COSO reference framework.

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The **principles** on which it is based are fundamentally:

✓ **Culture of control:**

- The organisation demonstrates its commitment to integrity and ethical values.
- The Board of Directors demonstrates its independence from management and supervises the implementation and performance of the internal controls.
- Management establishes, with the approval of the Board, the structures, reporting lines and the appropriate authorisations and responsibilities in the pursuit of its objectives.
- The organisation demonstrates a commitment to attracting, developing and retaining competent people in keeping with its objectives.
- The organisation retains individuals committed to their internal control responsibilities in the pursuit of its objectives.

✓ **Risk assessment:**

- The organisation specifies objectives with sufficient clarity to enable the identification and assessment of the risks related to its objectives.
- The organisation identifies the risks regarding fulfilment of the objectives through the entity and analyses the risks to determine how those risks must be managed.
- The organisation considers the possibility of fraud in the assessment of the risks posed in relation to achieving its objectives.
- The organisation identifies and assesses changes that may have a significant impact on the internal control system.

✓ **Control activities:**

- The organisation chooses and carries out control activities that contribute to reducing to acceptable levels the risks posed in relation to achieving its objectives.
- The organisation chooses and carries out general control activities in relation to technology to aid the achievement of its objectives.
- The organisation rolls out control activities through policies that establish expectations and procedures that implement the aforementioned policies.

✓ **Information and communication:**

- The organisation obtains or creates and uses relevant and quality information to support the functioning of internal control.
- The organisation communicates information internally, including objectives and responsibilities related to internal control that are necessary to support the functioning of internal control.
- The organisation communicates with external groups with respect to situations that affect the functioning of internal control.

✓ **Monitoring and reporting:**

- The organisation selects implements and carries out ongoing and/or separate assessments to verify when the components of internal control are present and functioning.
- The organisation appropriately assesses and communicates internal control weaknesses to the groups responsible for taking corrective action, including senior management and the Board, as appropriate.

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All relevant documentation related to the internal control model – the certification process and internal control itself – is currently stored in the SAP GRC software and on the corporate intranet.

The people responsible for executing the controls save the evidence demonstrating they were carried out using the software and assess the results obtained, classifying them as satisfactory or unsatisfactory. This allows the internal control system to be monitored in real time, allowing swift action to be taken in relation to the weaknesses detected. Action plans are established to remedy the weaknesses detected in a specific time frame, which depends on the complexity of the action plan.

This integrated control framework is comprised of five interrelated components, derived from the style of management and integrated in the management process:

#### **4.1. Control environment:**

In large part, the organisation's control environment is determined by the Audit and Management Control Department's management and the Treasury and Finance Department's management, which have a significant influence through their own actions and behaviours on the other components, as they are responsible for maintaining an organisational structure, clearly defining the lines of responsibility and authority, with an appropriate distribution of functions, and behaviour based on principles that serve as a basis for implementing internal policies necessary for creating comprehensive and reliable financial reporting.

#### **4.2. Assessment of financial reporting risks:**

The management of financial risks consists of identifying risks related to the reliability of the financial reporting and the establishment of controls that mitigate the aforementioned risks. This management of the financial risks is a separate section in the aforementioned software.

The starting point in the management of financial reporting risks consists of analysing the information contained in the Company's financial statements, selecting the most relevant accounting items based on quantitative/impact (materiality) and qualitative/probability (fraud, unusual transactions, transactions with related parties not eliminated on consolidation, critical judgments and accounting estimates, Risk Map, automation, segregation of duties, complexity in the execution of the controls, errors, breaches, etc.) criteria.

The items selected are associated with processes and or subprocesses where information is generated and the result of this analysis is the identification of the financial reporting risks.

Based on this analysis, a Risk Map is prepared that will help to prioritise the Company's financial risks that must be controlled. A person will be assigned to be responsible for each of the risks prioritised.

#### **4.3. Control activities**

CIE Automotive has control procedures and activities in all the key processes to ensure the proper recognition, assessment, presentation and breakdown of the transactions,

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as well as the prevention and detection of fraud and, consequently, to cover any transactions that may materially affect the financial statements of CIE Automotive.

The Board of Directors of CIE Automotive reviews the aforementioned relevant transactions through various activities (review, approval and monitoring of the Strategic Plan and the budget, as well as the review of the most significant accounting estimates and judgments used in the preparation of the financial reporting) once the ACC has validated the information as adequate.

The following are the Company's key financial processes: Closing the reporting period, consolidation and reporting; property plant and equipment; financial assets and liabilities; inventories; income/trade receivables; cash; provisions; procurements/accounts payable; human resources; taxes.

These processes have:

- ✓ Descriptions and flowcharts of each subprocess associated with each process.
- ✓ Detail of the internal information systems, rules and procedures that affect the subprocesses that includes a:
  - Description of the significant financial reporting risks (including those related to the risk of fraud), as well as others (strategic, operational and compliance) associated with the various subprocesses and control objectives.
  - Detailed description of the controls that mitigate each one of the risks identified, as well as the supporting evidence, the frequency with which they are performed, the level of automation thereof and the identification of whether it is aimed at prevention or detection.
- ✓ Information Systems Management is responsible for establishing the appropriate controls and procedures that ensure the proper functioning of the systems that support the relevant processes in relation to access security, track changes, the operation thereof, continuity and segregation of duties.
- ✓ In the event any control activity is subcontracted to a third party, CIE Automotive has a management procedure the objective of which is to define the controls to be implemented in relation to the activity subcontracted that have a relevant impact on the financial reporting prepared by CIE. In the case of relevant transactions requested from independent experts (such as, for example, tax advisory services, relationships with actuaries and derivatives management), CIE Automotive maintains a responsibility in the Company, requiring specific control activities to guarantee the reliability of the aforementioned activities.

The financial statements are prepared based on a reporting schedule and deadlines known by all participants in the process, taking into account the legal delivery deadlines. CIE Automotive sends information to the securities market on a half-yearly basis. The aforementioned information is prepared by the Audit and Management Control Department that carries out a series of control activities at the end of the reporting period to guarantee the reliability of the financial reporting.

On the other hand, and to review the judgments, estimates, valuations and projections, the Accounting Policies Manual defines the criteria in place at CIE, as well as specific controls in the aforementioned risk and control matrices.

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#### 4.4. Information and communication

The accounting policies function of CIE Automotive is assumed by the Audit and Management Control Department that reports directly to the Managing Director of CIE. In the performance of this function, the department assumes the following responsibilities:

- ✓ Maintenance, dissemination and training of the other CIE Automotive companies in relation to the Accounting Policies Manual (updated on a continuous basis).
- ✓ Updating all members of the financial function of CIE of any change to the applicable accounting regulations.
- ✓ Resolution of conflicts that may arise (at the individual or consolidated level) in the interpretation of the regulations to be applied. Mechanisms to obtain and prepare the financial reporting in a homogeneous manner.

CIE Automotive has a specific system for financial reporting and consolidation, called SAP BBC that is used by all Group companies and allows the financial reporting to be obtained in a homogeneous manner. This system is utilised, in turn, for preparing the aggregation and consolidation of the data reported.

In addition, to compile the information detailed on the ICFR, CIE automotive currently has the aforementioned software.

#### 4.5. Supervision

The ACC has the following supervisory responsibilities within the scope of the ICFR:

- ✓ Supervision of periodic financial reporting.
- ✓ Knowledge of the financial reporting process and the internal control systems associated with the relevant risks of CIE.
- ✓ Periodically revision of the ICFR so that the main risks are identified, managed and appropriately made known.
- ✓ Periodic validation and verification of the efficacy of the ICFR.

Based on the results of the review of the ICFR, the Internal Audit Department annually prepares the plan for validating and verifying the efficacy of the ICFR of CIE Automotive that will be subject in each period to the approval of the ACC, as the committee responsible for supervising the ICFR.

The information to be provided to the market or stakeholders regarding the ICFR will be provided annually and refer to the year to which the financial report corresponds.

CIE Automotive has an Internal Audit Department within the Compliance Department, which in turn reports to the ACC that coordinates the Internal Audit Teams of Europe, Mexico, Brazil and India, the members of which perform only these functions.

The main function of the Internal Audit Department is to supervise the efficacy of the ICFR, which includes matters related to the proper implementation of the risk management system, including management of the risk of fraud and controls aimed at ensuring the reliability of the financial reporting.

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