



## **AUDIT COMMITTEE REPORT ON THE PROCESS OF APPOINTING THE AUDITORS OF SOLTEC POWER HOLDINGS S.A. AND GROUP COMPANIES**

### **1. Background**

The Company has appointed Deloitte as the Group's auditors and their term of office ends with the audit for the 2021 financial year.

In view of the imminent termination of the position, the Audit Committee convened working sessions attended by the Audit Director and the CFO to agree on the auditor selection process to be approved by the Audit Committee.

The Audit Committee met on 16 December and the third item on the agenda was the approval of the document proposing the search for new auditors. The Committee itself decided that both Deloitte (Auditor with the current position) and the other Big Four, specifically PW, EY and KMG, should be invited.

Following this, the internal audit manager was designated as the in-house person responsible for the process, without the need for intervention by the procurement department, in accordance with the provisions of the company's internal rules. Attached hereto as **Annex I** are the bidding conditions approved by the Audit Committee, and attached hereto as Annex II is the evaluation scheme approved by the Committee. The bid documents comply with the legal obligations imposed by the applicable regulations<sup>1</sup> in that they describe the selection criteria, which are transparent and non-discriminatory, emphasizing the impartiality of the process and do not result in the Company incurring costs that cannot be assumed in this process, all this taking into account the reduction of costs as much as possible due to the low market capitalization of the Company at this time.

### **2. Development of the process.**

#### Preparation of proposals

Through emails sent on 17 December 2021, Deloitte, KPMG, PWC and EY were invited to participate in the process for SPH's new auditor. Other smaller auditing firms had to be rejected because SPH, as a listed firm present in several countries, requires an auditor with a strong international presence, specialists of recognized prestige and the ability to respond quickly and with high quality.

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<sup>1</sup> Regulation (EU) 537/2014 of 16 April (REU), (point 18)

In the week following the call, PWC communicated to management an independence issue as a result of the legal advisory services it provides in connection with the syndicated loan to SPH, which were identified by PWC as being incompatible with the audit services.

On 29 December, the assigned PWC team met with SPH's financial and internal audit management to discuss this situation. The alternatives proposed by PWC to enable it to take part in the bidding process for the audit services were rejected as they did not meet the needs and requirements expressed by the SPH management team. This led to the decision not to continue with PWC in this process. The Audit Committee was duly informed of this situation.

For the optimal preparation (understanding of the business, corporate structure, most significant accounting aspects, etc.) of each firm's proposals, a series of meetings were held with different Soltec directors and the teams presented by the participating firms:

With KPMG: 12 January 2022  
21 February 2022  
23 February 2022  
25 February 2022

With E&Y: 19 January 2022  
17 February 2022  
22 February 2022

One more meeting was held with KPMG than with EY because one of the meetings had to be divided into two days since the first meeting ran out of time without all the participants being able to make a presentation.

With Deloitte, no meeting was necessary because as it is the current auditor it has extensive knowledge of the business and the company. During this process, Deloitte was informed of the main problems that had been identified in its service in recent years, such as the lack of control over the audits of the subsidiaries and the absence of an orderly and agile process for resolving technical queries, which was evidenced in the audit of FY2020. In addition, the lack of control over the audits of subsidiaries has worsened during 2022 (the financial statements of Australia and Argentina 2020 are pending, significant delays in the 2021 individual annual accounts of several subsidiaries, including SER and Powertis, fees invoiced but work has not started in Mexico, etc.)

#### Submission of proposals

By the end of February 2022, the three firms invited to participate submitted their audit proposals describing the proposed teams, specialists, audit strategies, tools, previous experience in similar companies and the proposed fees for their work.

Following the corresponding meetings, the audit manager held a working session with the Audit Committee to present the first results of the process, which are attached as **Annex III**.

On 18 March, KPMG and EY each presented their proposals to the company's financial management.

Once the proposals had been submitted, 12 evaluation points were decided and agreed upon with the audit committee. Each of the points will be evaluated from 1 to 10, with 1 being the lowest score and 10 the highest. See the results of this evaluation in point 4 of this report.

These initial ratings reveal Deloitte's low score, which is justified for the reasons explained above

As the outcome of the process had some key points such as the use of IT tools or additional services provided, the Audit Committee met with each of the finalist firms.

The Committee met on 7 April and the EY and KPMG teams were invited to make presentations and submit their proposals. Both firms answered the questions from the Committee members, in particular regarding the availability of the teams to undertake the audit work, as well as the both firms' situation of independence and incompatible services, to which both firms' managers replied that they were available to take over the service immediately, and that there was no problem regarding independence.

Because Deloitte was the existing auditor, its exposure and visibility with management and the committee was very high so no presentation to the committee was necessary. Its strategy was based on fee reduction and continuity in the provision of audit services. In addition, its low score in the evaluation (Point 4) made its presentation to the commission unnecessary.

The presentations of EY and KPMG are attached as **Annexes IV and V**.

### **3. Decision-making process by the Audit Committee**

#### 3.1 Prior discussions

At the session on 7 April, and following the presentations by the firms, a deliberation was held within the Committee and at that time it became evident that although KPMG had informed the Committee during the presentation that there was no problem of independence, it came to light that the advisory services in Criminal Compliance that KPMG was providing to the legal department had been suspended. This was because, according to the Group's compliance director, KPMG's Compliance team warned of the incompatibility of providing part of the services, which surprised the Committee given that the head of the audit account stated that there was no incompatibility whatsoever.

It is important to point out that KPMG in its services proposal refers to the possible incompatibility of part of its advice on criminal compliance. This point was not highlighted by KPMG in any meeting with Soltec's management or the Audit Committee.

The Committee discussed the strategic nature of the services being provided in Compliance and the situation that had arisen with KPMG, given that there was no evidence of any problem of independence at the outset, and the Committee was unaware of the suspension of the provision of services in the Compliance area.

Given that the Committee initially preferred KPMG, the firm was asked to check the situation with the Compliance Department and entrusted the Internal Audit Manager to carry out this action.

The Head of Internal Audit requested confirmation of their independence status from KPMG and additionally from EY as well to ensure that there was no service incompatible with the audit.

E&Y sent a letter dated 25 April 2022 reiterating that it has no independence issues to provide the service. The letter is attached as Annex VI.

KPMG sent a **letter of independence**, dated 12 April 2022, which is attached as Annex VII, sending written confirmation that there were no independence issues in relation to the **Criminal Compliance** service **included in the engagement letter dated 14 April 2021** and that they could therefore continue to provide the services.

The regulations they apply in their letter of independence are as follows:

- These are not services prohibited under Article 5.1 of Regulation (EU) No. 537/2014 of 16 April.
- We do not participate in the decision-making process of the entity contracting the services.
- Based on the content and regulation of the services, no threat to auditor independence has been identified.

### **3.2 Debate on the special situation that has been created in relation to Compliance Services.**

The Internal Audit Manager passed on the information submitted by each of the firms. In view of the documentation submitted and the information that the Company has, the Committee commissioned the legal department to conduct a legal analysis of the letter sent by KPMG. The analysis concluded that the letter did not meet the legal requirements as it was a standard statement and accurately analysed the factual situation of the Company. As a consequence, the legal department instructed the head of internal audit and the external legal advisor to the board to conduct a meeting with KPMG, both with the head of the audit account of KPMG and with the head of Compliance of KPMG. The meeting was also attended by the compliance director to provide the information received by the Compliance area of KPMG, in order for the Company to obtain a full response.

In the meeting, KPMG said that the Compliance services were suspended during the award process and reported that following the evaluation by the ethics area of KPMG, they confirmed that such services will not be able to be resumed since they are incompatible with the audit services and that they must limit the engagement letter, something they had already anticipated, and which will have to be modified.

In view of this situation, a meeting was held with the compliance area, which reported that the UNE 19601 certification was expected to be renewed in October, so that, in the event of changing the supplier of this service (KPMG), this milestone would have to be postponed since another supplier of similar quality would have to be found to support SPH in renewing the certification.

In view of the circumstances, several working meetings have been held to try to minimize the impact of the decision and KPMG has been asked to confirm its limitation in the scope of compliance, which will be carried out by the audit management.

#### **4. Evaluation of E&Y, KPMG and Deloitte.**

Criterio	KPMG	EY	Deloitte	Comentarios
1) Precio	8	8	7	- Diferencias no significativas (+€15K). - Inicialmente KPMG presentó una oferta significativamente superior (10% mayor) que fue ajustada a petición de auditoría interna e igualándose a los baremos de las otras firmas
2) Distribución Internacional	8	8	3	Deloitte presenta grandes carencias en la gestión de las filiales.
3) Experiencia Equipo - Industria	8	8	9	KPMG: Iberdrola Renovables - EY: Solaria, Airbus, Sacyr. Deloitte auditor existente
4) Especialistas Fiscales	8	7	7	Mayor implicación especialistas fiscales de KPMG durante el proceso
5) ESG, EINF, Taxonomía	8	8	8	Todos las empresas cuentan con profesionales de reconocido prestigio
6) Herramientas Auditoría	7	9	7	- Mejor apariencia de la herramienta de seguimiento de EY. - EY ofrece en su propuesta <i>7 Drivers of Growth</i> . Plataforma que realiza análisis posicional de la compañía con empresas de similares características
7) Acceso al Management	8	8	6	- KPMG y EY socios tienen acceso directo a responsables de Assurance. - Deloitte hubo fricciones pasadas con la dirección que llevaron al cambio de socia en 2021
8) Independencia	5	8	9	KPMG: Presta servicios de asesoramiento en UNE 19602, parte de ellos son incompatibles con el servicio de auditoría, por lo que su elección conllevaría el cambio de proveedor de los servicios de asesoramiento en materia de compliance penal
9) Auditoría de EEUU y Australia	7	7	3	EY y KPMG muestran similares enfoques, presentando equipos para ambas regiones. Con Deloitte se sufrieron y se sufren retrasos significativos con estas dos cuentas.
10) Evaluación dirección Financiera	8	7	7	- Ligera preferencia por KPMG después de las diversas presentaciones. - Nuevo socio de Deloitte ha mejorado la relación existente
11) Evaluación CEO	7	8	5	- Preferencia por experiencia y perfiles equipo EY. - Deloitte presentó muchas dificultades y errores en la gestión de aspectos técnicos durante Auditoría de 2020
12) Evaluación Comisión	8	7	5	Ligera preferencia por experiencia y perfiles equipo KPMG
<b>Media</b>	<b>7,5</b>	<b>7,8</b>	<b>6,3</b>	

## 5. Audit management proposal as project leader

The result of the evaluation showed Deloitte with a significantly lower result than KPMG and EY. This is due to the low score on items 2 and 9 reflecting its poor control over the audits of subsidiaries. This, coupled with the management problems of the main audit issues that have occurred in past years, means Deloitte is not be considered for renewal as auditor for the 2022-2024 period

On the other hand, EY and KPMG submitted strong proposals with quality and experienced teams, similar economic bids and approaches aligned with Soltec's management.

The final evaluation awarded a slightly higher score to EY for the quality of the audit and IT tools presented in its proposal. Likewise, there have been certain inconsistencies, lack of transparency and internal communication as a firm, in the management of the clarification of KPMG's compatible services. This situation has been reflected in the rating of item 8 of the evaluation table

## 6. Conclusion

The internal audit assessment is slightly favourable to the selection of EY as SPH's next auditor due to what has been explained in this report, the assessment made in item 4 and the conclusion in item 5.

Accordingly, the Committee, after supervising the process and issuing the pertinent recommendations, agrees with the evaluation carried out and with the selection of EY as the Company's external auditor. The Committee urges the Company to begin the handover process to the new external auditor without delay.