

2016 ANNUAL REPORT

Viscofan

THE CASING COMPANY

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VISCOFAN GROUP

GLOBAL COMPACT OBJECTIVES RELEVANCE
This section contains relevant information about the achievement of the following Sustainable Development Goals (SDGs):





GRI Indicators

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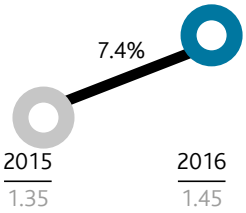
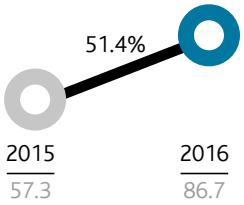
Key performance indicators

Shareholders

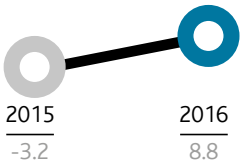
PROPOSED REMUNERATION PER SHARE (€)



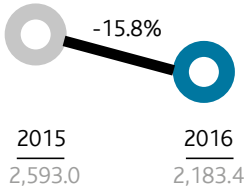
CAPEX (MILLION €)



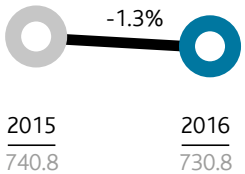
NET BANK DEBT (MILLION €)



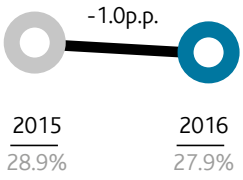
MARKET CAPITALIZATION (MILLION €)



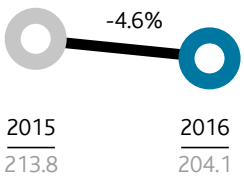
REVENUE (MILLION €)



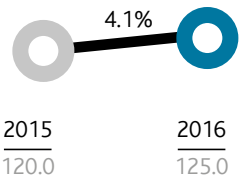
EBITDA MARGIN (%)



EBITDA (MILLION €)



NET PROFIT (MILLION €)

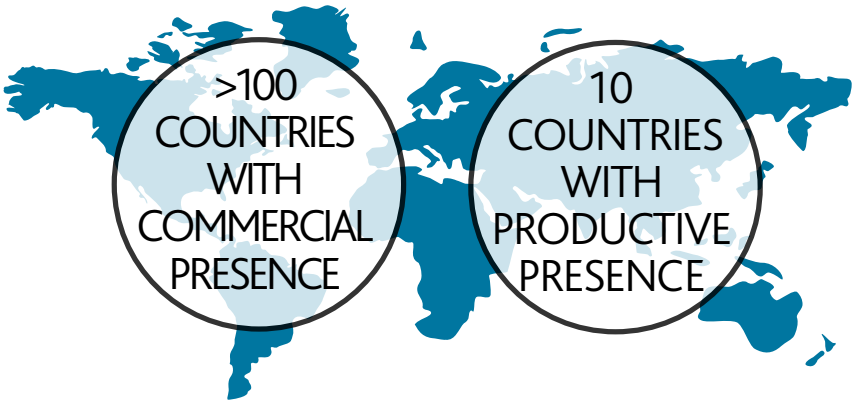


SHARE PRICE CAGR 10 YEARS

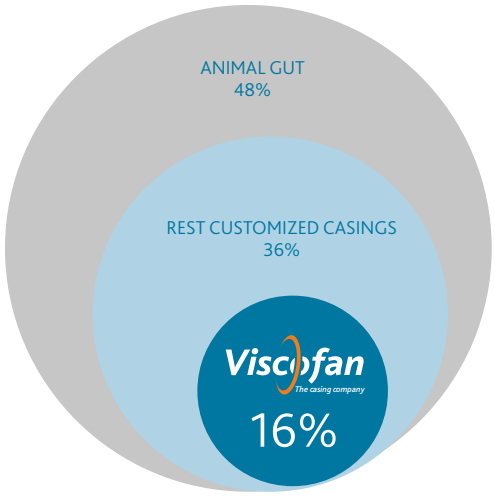
12.6%

Market. Suppliers and customers

PORTFOLIO: CELLULOSE, COLLAGEN, FIBROUS, AND PLASTIC



ESTIMATED MARKET SHARE IN THE CASINGS MARKET



SOLD REFERENCES

10,800

10,300 IN 2015



Society

WASTE AND SUBPRODUCTS

44.2 MILES TON

TN CO2/KM PRODUCED (BASE 100 YEAR 2015)

90

VALUED SUBPRODUCT

60%

INVESTMENT IN ENVIRONMENT, HEALTH AND SAFETY

6.9 MILLION €

CONSUMED WATER IN LITER / PRODUCED CASINGS IN METERS (BASE 100 YEAR 2015)

103



Employees

4,363
Average workforce

130
Net job creation

29.1%
Women in total workforce

125,500
Training hours

2 MILLION €
Training investment

26,300
Training hours in Health and Safety matters

-20.8 %
Accident rate. % Change 2016 vs. 2015

About this report

Viscofan understands Corporate Responsibility as the way it relates to its stakeholders: shareholders, the market (from suppliers to customers), employees and society.

Commitment that is born in the mission of the company, "to meet the needs of the global food industry, using customized meat casings, that create value for our stakeholders," and is performed through specific initiatives and tasks tracking.

The Viscofan Group aims at facilitating the monitoring of the activity carried out throughout the year and to communicate the way it creates value to stakeholders. Summarized performance in the main indicators, as well as in the graph of economic value generated and distributed among the stakeholders. In this regard, Viscofan has, over recent years, produced an Annual Integrated Report summarizing activities of interest not only to its shareholders, but also to other people and institutions, that is to say, all the other stakeholders that interact with Viscofan.

This Integrated Report is based on internationally accepted principles and indications such as the Global Reporting Initiative and the 2014/95/EU Non-Financial Information Directive. Additionally, the Viscofan Group, as a signatory to the United Nations Global Compact is committed to report its progress in defense with respect to human and labour rights, environment and the fight against corruption.

We continue to work to improve the way we report our activity by including the most relevant information on the basis of the flow of communication established between the company and its stakeholders, aware that the latter have a specific take on the information which is most relevant to them. We have divided the annual report up into three major blocks to make it easier to read. The first block consists of a description of the Viscofan Group, who we are and how we have achieved our current position in the market. The second block provides all the information which we consider most relevant as a value proposition for our stakeholders. The third block refers to the Viscofan Group's consolidated financial statements, the annual corporate governance report and the annual remuneration report.

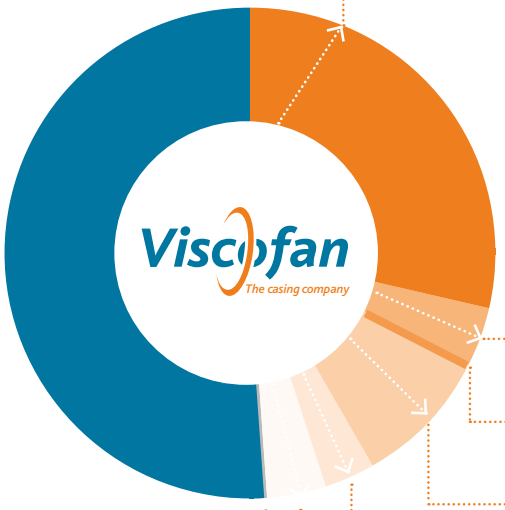
Furthermore, in an effort to take the most of all the advantages of digital communication, we keep on improving the online version of the report. Improving accessibility, information search, personalized download and facilitate direct contact are some of the facilities provided by the digital version. We are confident that this Integrated Annual Report will be very useful for a better understanding of the Viscofan Group.

ECONOMIC VALUE GENERATED

ECONOMIC VALUE DISTRIBUTED

CUSTOMERS €733 millions

Casings, energy and other sales



INCREASE OF CASH €1 million

€380 millions SUPPLIERS. RAW MATERIALS, SERVICES AND OTHERS

€81 millions CAPEX CAPEX SUPPLIERS

€5 millions BANKS

€145 millions EMPLOYEES

Personnel expenses and others

€56 millions SOCIETY

Taxes

€65 millions SHAREHOLDERS

Dividend payment

Chairman's letter

Dear Shareholder,

Throughout 2016 we undertook intensive activity driven by our passion and commitment to the team to transform the Viscofan Group into a better, stronger, leading company that meets the expectations of all those that interact with us, from our customers to our suppliers, from our collaborators to our shareholders, and, in short, the entire society in which we live.

Our commitment to this future means that we must continue to implement our sustainability initiatives, understood to be a management vision that enables the creation of value in a balanced way for our interest groups, thus allowing us to respond better to the challenges posed by world leadership in a company in the 21st century food sector. Meeting expectations also means that we need to gauge a deeper understanding of the concerns and needs of them all. For this reason, we are strengthening our dialogue with the different stakeholders and we have reinforced our commitments with them all with the signing of the United Nations Global Compact, whose 17 Sustainable Development Goals are the most discernible manifestation of this commitment.

In 2016 we laid down the first cornerstones upon which we will roll out our strategic plan "MORE TO BE", which will transform our company into a genuine global leader, a leader in service, a technological key player and a pioneer in costs. An ambitious triple leadership that in 2020 will enable us to be the first or second world producer by market share in the main casings markets.

These cornerstones can be seen if we look at the work carried out in the construction of the new plant in Spain, in Cáseda, where fibrous casing production machinery will be installed throughout the second half of 2017. A project that also has special significance, as it is the same plant where the Viscofan Group started out in 1975. Far from conforming, we are working with the same enthusiasm as we did back then to install this new fibrous casing technology, which will improve our European customer service, and will also help us to keep improving our activity in the United States, where there will be a greater focus on the domestic market.

Viscofan is a unique company within our sector, as we have our own production technology in the main families of casings. This technological roll-out is our response to our vocation to offer the very best service to our customers, meeting all their needs. The results of this commitment have been all the initiatives that we have undertaken to strengthen our offer in plastics, where our presence in the market is lower than our potential.

These initiative include the implementation of the new plant in San Luis Potosí (Mexico), the construction of the Nanopack technology facility in Cáseda (Spain) and the improvement works in the Czech Republic and Brazil. But along with this, I would like to particularly mention the acquisition of the European and North American Vector companies. With this purchase we have made a qualitative and quantitative leap forward, both in our commercial reputation and in the range of products that make up our portfolio.

I would like to make the most of these lines to congratulate the excellent Vector team and their availability for quick integration, as well as the Viscofan team, which has moved to share know-how and to start working as soon as possible to get the very most out of the opportunities offered by the Viscofan-Vector combination.

In collagen we have continued to grow in casings sales, and we have expanded the productive capacity of the Uruguay plant, reinforcing our leading position in Latin America, where we hope to continue to grow in the coming years.

All of these initiatives are some of the most shining examples, but there are many more. This dynamism would not have been possible without the commitment of the over 4,500 people that are currently working in the Viscofan Group in the 15 countries where we are present, and in the over 100 countries where we have business relationships. A Group that continues to grow and that generates a greater employment volume.

The growth of the team is accompanied by greater strengthening of safety, hygiene and environmental issues. In 2016 we obtained the ISO 14001 and OHSAS 18001 certifications in some of our centres of excellence and we

are committed to achieving this certification across all the Group's plants upon finalising the strategic plan. The results are already tangible, with less accidents occurring, but we must always remain on maximum alert in this issue.

Another example of the importance of safety and the risk management protocols was the quick action of the Viscofan team in Germany and the teams that were deployed in Weinheim to put out the fire in the auxiliary replacement pieces workshop last November, with no injuries occurring and with production re-starting within 48 hours, without affecting our customers' service.

It was a very important year for the Viscofan Group, in which the financial results obtained fell below our initial expectations, affected by the strong drop in the Brazilian market and the weakness of currencies against the €. Revenue fell 1.3% to 731 million euros, and the EBITDA by 4.6% to 204 million euros. Without a doubt, these results had a negative influence on the share price development. Despite this market context, Viscofan strengthened its leading position in the industry and achieved a new historical record in net income with 125 million euros, some 4.1% more than in the previous year.

This creation of value is supported by a strong balance sheet that enables us to implement ambitious future projects and to offer you a new high in the distribution of results without compromising the company's risk profile. Direct cash payouts rose to €1.45 per share, some 7.4% more than in the previous year, adding to a trajectory of over a decade of growing dividend.

Viscofan gained market share in a difficult year, but more importantly, today Viscofan is undoubtedly a better company. We are leaders in an industry with solid foundations for growth, and we have a team with the ambition to lead services, technology and costs. We are in a commendable position to embark upon new projects.



José Domingo de Ampuero y Osma

Chairman, Viscofan Group

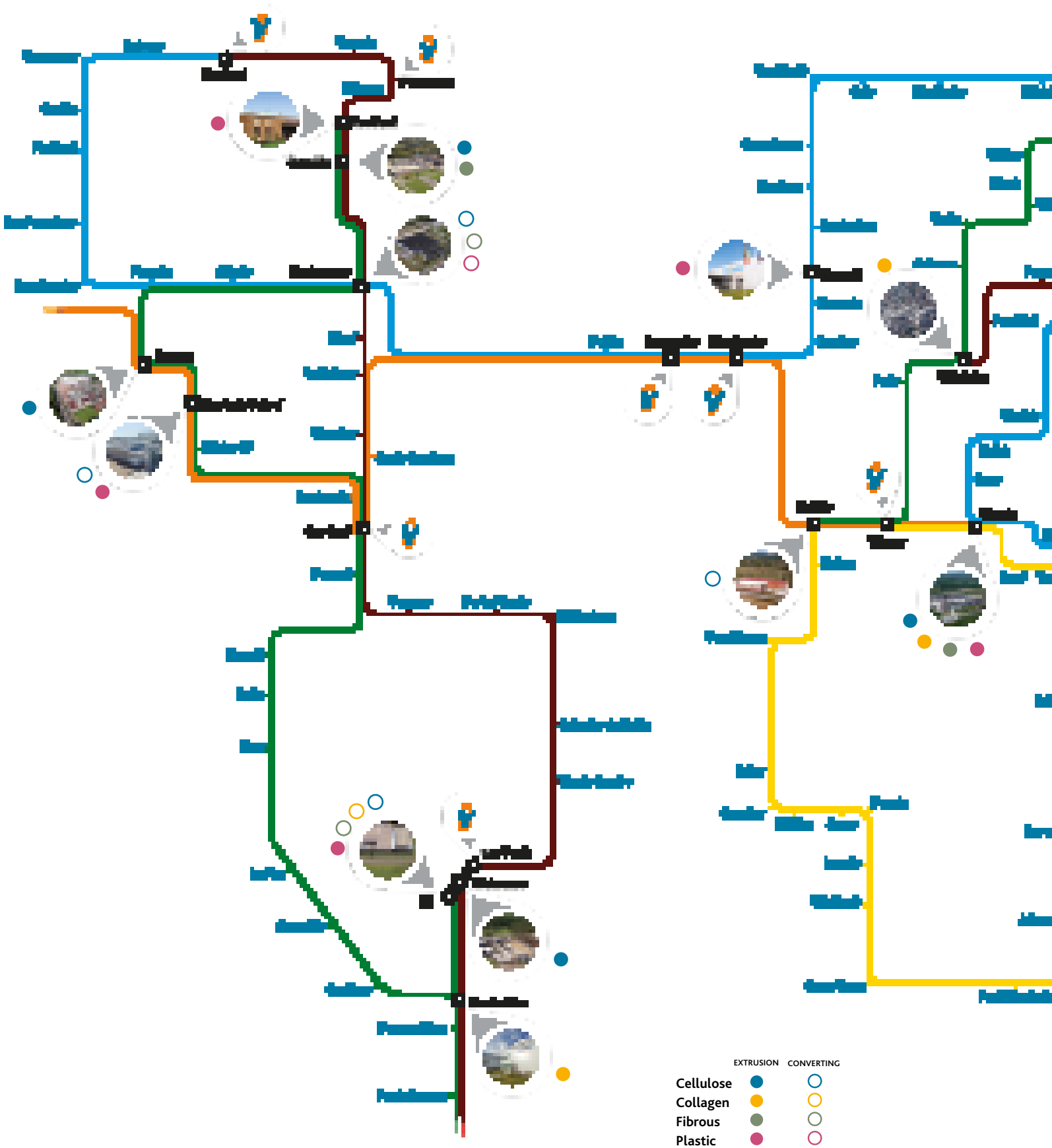
Growth projects that will be reflected in 2017 in an increase of revenue from 4% to 7%, from 3% to 7% in the EBITDA and a net result that will remain steady or will rise by 3% compared to 2016.

We are continuing to invest in our business, with around 85 million euros in 2017, to strengthen our company, to consolidate our leading position even further, and to be prepared to capitalise on opportunities that arise - and that are being given - in this market to all of us that have a future in mid and long-term sustainable investments.

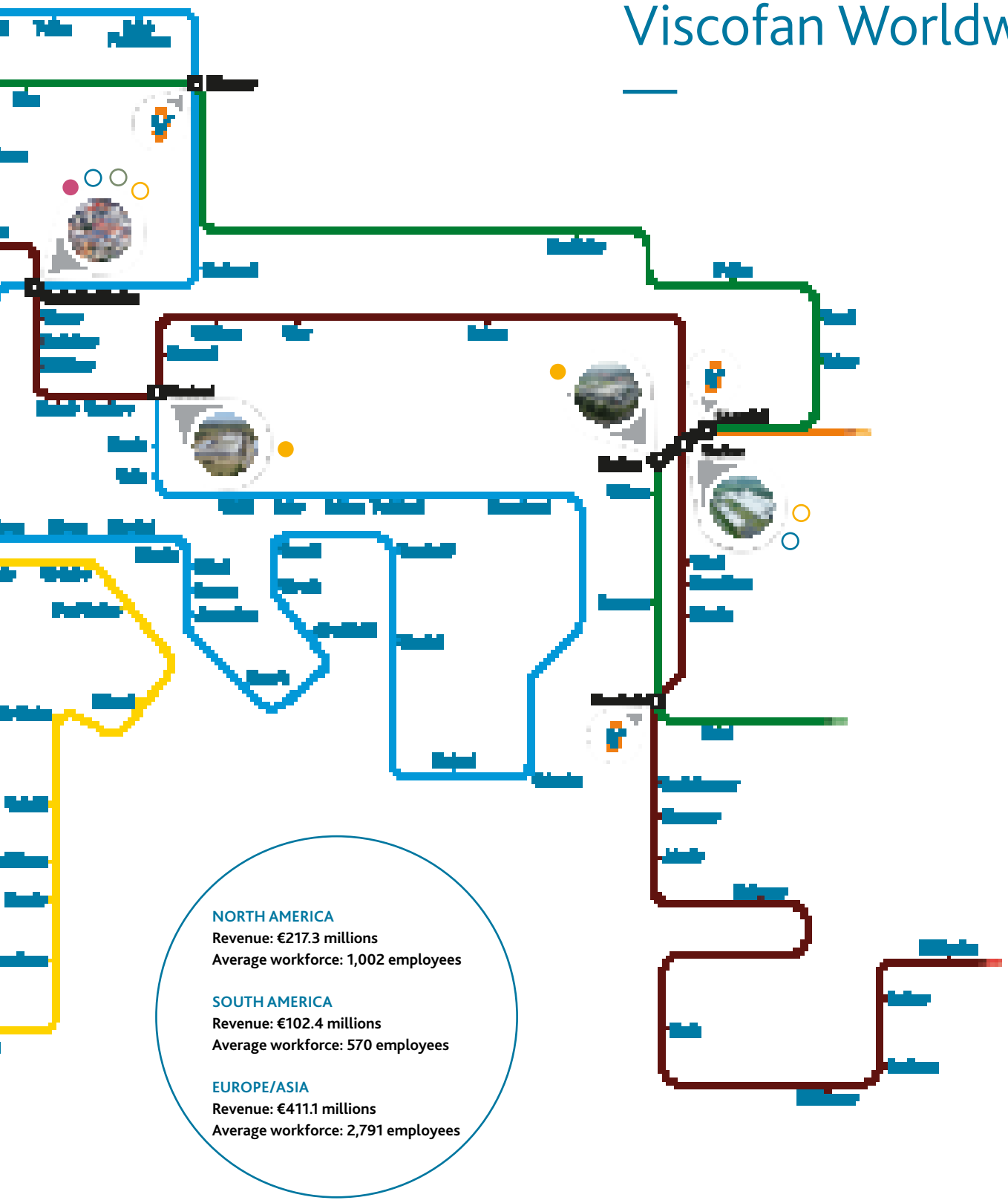
In the name of the Board of Directors and all the team that makes up the Viscofan Group, we thank you for your trust.

With best regards,




EXTRUSION
CONVERTING
Cellulose
Collagen
Fibrous
Plastic

Viscofan Worldwide



NORTH AMERICA
Revenue: €217.3 millions
Average workforce: 1,002 employees

SOUTH AMERICA
Revenue: €102.4 millions
Average workforce: 570 employees

EUROPE/ASIA
Revenue: €411.1 millions
Average workforce: 2,791 employees

Milestones in the history

1975
Viscofan Group founded

1986
Viscofan listed on the Stock Exchange.

1988
Viscofan acquires IAN Group.

1990
Viscofan acquires Naturin GmbH & Co (Germany).

1991
Incorporation of Viscofan do Brazil.

1993
Start-up of first cogeneration plant in Cáseda (Spain).

1994
Opening of sales offices in Russia and Asia and sales commence in the USA. Start of production of collagen in Cáseda (Spain).

1995
Acquisition of Gamex in the Czech Republic and Trificiel in Sao Paulo (Brazil).

1998
Viscofan USA plant moves from Michigan to Alabama.

2001
New sales office in Thailand.

2003
Start-up of Viscofan Mexico.

2004
Incorporation of Viscofan Centroamérica Comercial SA in Costa Rica.

2005
Acquisition of Koteksprodukt AD (Serbia) and the assets of AB Tripasin (Sweden)

2006
Acquisition of Teepak in North America (USA and Mexico)

2007
The Group's consolidated revenues exceed €500 million for the first time.

2008
Expansion of the cogeneration plant in Spain

2009
Incorporation of Viscofan Technology (Suzhou) Co. Ltd. (China).

2010
Opening of a converting plant in China.

2011
Growth plans were speeded up with the installation of new "superfast" production lines in Germany, the expansion of collagen in Spain and the transfer of large caliber collagen lines from Germany to Serbia.

2012
Incorporation of Viscofan Uruguay S.A. Collagen casing was shirred for the first time in Latam.

2013
Opening of a collagen extrusion plant in China.

2014
Opening of a collagen extrusion plant in Uruguay.

2015
Sale of IAN Group.
Acquisition of Nanopack Technology&Packaging.
New plastics plant in Mexico.

2016
Acquisition of Vector's companies in Europe and United States.
Opening of a new plastic casing plant in Spain.
Installation of new collagen extrusion capacity in Pando (Uruguay).

2016 Timeline

FEBRUARY
Publication of Results for 2015

MARCH
The new strategic plan "MORE TO BE 2016-2020" is released

APRIL
Publication of the Results for the first quarter of 2016

Viscofan 2016 General Shareholders´ Meeting

MAY
Viscofan attends the IFFA fair, the biggest international event of the meat industry held every three years

Formal opening of the new plastics plant in San Luis Potosí (Mexico)

Start-up of the works to install a new facility with capacity to produce fibrous casings in Cáseda (Spain)

JUNE
Payment of a final dividend of €0.82 per share gross

JULY
Publication of the Results for the first half of 2016

Signing of the collective agreement in the United States. Maturity three years

AUGUST
Proposal for Appointment of PricewaterhouseCoopers as external auditor for fiscal years 2017, 2018 and 2019

SEPTEMBER
Formal opening of the new plastics plant with Nanopack technology in Cáseda (Spain)

OCTOBER
Acquisition of Vector companies in Europe and the United States

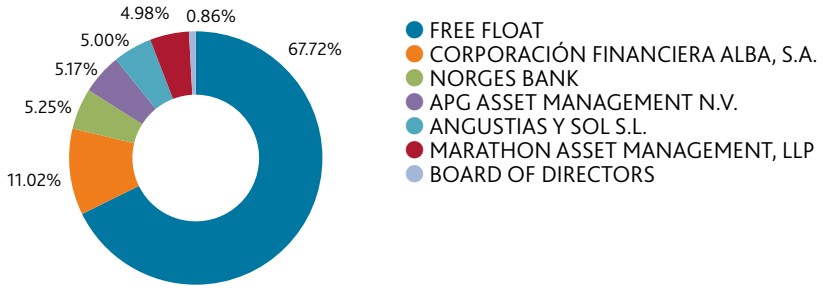
Publication of the Results for the third quarter 2016

NOVEMBER
Installation of new collagen extrusion capacity in Pando (Uruguay)

DECEMBER
Agreed by the Board of Directors, an Interim dividend of €0.57 per share gross is paid out of profits for 2016

Corporate Governance

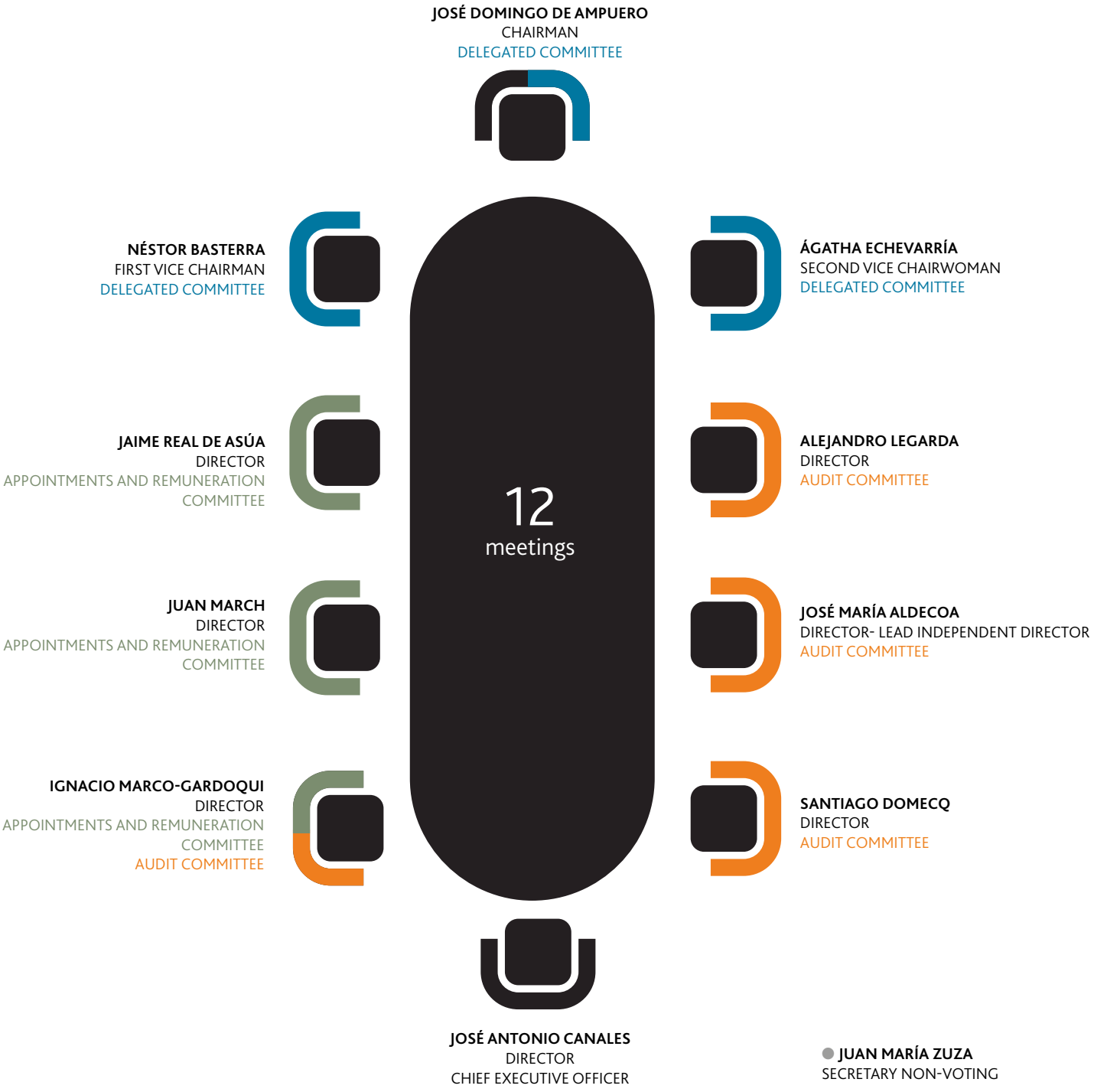
SHAREHOLDERS STRUCTURE (DECEMBER 2016)



SHAREHOLDERS PRESENCE (OVER 30 COUNTRIES)



Board of Directors



JOSÉ DOMINGO DE AMPUERO

CHAIRMAN

Executive Director

Industrial Engineering from the ETSII (Bilbao), and Master of Business Administration. University of Southern California. Los Angeles. U.S.A.

His extensive professional career has led him to occupy various positions of responsibility, such as deputy Chairman of Naviera Vizcaino, Chairman of S.A de Alimentación, Vice Chairman of BBVA Bancomer (Mexico), Chairman of Bodegas y Bebidas, Vice Chairman of Banco Bilbao Vizcaya Argentaria SA, Vice Chairman of Iberdrola, and Chairman of Cementos Lemona SA. and member of the Association for the Advancement of Management.

He is currently Chairman of Autopista Vasco-Aragonesa and Director of Corporación Financiera Alba and Tubacex S.A.

He is member and former Chairman of the Basque Business Circle, and of the Charity Board of the "Santa y Real Casa de Misericordia" of Bilbao.

Executive Chairman of Viscofan S.A. and of its Delegated Committee

NÉSTOR BASTERRA

FIRST VICE CHAIRMAN

Other External Director

Law degree and is an Economics graduate from the University of Deusto. He also has an MBA from IESE.

He spent most of his career working in corporate banking both internationally and in Spain as responsible in capital market and corporate department in Bank of America and Banco Santander.

He is currently Vice Chairman of Iberpapel Gestion SA, partner and member of the board of Director of Amistra SGC, S.A.

He is First Vice Chairman of the Board of Directors of Viscofan, S.A, and member of its Delegated Committee.

ÁGATHA ECHEVARRÍA

SECOND VICE CHAIRWOMAN

Other External Director

Law degree from ICADE (Universidad Pontificia de Comillas) and is a Business Studies graduate from the same university.

She has broad professional experience in a number of multi-nationals, including the audit firm Touche & Ross, S.A., British Petroleum España, S.A. and the investment bank Charterhouse Limited in which she was Managing Director and Director of its Spanish subsidiary and founder and director of D+A Documentación y Análisis S.A.

She has acted as business strategy adviser to family firms and currently she is member of the Board od Directors of Papelera Guipuzcoana de Zicuñaga S.A.

She is second Vice Chairwoman of Viscofan S.A. and member of its Delegated Committee.

JOSÉ ANTONIO CANALES

CHIEF EXECUTIVE OFFICER

Executive Director

Degree in Economics and Business from Deusto Business School (Bilbao) and has completed an advanced course of studies in International Transport & Distribution at the London School of Foreign Trade.

Mr. José Antonio Canales García has acquired an in-depth knowledge of the casing business as a result of his experience obtained in the Group which he joined in 1996 as General Manager of Viscofan do Brazil, leading the expansion of Viscofan Group in South America until his appointment in 2006 as General Manager of Viscofan S.A and its subsidiary companies. He continues to hold this position today and he has been a key contributor to reinforce Viscofan leadership worldwide and international expansion.

He is also a member of the Board of Directors of Maxam Corporation Holding, S.L.

In 2014 he was appointed Executive Director of Viscofan S.A.

ALEJANDRO LEGARDA

Independent Director

Industrial Engineering graduate from the Escuela Superior de Ingenieros Industriales in San Sebastian. He holds a Master is Economics and Business Administration from IESE (Barcelona) and holds a PhD in Innovation Economy from the University Politécnica de Madrid.

With broad experience in industry, in 1989 he was appointed Financial and Administrative Director of Construcciones Auxiliares de Ferrocarriles, S.A. (CAF) where he subsequently became General Managing Director in 1992 until 2014, and board member from then onwards. In 2013 he was appointed Independent Director of Pescanova, S.A.

He joined the Board of Directors of Viscofan S.A. as an Independent Director in 2006, became a member of the Audit Committee in 2007.

IGNACIO MARCO-GARDOQUI

Independent Director

Economics degree from Deusto University.

Mr. Marco-Gardoqui has a long professional career, he has worked for financial entities, and his activities have covered teaching, consulting, and the press world ,where he has a strong reputation for his actively contribution as economic expert and columnist of Vocento Group.

He also has developed a wide experience in several industrial companies, belonging to multiple Board of Directors; currently he is Director of Progénika Biopharma, Minerales y Productos Derivados, Tubacex SA and Iberdrola Ingeniería y Construcción (Iberinco) SA.

Previously, he has belonged, among others, to the Board of Directors of Técnicas Reunidas, Banco de Comercio, IBV, Banco de Crédito Local, Scheider Electric España and Chairman of Naturgás.

He is member of the Board of Directors of Viscofan, S.A, chairman of its Audit Committee and member of the Appointments and Remuneration Committee.

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JOSÉ MARÍA ALDECOA

LEAD INDEPENDENT DIRECTOR

Independent director

Graduate in Technical Electronic Engineering from the Polytechnic School of Mondragón. PADE Graduate from the Executive Management Programme at IESE.

Throughout his long professional career, he has held various posts at COPRECI (1971-1982). He was Managing Director of Fagor Electrónica and member of the Board of Directors of Fagor, S. Coop. (1982-1991). Between 1984 and 1991, he was Vice-Chairman of ANIEL (National Association of Electronic Industries) and Chairman of the Components Board. He was also member of the Board of Directors of the European Electronic Components Association (EECA) between 1986 and 1991.

Between 1992 and 2012, he held various positions at Mondragón Corporación and, in 2007, he was appointed Chairman of the General Board, a position he held until July 2012. He has a wealth of experience in the international industrial world, especially in Asia, including the creation of Fagor Electrónica in Hong Kong, the integration of the production plants of Orkli, Orbea, Mondragón Automoción in the industrial park of Kunshan, China and the opening of the (industrial Park) of Pune in India.

He has sat on the Board of Directors of various automotive and components companies (Copreci-Czech Republic, Copreci-Mexico, Vitorio Luzuriaga, Fagor Ederlan-Brazil, ParanoaCicautxo-Brazil, FPK, Fagor Ederlan-Slovakia), and Director (1992-2006) and Chairman (2007-2012) of Mondragón Inversiones.

He was also Chairman of the Engineering Faculty of the University of Mondragón (1998-2002).

He is currently an independent director and member of the Delegate Executive Committee of Gamesa Corporación Tecnológica, S.A. He is member of the Board od Directors of Viscofan SA and member of its Audit Committee. In 2014 he was appointed as Lead Independent Director.

JAIME REAL DE ASÚA

Independent Director

Degree in Industrial Engineering with a specialization in Industrial Organization from the ETSII (Bilbao).

He is currently Non Executive Chairman of the Board of Directors of Elecnor S.A., and Chairman of its Delegated Committee and member and secretary of the Appointments and Remuneration Committee. Moreover, he is Chairman of Elecnor Infraestructuras Committee and member of the Board of Directors of Enerfín Enervento, S.A, part of Elecnor Group.

He has been President and Director of Adhorna Prefabricación S.A. until 2015 when it was taken over by Elecnor S.A. He is member of the Board of Directors and Secretary of Cantiles XXI S.L. From 1987 until 2012 he served as a member of the Board of Directors of Internacional de Desarrollo Energético, S.A. (IDDE).

At the same time, from 1981 until 2011 he was linked to Grupo Cementos Portland Valderrivas, where he held different management positions and was a member of the Board of Directors of various companies of this Group.

He is member of the Board of Directors of Viscofan, S.A, and chairman of its Appointments and Remuneration Committee.

JUAN MARCH

Nominee Director

Degree in Business Administration from the Universidad Carlos III de Madrid.

He also completed the Global Market Training Program at J.P. Morgan and the Owner/President Management Program from the Harvard Business School.

He gained his work experience at J.P. Morgan, London/Madrid. He was Managing Director and Chairman of March Gestión de Fondos SGIIC, Madrid.

He is currently Executive Chairman of Banca March S.A. and Vice-chairman of Corporación Financiera Alba S.A. Furthermore, he is a director and member of the Strategy Committee of Indra Sistemas, S.A. and Board member of the Juan March Foundation.

He has been a member of the Board of Directors and Executive Committee of ACS and member of the Board of Acerinox, S.A.

Nominee Director in Viscofan representing Corporación Financiera Alba S.A.

He is member of the Board of Directors of Viscofan, S.A, and member of its Appointment and Remuneration Committee.

SANTIAGO DOMECQ

Nominee Director

He studied at the Faculty of Economics and Business Administration of the Pontificia Comillas-ICADE University (Madrid) and the Faculty of Economics and Business Administration of the Cádiz University. He has also taken a specialisation course in the Management of Agri-food Companies (DEA) at the International Institute of San Telmo (Sevilla).

In his extensive professional experience as a businessman, Mr. Santiago Domecq Bohórquez has been, amongst others, Director of Coca-Cola Iberian Partners S.L. until 2015, and was formerly, from 1997 onwards, Director of Refrescos Envasados del Sur S.A. (Rendelsur), a company which merged with Coca-Cola Iberian Partners S.L. in 2013.

At present, he is Director of Algar Aguas de Cádiz, S.A., Voting Member of the Provincial Council of Cádiz, Voting Member of Parque Natural de los Alcornocales and Voting Member of the Provincial Council of the Environment.

He is Sole Director of the company Angustias y Sol S.L and of its group of investee companies in the financial, agricultural and livestock sectors, amongst others.

Nominee Director in Viscofan representing Angustias y Sol S.L, and member of its Audit Committee.

JUAN MARÍA ZUZA

Secretary Non-Director

Law degree from the Universidad de Navarra.

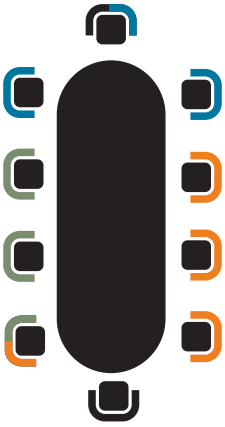
Practising lawyer with his own law office, working mainly in the area of civil and mercantile private litigation, and qualified in Navarre Local Law. He has been a faculty member of the two law schools in Navarre since its creation.

He is on the list of arbitrators in mercantile law of the Arbitration Court of the Chamber of Commerce and Industry in Navarre and has been Treasurer for the governing committee of the professional association of lawyers (Colegio de Abogados) in Pamplona for ten years. He was board member of the University-Society Foundation and Director of the Guarantees Commission of the Faculty of Law of the Public University of Navarre.

He has experience as a legal advisor and is member of many Boards of Directors of different companies.

He is secretary non-director of the Board of Directors of Viscofan S.A.

Group Structure



JOSÉ ANTONIO CANALES
GENERAL MANAGER DIRECTOR

CORPORATE MANAGEMENT DIVISION

ANDRÉS DÍAZ
Chief Operations Officer

JOSÉ ANGEL ARRARÁS
R&D and Quality Chief Officer

GABRIEL LARREA
Chief Commercial Officer

CÉSAR ARRAIZA
Chief Financial Officer & IT

ÓSCAR PONZ
Chief Plastic Business Unit Officer

CORPORATE SERVICE DIVISION

JUAN JOSÉ ROTA
Chief Human Resources Officer

ELENA CIORDIA
Chief Legal Officer

ARMANDO ARES
Chief IR & Corporate Communications Officer

RICARDO ROYO
Chief Europe Business Officer

IÑAKI RECALDE
Chief Technology & Diversification Officer

REGIONAL UNIT MANAGEMENT

BERTRAM TRAUTH
General Manager Germany

MILOSLAV KAMIS
General Manager Czech Republic

IÑIGO MARTÍNEZ
General Manager Serbia

DOMINGO GONZÁLEZ
General Manager USA

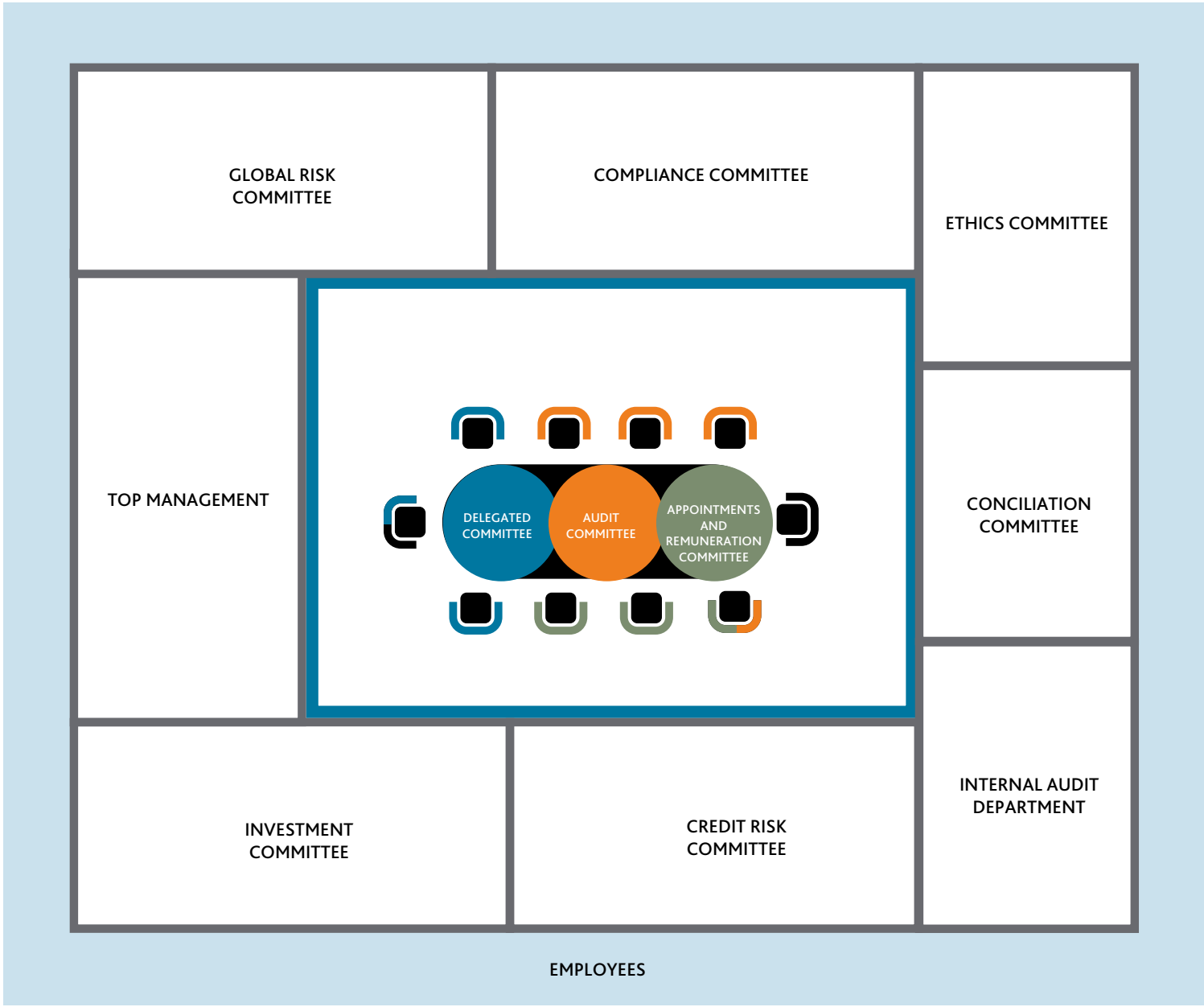
EDUARDO AGUIÑAGA
General Manager Mexico

LUIS BERTOLI
General Manager Brazil

ÁNGEL MAESTRO
General Manager Uruguay

JUAN NEGRI
General Manager China

Control and Supervision bodies



Good Governance Practices

GENERAL PRINCIPLES OF GOOD GOVERNANCE WITHIN THE VISCOFAN GROUP

Viscofan considers that good corporate governance is a key factor in the creation of value, improving the company's economic efficiency and strengthening its investors' confidence. This is done through the right distribution of functions, duties and responsibilities among the company's governing and administrative bodies.

As a result, Viscofan attaches great importance to good corporate governance, understood as the Code of Ethics for its administration and management bodies of listed companies. The main aim is to provide a high level of trust in that the business targets and structure are compatible with protecting shareholder rights.

Viscofan's commitment to corporate governance, and continuously improving it, has been a constant feature that has led us to incorporate the main recommendations of corporate governance, regardless of their scope of application at any given time. Viscofan has progressively reinforced its structure to guarantee the follow-up of the evolution of the principles of good corporate governance, both in Spain and internationally, as well as a continuous analysis of this evolution, adapting them to the Company circumstances, until the highest level of compliance is achieved.

Given the global nature of performance, Viscofan carries out detailed monitoring and analysis of international recommendations on good governance, incorporating them where they can contribute to the development of the Company and its business with greater guarantees for its shareholders.

Likewise, the Viscofan Board has approved a Corporate Social Responsibility Policy, reflecting its commitment to developing activities responsibly, maximising the creation of sustainable value, sharing it among its interest groups (shareholders, employees, the market and society in general) and identifying, predicting and correcting the possible negative impacts of its activity. The formalisation of this policy contributes to promoting the development of a culture of best practices in social responsibility in the Viscofan Group and towards improving the wellbeing of people and driving forward the economic, environmental and social development of the communities in which the Viscofan Group is present through ethical behaviour.

Furthermore, Viscofan has continued in its efforts to promote communication with all its shareholders, whether directly, or via their representatives or advisors, encouraging transparency, providing all the information considered relevant for an enhanced targeted understanding of the Company and its commitment to the principles and recommendations of good corporate governance, and establishing additional channels of communication that facilitate the comprehension of their information requirements at all times.

GOOD GOVERNANCE ACTS IN 2016

In 2015, Act 31/2014 of 3rd December, by which the Limited Companies Act was modified to improve corporate governance, incorporated principles of good governance to the mandatory regulations in Spain.

Viscofan, within the framework of its dynamic policy of adapting best corporate governance practices, pre-empted the evolution of the Spanish regulations, and incorporated improvements to corporate governance into its internal regulations (1) via the drive of the Administrative Board and with the involvement of the shareholders via the General Meeting held on 11th April 2014: a reduction of the Board Member mandate; incorporation into the bylaws of the:

- Figure of Coordinating Board Member
- Assessment of the Board and its Committees
- Appointments and Retribution Committee
- Requisites for the Audit Committee structure; increased limit of the number of Board Members that can form part of the Board.



The approval of Act 31/2014 for improved corporate governance of companies gave a new boost in its incorporation into the internal regulation of some aspects of good governance with which Viscofan already complied and of which it provided regular notification in its Annual Report, in its Remunerations Report or in this document: separate voting of the agreements proposed to the General Shareholders Meeting, the minimum number of meetings of the Administrative Board, the establishment in bylaws of a remuneration system for Administrators, approval by the General Meeting of the maximum amount of annual remuneration of the Board Members collectively, unlimited delegation and fractioned vote of intermediary entities.

In line with the actions undertaken over recent years, Viscofan has consolidated the operating procedures of its governing bodies to give greater visibility to the incorporation of the principles of good governance, especially those included in the new Good Corporate Code of listed companies published in February 2015.

In this respect, to guarantee the continuous flow of communication and to assure shareholders of the transparency of information and access to it, and to pay particular attention to their points of view regarding the rules and practices of corporate governance, among others, the Company Board of Directors has approved a communication Policy with shareholders, institutional investors and their representatives or advisors based on the principles of equality, transparency and legality, which is available on the Company website and which gives them access to the necessary information to exercise their rights and make informed investment decisions, allowing for the generation of sustainable long-term value.

Furthermore, upholding its transparency policy regarding the General Shareholders Meeting, and specifically, regarding measures to promote the exercising of their attendance and participation rights under equal conditions, in accordance with the principles of Good Corporate Governance, the Board has approved and publicised a Policy to encourage participation in the General Shareholders Meeting, which formalises, thus giving a greater level of certainty, the payment of an attendance premium for shareholders that are present or represented in the General Shareholders Meeting, a practice that Viscofan has been implementing since 2004.

Moreover, the Viscofan Board has expanded on the requisites needed to guarantee the diversity of knowledge, experience and gender in its composition from the very initial selection phase of potential candidates, given that this diversity constitutes one of the fundamental aspects to take into account for the good corporate governance of companies, both in how it affects its efficiency and influences quality decision-making, as well as its capacity to effectively promote social interest. As a result, the Board approved and publicised a Board Member Selection Policy on its website, created by the Appointments and Retribution Committee in accordance with the international principles of Good Corporate Governance, with the aim of providing the Board of Directors with candidates that can offer the competencies, knowledge and experience necessary at all times, taking into consideration the vacancies to be covered, as well as the structure and composition of the Board.

Along with all the above, the Viscofan Board has improved the Board and its Committees assessment procedure to give greater scope to different aspects of its operation, and it has incorporated actions as a result of the assessments

① LINK TO COMPANY BYLAWS IN VISCOFAN´S WEBSITE

carried out over recent years, mainly relevant to guaranteeing Board Member participation, facilitating their dedication and attendance at meetings and giving them tools to enable them to expand upon specific aspects of the activity and the particular settings of the different productive centres and to enable a better follow-up of the Group strategy and that of each of its Companies. For the 2016 tax year, it commissioned Spencer Stuart as the independent external assessor to assess the Board and its Committees with a highly satisfactory outcome.

Finally, Viscofan has upheld its transparency policy regarding the General Shareholders Meeting and has published all the reports and documentation, taking this further than that established in the applicable regulations, which it considered convenient to improve shareholder information with the aim of facilitating their decision-making regarding the proposals put forward by the Board. Thus, Viscofan has published the annual reports about the activities of the Audit Committee and the Appointments and Retribution Committee, so that their shareholders can access them sufficiently in advance regarding their presentation in the General Meeting; the Auditor independence report, and the report on Related-Party Operations, both created by the Audit Committee; and the report on the application of the Board remunerations policy. Likewise, the Appointments and Remuneration Committee proposed the remunerations policy for senior management and its application, including the proposal for annual and triennial variable retribution for the following years.

GOVERNING AND SUPERVISION BODIES

Viscofan has the following internal bodies, considered necessary to ensure operation that is aligned with good governance recommendations:

SHAREHOLDERS ANNUAL GENERAL MEETING

The Annual General Meeting is the supreme body of the company, the area in which its shareholders take majority decisions on questions within their area of responsibility. Viscofan works on the principle of "one share, one vote", which favours equal treatment among the company's different shareholders.

There is only one type of share, granting the same rights and obligations to all the company's shareholders. There are no voting restrictions, nor on the number of votes that a single shareholder can cast.

Furthermore, as reported in previous years, Viscofan has allowed split votes to facilitate the participation of shareholders through delegation of votes with instructions through its financial intermediaries, even before Draft Act 31/2014 was published (it includes this obligation). As a result, Viscofan proposes the incorporation of this obligation to its shareholders in the Rules governing the AGM.

In recent years Viscofan has launched a series of initiatives designed to facilitate transparency, good communication and the participation of its shareholders. Among them, we would highlight the attendance premium for duly accredited shares present or represented in the AGM, which in 2015 were included in the Policy encouraging participation in the General Shareholders Meeting, approved by the Board and as described above.

In the current 2017 financial year we have proposed a premium for attendance to the General Shareholders Meeting of 0.01 euros per share. Viscofan also facilitates electronic long-distance voting or, as the case may be, delegated votes, including the possibility of this delegation with voting instructions.

Viscofan has also published on its website an attendance card, distance delegation or vote, to facilitate the exercising of shareholder rights, for those that wish to use them, and a document of questions and answers containing the most common formal and material questions it receives from its shareholders, custodian banks or other intermediaries regarding the evolution of the AGM and the points included on the Agenda and continues to drive forward continuous dialogue with shareholders, their representatives or advisors, via the Investor Relations Department and the Shareholder Office to ensure access to the information needed to exercise their rights and to make informed decisions.

As a result of all these measures, 80.08% of the company's capital (73.06% the previous year) was represented in the AGM held on 21 April 2016. This maintains the high percentage of participation in the AGMs over the last 5 years (above 73%), higher than the average for listed companies. This is particularly significant if we take into account the company's high free float.

Viscofan publishes information on its website on financial reports, results and strategic programs and its corporate governance structure, with detailed information on its internal bodies and the people in them. This includes the type of director, shareholder they represent in the event of Nominee

Board Members, curriculum vitae, other Boards to which they belong, dates of the first and latest appointment, number of shares and stake in the company, as well as the composition and duties of the Board Committees, the company's internal rules, information on the AGMs, and any news, modifications or important events that may occur, both on the Group's activities and on its corporate governance and structure.

Viscofan includes a direct access link on its website to all the information related to the AGM, including electronic means for the delegation of votes and distance voting, and the card that they can use to exercise their rights.

The Company also provides an electronic forum to facilitate communication among shareholders with reference to the AGM, in which they can publish:

- Proposals of a complementary nature to the Agenda announced in the call for the AGM
- Request for support these proposals
- Initiatives to reach a sufficient percentage to exercise a minority right envisaged under the Law
- Voluntary representation offers or requests.

Finally, the shareholders also have a specific e-mail address (info-inv@viscofan.com) and a specific telephone number (+34 948 198 436). They can contact the company there, or through the shareholder's office, whose mission is to keep them informed and deal with any needs that may arise as a result of their status as shareholders.

BOARD OF DIRECTORS

The Board of Directors is the body charged with the representation and administration of the company. Its basic role is the general supervision of the operations of Viscofan S.A. and, as required, the companies that make up the Group.

Currently, following the modification of by-laws and the appointments approved by the General Meeting held on 7th May 2015, the Board of Directors now consists of ten members, of which two are Executive, two are Nominee Directors, representing the Corporación Financiera Alba, S.A. and Angustias y Sol S.L., two others are External and the remaining four are Independent, thus complying with the most recent recommendations for good corporate governance in that the number of Nominee and Independent Directors should represent the vast majority of the Board of Directors. The Secretary of the Board is not a Director.



In order to perform its functions rigorously and efficiently, the Board of Directors has created an annual calendar of Board meetings and those held by the different Committees to improve planning processes for Board Members and to facilitate their dedication and attendance at the meetings, and to include visits to some of the Group centres and the participation of Managers in the annual planning, allowing a better follow-up to be performed on the Group strategies and on each of their Companies' strategies. The Board of Directors holds meetings on a regular basis. The information for these meetings is sent to the directors with sufficient advance notice, including, as the case may be, the Minutes or Reports of the different Board Committees. The Board met on 12 occasions in 2016, with an attendance percentage above 95%. The Chairman attended all the meetings.

Thus, as mentioned, the Board and its different Committees have improved their annual assessment procedure, which remains under the coordination of the Secretary and is led by the Lead Independent Director as the Executive Chairman,, to whom the Appointments and Retribution Committee presents its report, in which the formal and material aspects of its activity are analysed, as well as the performance of Board Members and Presidents in each of the Committees and within the Board itself, incorporating observations that may be used to improve their work. In the 2016 tax year, Spencer Stuart was commissioned as the independent external assessor to perform the assessment of the Board and its Committees, with a highly satisfactory outcome, though actions related mainly to ensuring the participation of Board Members are still being carried out, facilitating their dedication and participation in meetings and providing them with tools to enable them to expand upon specific aspects of activity and in the particular environment of each of the different productive centres, and to allow a greater follow-up to be performed of the strategy of the Group and each of its Companies.

Comprehensive information about the Board of Directors is permanently available in the "Corporative Government" section on the Company website, which also includes individualised information about the status of the different Board Members, reviewed each year subject to the verification by the Appointments and Remuneration Committee, and their adherence to the different Committees, as well as the most relevant information such as that previously cited in this report. Details regarding their individualised remuneration are included in the Remunerations Report presented to the General Meeting for approval through consultative vote, as part of the application of the Remunerations Policy approved by the General Meeting



BOARD COMMITTEES

With a view to ensuring its efficient operation, the Board has three committees attached to it:

DELEGATED COMMITTEE



This committee is made up by three board members, the Chairman and the two Vice-Presidents. It has done a considerable amount of work as the permanent delegation of the Board, due to the increasing complexity of the Viscofan Group and the location of its plants in four continents which require a greater effort and more follow-up by the Board of Directors and, by extension, its Delegated Committee.

The Delegated Committee met on 12 separate occasions. While exercising its duties it expanded upon issues to be dealt with by the Board of Directors and supervised the implementation of the strategy in the different subsidiaries of the Group, approved by the Board, and under maximum transparency criteria, notified the Board of proposals arising from the strategy, so that the Board can adopt the agreements it considers appropriate. Likewise, it provided all Board Members with the minutes of its sessions.

It carried out strategic analyses for the study of potential organic and inorganic growth, as well as different investment possibilities. By means of an example, in the 2016 tax year the Board of Directors proceeded to purchase 100% of the Share Capital of the Vector companies in the United States and Europe, it invested in the installation of productive capacity in plastic and fibrous casings in Caseda (Spain), and expanded the collagen capacity in Pando (Uruguay), backed with the support of the analyses carried out by the Delegated Committee. It expanded upon the different products or technological families, product development and energy optimisation.

Not only the Committee members and the Secretary participated in its meetings, but also the General Manager Director, and, upon request, different members of the Senior Management.

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AUDIT COMMITTEE



The Audit Committee consists of three non-executive directors appointed by the Board of Directors, based on a report by the Appointments and Remuneration Committee, taking into account knowledge, skills and experience in the fields of accounting, auditing or risk management. Most of them are independent. The Chairperson is the independent director Mr. Ignacio Marco-Gardoqui.

The functions of the Audit Committee include, among others, supervising the process of preparation and completeness of financial information on the company, including the review of its internal control and risk management systems and the review, analysis and comments on the financial statements and other financial information with Senior Management, internal and external auditors, supervising the adaptation of control policies and procedures, reviewing internal control and risk management systems, supervising the internal audit services and ensuring that Senior Management takes its recommendations into account, proposing an external auditor, ensuring his/her independence, reviewing the audit plan and the results of its execution, supervising compliance with internal behaviour codes and rules of corporate governance, learning about and – as the case may be – responding to initiatives, suggestions or complaints from shareholders regarding the scope of their functions, establishing and supervising a mechanism that allows employees to communicate confidentially and, if considered appropriate, anonymously, their concerns on possible irregular practices within the company that could have major effects, particularly in the areas of accounting, finance or auditing.

The Audit Committee met 10 times in 2016, three of them with external auditors from Ernst&Young. In its relationship with the external audit and as one of its duties, steps have been taken to ensure that the annual accounts are presented without reservations or qualifications, and that it is independent. Whenever considered relevant, the presence of members from the Directive team, Internal Audit and External Auditors has been requested.

In the 2016 tax year an audit firm analysis was carried out to select the Viscofan S.A. and the Group consolidated accounts auditor for the years 2017, 2018 and 2019. From the different candidates, the Audit Committee proposed PricewaterhouseCoopers S.L. to the Board of Directors.

Finally, it has informed the Board of Directors of all of its activities, additionally handing in all the minutes of its sessions to the Board Members, as well as the information related to the risk map and tax matters.

APPOINTMENTS AND REMUNERATION COMMITTEE



The Appointments and Remuneration Committee consists of three directors, all non-executive, appointed by the Board of Directors with a majority of independents. Its Chairman is the independent director Mr. Jaime Real de Asúa.

This Committee assesses the competencies, experience and knowledge necessary on the Board to determine the needs that should be covered by candidates for each vacancy, proposes the appointment of independent board members and reports on the other Board Members, reports on the appointments and cessations of senior management, establishes a representation objective for the lesser represented sex and develops guidelines on how to achieve this. It also examines and organises the succession of the Board Chairman and the Top Executive, and proposes the Board with the Board Member and Top Management retribution policy, as well as remuneration policies for shares and options wherever applicable, and long-term retribution policies for Board Members and Top Management.

During 2016, the Appointments and Retribution Committee carried out the duties attributed to it by the Bylaws and by the Board Regulations.

It reviewed the qualification of Board Members, developed reports for the assessment of Executive Board Members and the Committee itself, and led the assessment of the Board and its Committees.

It analysed the competencies, knowledge and experience necessary on the Board, it developed a Board Member Selection Policy to be approved by the Board, it requested the presence of the Lead Independent Director to determine the concerns of non-executive Board Members, and it raised proposals and reports with the Board of Directors regarding the re-election or appointment of Board Members.

It organised the succession of the Chairman, the Director-General Manager and Senior Management and the talent management policy, with succession and professional development plans for the key positions within the Viscofan Group, having reviewed the Succession Plan.

It applied the Remunerations Policy approved by the General Meeting and created the remunerations chart to apply this policy, including variable annual and multi-annual retribution. It proposed variable annual and triennial retribution for the coming years, both for Board Members and Top Management, as well as the salary policy for Top Management. It also commissioned the independent external assessors for the remunerations policy of the Board and Top Management.

In the 2016 tax year it created a Committee that depends on this Committee for Work and Family Balance for the Viscofan Group employees.

It informed the Administrative Board of all its activities, providing all Board Members with the minutes of its sessions.

The Appointments and Remuneration Committee met on 7 occasions in 2016.

The composition, functions, rules for organisation and functioning, as well as the duties that each of the Board Committees is assigned, are described in detail in the internal rules of the company (see below), and also in the Annual Report on Corporate Governance. In addition, upon calling the General Shareholders Meeting, as indicated, the annual reports were published regarding the activity of the Audit Committee and the Appointments and Remuneration Committee, as well as reports on the independence of the auditor and related-party operations created by the Audit Committee. All the information related to the Committee its functions, composition and activities as well as their corresponding reports and the above mentioned proposal for the Board remuneration are available for consultation on the company's website (www.viscofan.com).

INTERNAL RULES IN THE FIELD OF GOOD GOVERNANCE POLICY

The internal rules that govern the functioning of the bodies (see above) and complement applicable regulations with the aim of guaranteeing a good corporate governance system in the Viscofan Group is available to the shareholders and the general public on the company's website (www.viscofan.com), as well as required publications and inscription in the website of the Spanish National Securities Market Commission (www.cnmv.es) and in the Mercantile Register of Navarre (www.rmbmnavarra.com).

These internal rules mainly consist of the following:

- Articles of Association: The basic rules that govern the company and its constituent bodies. These describe the main characteristics and principles of the AGM, the Board of Directors, the Executive Committee, the Audit Committee and the Appointmnets and Remuneration Committee.

- Bylaws of AGM: The basis principles that govern the AGM with a view to encouraging transparency, guaranteeing shareholders' right and their access to company information. It regulates the functioning of the AGM with regard to calls for meetings, attendance, holding, minutes and access to prior information on the AGM by the shareholders.

- Bylaws of Board of Directors: determines the principles whereby the Board of Directors acts, including an evaluation mechanism, the rules for its organisation and functioning, the code of conduct and duties of its members, and the general principles that should govern its operations. It also regulates the committees of the Board of Directors, together with their rules for organization and functioning and their missions and powers.

- Code of Conduct: It contains the ethical principles for actions and behaviour guidelines to be followed by the administrators, managers and employees of the Viscofan Group in the course of their professional activity. The general ethical principles contained in the Code can be summarised as: Respect for, and Defence of, Human Rights; Sustainability; Integrity, Responsibility and Transparency; Respect and Non-discrimination; Efficiency and Loyalty.

- Internal Code of Conduct in Areas Related to the Stock Market: behavioural guidelines to ensure that the institutional and personal actions of the directors and personnel of the company are carried out in strict compliance with current legislation, to encourage transparency in markets and to preserve the interests of its investors at all times.

The Viscofan Group has specific committees to ensure and supervise the correct implementation and monitoring of legislation, and also the management and maintenance of the internal complaints channel:

- Legislative Compliance Committee: Among its functions, the Legislative Compliance Committee supervises the specific risks of the company in relation to criminal liability or any other non-compliance with legislation (both internal or external).

- Ethics Committee: The Ethics Committee is responsible for initiating, either ex officio or at the request of a third party, the investigation of any situation that could lead to a situation of risk for the Viscofan Group, either through non-compliance with an internal rule of the Viscofan Group or for any other reason. To do this, Viscofan has a whistleblowing channel that is accessible to all employees, in which they can notify any behaviour they consider to have a potential risk. It is available on Vinsite (internal communication platform for employees of the Viscofan Group), e-mail or ordinary mail to the Ethics Committee at the central office of Viscofan in Navarre. In 2016 the Ethics Committee met on 3 occasions, during which it updated its information protocols and completed an investigation on 2 reported incidents.

Risk management system

RISK MANAGEMENT SYSTEM

In accordance with the provisions of its corporate social responsibility policy, proper risk management, striking a balance between the will to create value for its stakeholders and the risks associated with business, commercial, operational, labour, financial and social initiatives, is a priority for Viscofan.

Underpinned by the ethics code of society and its values, this priority is present in the good corporate governance practices, ensuring an adequate distribution of functions, rights and responsibilities.

The company's risk management system is founded on an ethics code establishing the ethical principles and behavioural guidelines complemented by internal regulations that can be divided into: general policies, specific policies and local policies.

This risk-management system and its derived policies are framed within the limitations established by the applicable legislation of the Viscofan Group's business activity.



Mentioned policies have to be applied in all group companies over which effective control is exercised by Viscofan and concerns the Company employees, including top management and Board of Directors itself.

Viscofan Group accounts with different internal bodies undertaking supervision and control of the different risks that may arise from the activity of Viscofan with more or less probability or materiality:

- **Board of Directors:** The control and risk-management policy as well as the periodic monitoring of the internal communication and control systems constitute one of the matters which are reserved for the full board's hearing. The Audit Committee, part of the Board of Directors, is responsible for supervising the preparation and control of financial information in general, and of all processes implemented for this purpose. It is also responsible for supervising the internal audit function, the relations with external auditor and besides, it is a specific function of the Audit Committee to supervise the adequacy of the control policies and processes implemented and review the internal control and risk management system, in order for the main risks to be properly identified, managed and communicated.

- **Internal Audit Department:** includes among its objectives the identification and assessment of any type of risk the organisation may face. For this purpose, it is authorised to examine and assess the systems and procedures for the control and mitigation of all risks, as well as the methodologies used.

- **The Global Risk Committee** is a collegiate body aimed at conducting in-depth studies of exposure to and analysis of risks affecting the Company, evaluating its exposure to these risks and drawing up the recommendations and actions required to manage them within reasonable limits. This Committee can therefore be described as a body in charge of the analysis, counselling and coordination of risk and risk management related matters.

- **The Compliance Committee** includes amongst its goals the supervision of specific risks to the company related to criminal liability or any other type of non-compliance.

- **The Ethics Committee** is responsible for initiating, ex officio or at the request of a third party, investigations into any situation or practice that may put Viscofan Group at risk, whether due to non-compliance with Viscofan Group internal regulations or any other circumstances.

- **The Credit Risk Committee** is a control and supervisory body that controls risks connected with corporate collection management. In this way, the supervision of the financial risk incurred when dealing with the group's different customers is performed not only at locally but also at corporate level regularly and continuously.

- **Investment Committee:** The main objective is to control and supervise compliance with the Investment Plan approved by the Board of Directors. To achieve this, it performs a periodic follow-up on the correct application of approved investments and controlling the efficient use of Group resources and investments.

- **The Conciliation Committee** has been created in 2016 with the aim of facilitating the adequate balance between professional activity and the personal and family conciliation. With the intention to contribute to our people's human development, to avoid discriminations and to foster talent attraction and retention.

- **The Top Management´s** task is to deploy and execute the strategy within the organisation, performing the monitoring, risk identification and control work relevant to it within its areas of activity. It is responsible for identifying and evaluating the risks which the Group faces in the course of its business and applying suitable measures either to prevent such risks from materializing or, should they arise, to reduce or eliminate their impact. Therefore, it plays a fundamental role in designing and implementing control mechanisms and ensuring their fulfilment across the organisation.

- **Viscofan Group employees** Finally, Viscofan Group employees shall comply with the measures in place in the risk control and prevention systems and, where applicable, report any behaviour they consider may be a possible risk to the Viscofan Group. In order to facilitate coordination tasks, better identify risks and risk prevention and control actions, certain individuals were identified at local levels who will coordinate their actions with the competent bodies at the corporate level.



As part of its regular work, the Global Risk Committee revised the map of existing risks in 2016 in accordance with the code of ethics, internal regulations and the MORE TO BE Strategic Plan for the period 2016-2020.

It evaluated the risks identified in four categories, according to the COSO framework:

1.- STRATEGIC RISKS

These are defined as those risks affecting goals at high level, in line with the company's mission. The following have been identified as specific risks within this category.

- Natural disasters
- Country risk
- Risks resulting from competitive environment
- Reputational risk
- Cyber security Risk
- Intellectual property risk
- Obsolescence risk due to innovation

2.- INFORMATION RISKS

Risks affecting the reliability of the information provided and objectives related to the availability of sufficient capital and resources to carry on with the company's activity to achieve financial targets. The following have been identified as specific risks within this category.

- Computing contingences
- Preparation and integrity of the financial information
- Financing policy and liquidity constrains
- Exchange rate
- Prime rate
- Budgetary control
- Pension plan

3.- OPERATIONAL RISKS

Risks affecting those goals directly associated with the efficient use of resources and long-term continuous activity. The following have been identified as specific risks within this category.

- Material damage
- Business continuity
- Energy market
- Customer Discontent
- Risk of transportation
- Shortage of raw materials
- Public liability
- Knowledge and know-how disclosure
- Labour force
- Group cohesion
- Food risk
- Sabotage

4.- COMPLIANCE RISKS

These risks affect the objectives confirming compliance with applicable rules and regulations, including internal legislation, as well as protection of employees and society.

- Environment
- Occupational accidents
- Safety and hygiene in the workplace
- Evolution of regulatory framework
- Compliance with current multinational food legislation
- Compliance with obligations arising from business transactions
- Societal risks
- Criminal liability of legal persons
- Protection Data Law Risk
- Taxation

The objectives were manifold:

- To update the assessment of the risks identified in the inherent risks map,
- To update the assessment of the residual risk map, taking into consideration the mitigation measures implemented,
- To integrate the risks to the three main goals of the "MORE TO BE" Strategic Plan on force,
- To add new risks

Corporate risk management is not a simple linear process in which each component only affects the next one in line, but rather a multidirectional, iterative process in which one component may affect any other.

All these measures are reflected in the internal regulations, in the process that governs the internal financial information and in the code of conduct implemented throughout the Group.

The company has a risk map in which the risks are quantitatively and qualitatively rated,making it possible to define a tolerance level for the risk identified.

In 2015, in line with the Excellence objectives defined in the Viscofan Group strategy, after analysing the risk positioning and due to the improvements achieved, it was decided to generally lower the tolerance level, whilst zero tolerance was defined for some specific risk such as serious occupational accidents.

In 2016 an exhaustive analysis was performed on the risk maps, incorporating the general vision of the management and the experience in the methodology that was implemented in 2014 by the Global Risks Committee with the aim of adjusting to the current macroeconomic and competitive environment. With the information obtained, KRI have been established, which facilitate risk management and its tolerance. Those risks identified as having a major impact and a greater probability of occurrence are continuously monitored.

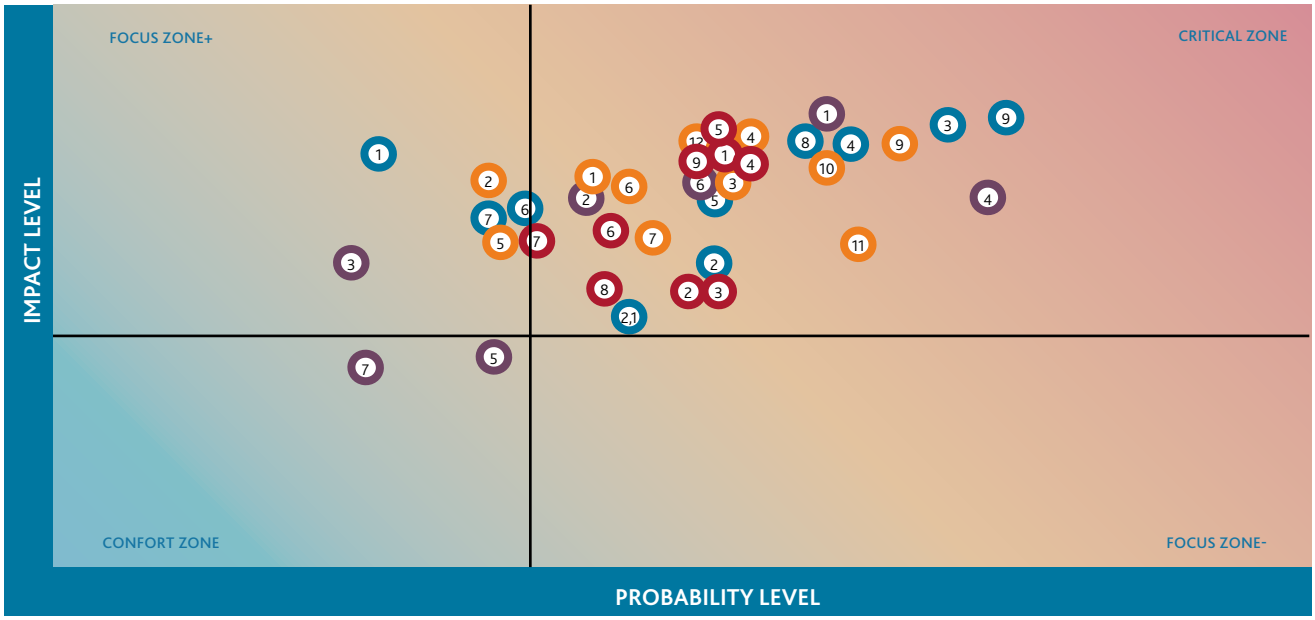
Through the different organs of risk control and monitoring, the Viscofan Group tasked the Global Risk Committee to produce an inherent and a residual map for those risks which, due to their materiality, might compromise value creation for its stakeholders and, consequently, hinder the accomplishment of the objectives sought by its MORE TO BE initiatives materialized in the search for triple leadership in service, technology and costs.

Knowing where each risks sits on the inherent and residual maps calls for continuous dialogue with the company's stakeholders through the channels established by the company. This system allows the company to gauge how well the measures adopted have performed in terms of mitigating the risk, focus its attention on those risks which are still beyond the comfort zone and apply further corrective and preventive measures in order to reduce the impact and/or likelihood of the risk occurring.

The Global Risk Committee meets at least twice a year to review and identify the risks inherent to the business, although additional unidentified risks may exist which may hinder accomplishment of the Viscofan Group's objectives.



INHERENT RISK MAP DECEMBER 2016



STRATEGIC RISKS

INFORMATION RISKS

OPERATIONAL RISKS

COMPLIANCE RISKS

CRITICALLY WEIGHTED

- 2 Country risk
- 2,1 Country risk (Employees)
- 3 Competitive environment. Competitors
- 4 Competitive environment. Customers
- 5 Competitive environment. Substitute products
- 6 Reputational risk
- 8 Obsolescence risk due to innovation
- 9 Cyber security risk
- 1 Computing contingences
- 2 Preparation and integrity of the financial information
- 4 Exchange rate
- 6 Budgetary control
- 1 Material damage
- 3 Energy market
- 4 Customer discontent
- 6 Shortage of raw materials
- 7 Public liability
- 9 Knowledge and know-how disclosure
- 10 Labour force
- 11 Group cohesion
- 12 Food risk. Casings
- 14 Sabotage. Intended harmful activity
- 1 Environment
- 2 Occupational accidents
- 3 Safety and hygiene in the workplace
- 4 Evolution of regulatory framework
- 5 Compliance with current multinational food legislation
- 6 Compliance with obligations arising from business transactions
- 7 Societal risks
- 8 Protection Data Law Risk
- 9 Criminal liability of legal persons
- 10 Taxation
- 1 Natural disasters
- 7 Intellectual property risk
- 3 Financing policy and liquidity constrains
- 2 Business continuity
- 5 Risk of transportation
- 5 Interest rate
- 7 Pension plans

CHIEF RISKS WHICH MATERIALISED IN 2016

It is important to point out that risk is inherent to business activity and the actual company diversification, at a geographic level (sales and production), and with regard to the product range, is a measure in itself that mitigates the risks identified on the risk map. However, this global nature also means that, during the fiscal year, adverse circumstances also develop, making it difficult to achieve the objectives established in the budget for the year.

In this context, some of the risks to materialise with the most significant impact, are as follows:

FINANCIAL RISK: EXCHANGE RATE

Circumstances giving rise to the risks: In 2016 the currency market faced high volatility due in this case, to a negative macroeconomic evolution in some emerging countries (Brazil), the economic and monetary policies carried out by the competent authorities in different countries and different uncertainties, highlighting, among others, the referendum in the United Kingdom regarding the exit from the European Union. In this respect, several of the currencies in which the Group operates have undergone significant fluctuation, especially the Brazilian real, the Mexican peso, and the Pound Sterling, and not just in average terms, rather that the volatility between exchange maximums and minimums has been very marked in this year.

Functioning of the control systems: Viscofan attentively watches for opportunities to take out exchange rate hedges, endeavouring to cover the transaction flows between different currencies, as required by circumstances. Over the last few years, the company has strengthened the treasury team and has contracted out reporting systems in order to improve the hedging capacity to minimise risk at a lower cost. However, these hedges were made at a more unfavourable cost then the final spot price.

OPERATIONAL RISKS: ENERGY COSTS

Circumstances giving rise to the risks: Volatility in energy prices

Functioning of the control systems: Viscofan is making considerable investments directed at optimising energy costs from a financial and environmental point of view. In turn, when dictated by circumstances, the company makes hedging on energy prices, involving a reasonable cost or reducing the budget compliance risk. Nevertheless, the volatility of energy prices, and the rise in the Brent price have meant that certain hedges have been made at a lower cost than the spot price, or that the investment payback periods have been lower.

OPERATIONAL RISKS: PROPERTY DAMAGE

Circumstances giving rise to the risks: In November 2016 a fire was declared at a spares part warehouse on the grounds of Naturin Viscofan GmbH in Weinheim (Germany), probably due to an electrical failure.

Functioning of the control systems: Preventive and contingency plans and the rapid intervention of the internal and Weinheim aid teams permitted to put out the fire. In addition, production could be resumed in less than 48 hours, customer service has not been affected, and the company has insurance covering the replacement value of the assets affected.

ENVIRONMENT RISKS: COMPETITIVE ENVIRONMENT AND MARKET RISK

Circumstances giving rise to the risks: In 2016 the Brazilian market showed weakness as a result of the recession suffered in the country. This situation resulted in the depreciation of the Brazilian real becoming an increase in the cost of raw materials for the meat processors, and along with the loss of consumer purchasing power, resulted in a fall in market volumes.

Functioning of the control systems: Monitoring work of this market has been performed, maintaining disciplined trading policies that will not damage the financial objectives of profitability. The company has strengthened the Brazilian specific projects aiming to improve levels of service and quality involving increased protection of the market share in adverse scenarios.

COMPLIANCE RISKS: TAX CHANGES

Circumstances giving rise to the risks: Regional law 23/2015 that regulates the corporate income tax in Navarre, applicable in the 2016 year, entailed, among other changes, that the effective tax rate ascended from 25% to 28% for the results obtained in Navarre, the Viscofan Group's social head office.

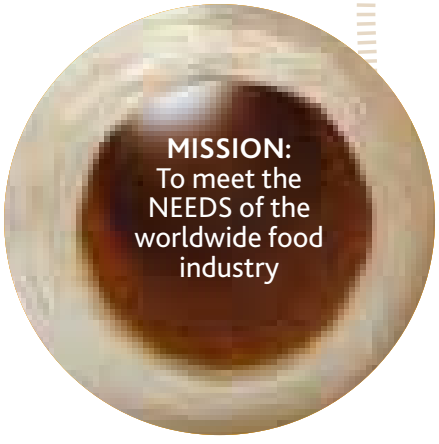
Functioning of the control systems: The Viscofan Group has a tax policy that has been approved by the Board of Directors. In turn, the multi-national nature of Viscofan, with facilities in various countries, reduces the total impact of the tax changes in the combined Viscofan Group.

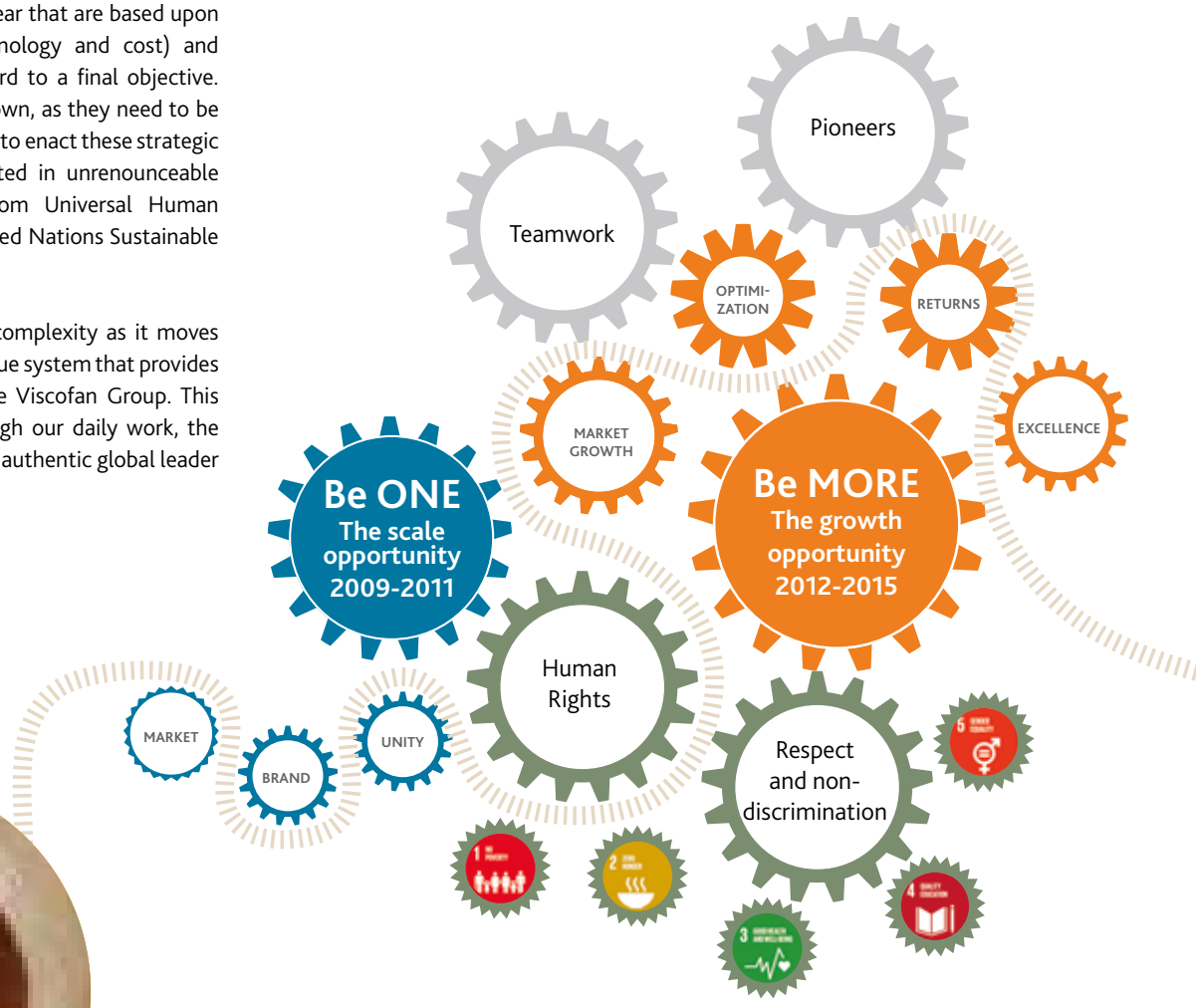
Strategic pillars

From our company mission to the corporate vision there is a long strategic way that will transform our Group.

Our strategic plans are a complex gear that are based upon our strategic pillars (service, technology and cost) and allow our company to move forward to a final objective. The strategies don't move by their own, as they need to be propelled by our values as key drivers to enact these strategic initiatives. Viscofan values are rooted in unrenounceable ethical principles that emerge from Universal Human Rights and are aligned with the United Nations Sustainable Development Goals.

It is a true gear that gets a wider complexity as it moves forward but it also constitutes a unique system that provides new competitive advantages to the Viscofan Group. This system helps us to achieve - through our daily work, the corporate objective for 2020: "Be an authentic global leader `The casing Company'".





VALUES

STRATEGIC GOALS

ETHIC PRINCIPLES

SUSTAINABLE DEVELOPMENT GOALS. GLOBAL COMPACT


Focus on Results
Quality
Service
MORE TO BE
2016-2020
COST
SERVICE
TECHNO-LOGY
Sustainability
Responsibility and transparency
Efficiency Loyalty Integrity


VISION:
In 2020 become a real global leader
THE CASING COMPANY

Strategy MORE TO BE

The Viscofan Group is a world leader in the meat casing market. With solid growth fundamentals, casings play a fundamental role in the cold meat production value chain.

A leader thanks to its unique proposal in the industry that the Viscofan Group continues to improve each day with its numerous projects framed within the MORE TO BE 2016-2020 strategic plan, and with a clear vision: To become a genuine global leader in 2020, "The Casing Company" with the aim of achieving triple leadership in service, cost and technology in all meat casing markets in which the Viscofan Group is present.

ENVIRONMENT AND MARKET

1. Introduction to the casing market

Casing is a soft, cylindrical covering used to hold fresh or processed cold meat mixes. Casing may be made from animal or customized materials.



Customized casings are also called artificial casings due to the traditional use of animal casings for this type of product (mainly intestines and bladders) that meat processors use to stuff meat.

Mankind has been casing meat in animal casings since ancient times, but customized casing started in the early 20th century, when difficulties in obtaining animal casings, price volatility and problems in industrialising cold meat products led to the search for alternatives to animal casings in different countries depending on the different materials available to produce sausages and other cold meats. This change implied a significant qualitative leap for meat processors, achieving better quality, productivity and safety in food standards.

Today, meat producers have a wide range of technological alternatives when it comes to producing cold meats, depending on the product and production characteristics, combining a better range of casing with significant productive savings.

The casing market has an estimated value of €4,200 million, and it is the meat processor who decides the casing used, either animal casings (around half the market) or customized casings which in turn can be made from different materials depending on the production characteristics and the desired product, combining a better range of casing with significant productive savings.

Casing offers many properties to the sausage by a truly competitive cost that represents between 5% and 20% of the costs of the cold meat depending on the cost structure and the quality of the materials used in the meat processing. As such, the greater the production demand and the more sophisticated the meat processors, the greater the trend to use customized casing as opposed to animal casings.

CUSTOMIZED CASINGS INFLUENCE IN THE SAUSAGE

- Provide shape and appearance
- Lengthen the lifespan of the product
- Improve food safety conditions
- Improve yields
- Improve automation
- Lower production fixed costs
- Offer a wider range of customisation



Production model. Customized casings vs. animal gut

Casing may be made from natural or synthetic materials.

Customized natural origin casing

Cellulose: Approximately 11-12% of the total casings market. This is a casing created using natural cellulose as a raw material. It is mainly used to produce industrially cooked sausages (Frankfurt, Vienna, hot-dogs, etc.).

In most cases, the casing acts merely as a cooking mould, and is generally peeled off by the manufacturer before sale to end consumers.

In the productive process, via a complex treatment, the cellulose molecules are de-polymerised using a chemical and mechanical rupture process, and later they are re-polymerised in a cylindrical or tubular shape, as requested by the client.

Fibrous: They account for some 5% of the casing market. Fibrous casing is a cellulose casing that is reinforced with Manila hemp, which gives the casing a high level of both resistance and caliber uniformity. Fibrous casing is mainly used for large-calibre sliced meats such as mortadella, cured hams, pepperonis, etc.

Collagen: This technology represents around 24-25% of the total market. This is a casing created using collagen as a raw material. This collagen is obtained from the cow and pig hide, by which a complex treatment is employed for its posterior processing and casing formation.

It can be classified into two main types: small-calibre collagen (e.g. Fresh sausages, bratwurst, etc.) and large-calibre collagen (e.g. Salami, bierwurst, etc.). The main difference between both types of collagen is in the thickness of the casing wall and the treatment the collagen undergoes during the process, to be able to resist a variety of stuffing conditions and the weight of the meat filling.

Synthetic origin customized casing

Plastic: Approximately 11-12% of the market. Plastic casing uses different plastic polymers as a raw material, offering properties as a barrier, mechanical resistance, thermo-shrinkage, thermoresistance, etc. depending on the application needs of the product.

Over time this market has proven to be positively correlated with the population and its growth, with the evolution of population eating habits and the sophistication of meat processors, that are able to decide whether to use animal gut or customized casing in their production processes. The growth of between 2% and 5% is down to these factors, which on historical average holds the casing market.

2. Analysis of the casing sector growth factors

In 2016 the casings market posted a lower growth rate than the historical average range. Sales volumes fell across the market as a result of the sharp slowdown in Latin America, led by Brazil, and the weakness of the North American market, in contrast to the robustness of the Asian market.



Exchange rates were highly volatile, in particular in emerging economies, which indirectly impacted the consumer´s purchasing power of imported products and the production costs of companies in our sector.

Despite the market decline in 2016, industry growth drivers remain solid, with population growth, especially in cities, a higher GDP per capita, meat production and higher desire for competitiveness and sophistication of the meat processors. Thus, the casings market growth is around 2 and 5% per year, corresponding to the average long-term growth observed in the sector.

2.1. Evolution of the population

In terms of the population, the world is growing at an annual rate of 1% according to the FAO, which expects the population to reach 7,700 million people in 2020, some 300 million more than today.

The emerging areas are the catalyst behind population growth, in this respect, with Asia, Africa and Latin America collectively providing over 90% of the annual growth of the world's population.

A greater population led by emerging areas, and that will sustainably increase its share of total growth. In 2016 over 83% of the population was in these areas.

A population that is growing in terms of wealth; in this respect the IMF estimates an annual GDP per capita growth of 4% until 2020, for an unbalanced world, with emerging areas positioned below 10 thousand US$, which was the world average GDP per capita in 2016.

2.2. Eating habits

Currently, the greatest need and demand for meat is a given, and according to the FAO the growth outlook for the meat market remain solid. In global terms, it is estimated that the world demand for meat is growing at a sustained annual rate of 2%.

By region, in Europe and the USA, the biggest meat producers in the 20th century, consumption growth has slowed moderately. However, it is the emerging areas that are leading this global growth.

Growth based on the globalisation of eating habits, on the increase of purchasing power among the middle classes, and on a population growth in cities, has also been boosted by migration from rural areas to urban areas. In this respect, in 2016, 54% of the urban population was concentrated in urban hubs, a percentage that is expected to reach up to 56% in 2020 according to FAO estimates.

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2.3. Technological development and the sophistication of meat processors

Over recent years, consumer demands have evolved significantly. Access to information and the diversity of the offer, have meant that consumers can enjoy more alternatives when choosing cold meats, and therefore they demand more attributes, among which food safety and convenience are key requirements.

Yet in turn, meat processors need greater customization and flexibility to adapt to new tastes and the dynamism of the environment, which includes the volatility of production input costs, the rise in personnel costs, the requirements in the quality/price ratio imposed by distribution chains, regulatory development, globalization itself and the size of meat processing companies, which make it increasingly necessary to produce more quickly, with stable quality parameters, seeking more automation and less productive waste.

In this respect, the development of customized casing has proven to be a great competitive advantage, particularly in European and North American regions, where the use of casing is more extensive, with a per capita amount of nearly one € per person each year, compared to the €0.5 in Latin America and the €0.1 in Asia.

POSITIONING OF VISCOFAN WITHIN THE CASING MARKET

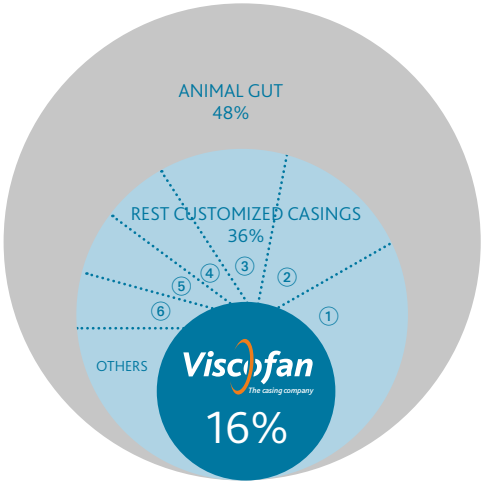
Despite the market weakness, in 2016 the Viscofan Group emerged with a strengthened leading position in revenues, whilst it made progress in the improvement of its value proposal and market positioning. Its extensive geographical, technological and product portfolio have enabled this performance, features that imply it is "The Casing Company", the world leader in casings, with an estimated market share of over 16% and around 32% in the customized casings segment.

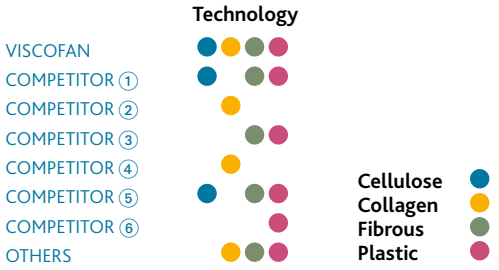
GEOGRAPHIC DIVERSITY:

The wide geographical diversity is the result of the marked global character of the Viscofan Group, enabling it to provide a local service to the largest markets and to the areas with the greatest growth potential, upholding a suitable balance between implementation cost and service. With sales in over 100 countries around the world, that are distributed from our productive centres and commercial offices in Spain, Germany, the Czech Republic, Serbia, Belgium, United Kingdom, Russia, China, Thailand, the United States, Mexico, Canada, Brazil, Uruguay and Costa Rica.

It also allows us to capture growth opportunities that continue to emerge in our sector. Less than 50% of market casing turnover is located in the most populated regions with the greatest meat production. Africa, Asia and Latin America are the regions with the greatest long-term growth potential, whilst Europe and North America are the markets with the highest level of sophistication, and therefore, where added value will continue to be most significant.

ESTIMATED MARKET SHARE IN THE CASINGS MARKET





TECHNOLOGICAL AND PRODUCT DIVERSITY:

Technological diversification enables the Group to offer the market a global solution, the only one in the market with proprietary technology in main available technologies: cellulose, fibrous, plastic and collagen.

The broader technological offer in the industry gives the Viscofan Group a transverse knowledge of casings, enabling us to share the market vision with our customers. When a meat producer decides to manufacture sausages, one of the most important decisions is the type of casing that will be used: basically whether to use animal gut or customized casing that can adapt to the product requirements.

Despite there are customized casings that can adapt more effectively than others depending on the product type, in overall terms meat processors are not a priori inclined to choose solution type of technology over another, they always prefer the one that best adapts to a specific need. However, casing producer capacities are not as interchangeable as the casing need itself, generating a high specialization among casing producers with a fragmented market vision, and with a higher risk of product diversification by the end customer.

At the same time, the Viscofan Group can access a larger available and objective market (approximately 4,200 million euros, of which 2,200 million euros correspond to customized casing). A benefit of this transverse nature is also that over 55% of our sales come from customers that buy casings from all the technologies we offer. This trend will continue to increase as our clients grow, and also continue to have a greater customised offer for consumers.

This explains the great diversity in the product offer, meeting an increasing search for the greater personalization and globalization in the production of sausages. In this sense, Viscofan sold in 2016 more than 10,800 product references compared to the 10,300 references sold in 2015.

These characteristics make Viscofan "The Casing Company" and allow the Group to adopt an ideal position to capture growth opportunities that arise in this market in an efficient way.

STRATEGY "MORE TO BE 2016-2020"

The casing market has sound annual growth fundamentals of around 2% and 5% that correspond to the mid to long-term growth observed in the casing sector.

In previous strategic periods named Be ONE and Be MORE, the Viscofan Group was transformed, adapting itself to macroeconomic and market environments and seeking to create value in the long-term, with a clear focus on gaining competitiveness in cost and subsequently improving our technological capacity.

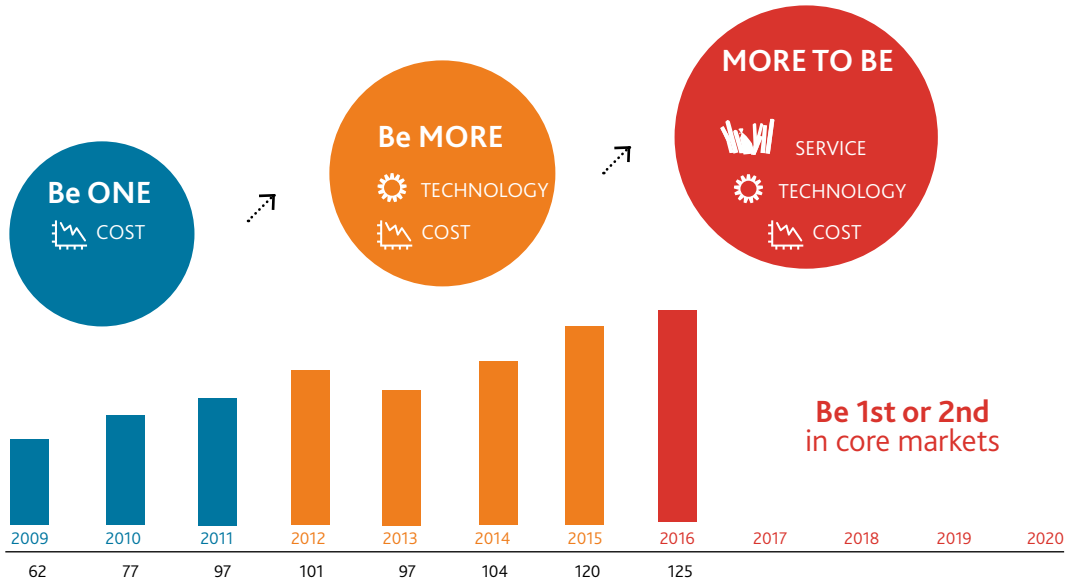
Viscofan´s Group transformation is taking place within the deep change that we are facing in today´s world, which has also affected our customer´s needs, market potential and the new costs and financing structure in the world.

In such a demanding context, the Viscofan Group has strengthened its leading position through revenues in the sector, and has continued to develop the activities envisaged in the strategic plan MORE TO BE 2016-2020, a natural evolution in a context of Viscofan´s and environment transformation that aim to spearhead all the main casing markets in service, cost and technology.

The new strategy implies taking another step forward in the path that started out with the Be ONE Strategic Plan (2009-2011). In this Strategic Plan, following the acquisitions undertaken, it was decided that operations should be restructured, with the undertaking of a management model that would allow us to make better use of economies of scales that the Viscofan Group has previously not possessed. This focus transformed Viscofan into a highly efficient company, whose greatest strength lay in cost optimisation.



"MORE TO BE" VISION: BE AN AUTHENTIC GLOBAL LEADER. "THE CASING COMPANY"



NET PROFIT CASINGS, MILLIONS OF EUROS

Once this target was reached, the Be MORE Strategic Plan (2012-2015) aimed for greater development. The technological improvements introduced, without forgoing the competitive advantage of costs, gave us a more global positioning in collagen and in other families, allowing us to reach more markets and to reach a new scale.

But if we truly wish to become the global leader, we need to lead our main markets. An objective for which we need to keep making progress in our costs, our technology, and naturally, take another step forward in our level of service.

And this is precisely what has guided the Viscofan Group towards its new vision: to be a true global leader.

This vision means that:

- THE CASING COMPANY focuses its efforts on creating sustainable value for SHAREHOLDERS.
- THE CASING COMPANY is the global leader in all the technologies of meat casing and actively promotes the development of NEW MARKETS.
- THE CASING COMPANY is our CUSTOMERS' preferred option, and the most sought-after among competitors.
- THE CASING COMPANY is the sector BENCHMARK in efficiency and productivity in all the casing technologies.
- THE CASING COMPANY has the BEST TEAM IN THE MARKET, it attracts and retains talent and develops their capacities.

This triple leadership emerges from the conviction that a global leader creates value if it is productive for its interest groups, whilst in turn being sustainable in the long-term. To achieve this, the Viscofan Group is carrying out numerous initiatives, framed within the three key areas.

SERVICE AXIS

In this axis are classified the initiatives seeking to offer solutions that meet the needs of our stakeholders that can be answered among others with a wider product portfolio, better time-to-market, better support, greater adaptability, etc.

Viscofan´s evolution in the plastics technology is an example of these initiatives. The projects undertaken in 2016 of organic and inorganic expansion enabled the Viscofan Group to make advances in improving market service. As a result of these initiatives, the Viscofan Group has positioned itself as one of the five main producers of plastic casings in the world.

The new plastics plant in San Luis Potosí (Mexico) has been in operation since the start of the year, allowing for an improved product offer and positioning this technology closer to the North American market. In Cáseda (Spain) there was a quick construction and implementation of the new Nanopack plastics plant, an investment made with the aim of boosting the evolution of this technology.

In parallel to this, the Viscofan Group has made the most of an opportunity for inorganic growth, with the acquisition of 100% of the Share Capital of the Vector companies in the United States and Europe. This operation, with a price of €2.7 million, plus the assumption of €8.8 million of Net Bank Debt, is a quantitative and qualitative leap to become a unique player in casings service. In geographic terms, the incorporation of the Vector plants in the USA and Belgium enables the Group to have extensive and diversified productive presence in three continents (North America, Latin America and Europe), with productive plants in 6 countries (USA, Mexico, Brazil, Spain, Belgium and the Czech Republic). We also incorporated a wide portfolio of products.

In collagen casings, the Viscofan Group has continued to reinforce its commitment with the Latin American market. The new collagen capacity installed in Pando (Uruguay) at the end of 2016 consolidated the Group's positioning as the region's sole local collagen producer.

Over 18,000 km away, in China, the Viscofan Group has managed to become a key player in the collagen casings market. However, more needs to be done (MORE TO BE) in the largest collagen casings market in the world and in this respect the investment in the new collagen capacity in China envisaged for 2017 will allow the Group to improve its service to its Chinese clients and to meet their needs with less dependency on other plants of the Group, with the aim of achieving a high level of self-sufficiency in the future.

This investment will provide greater productive flexibility in Europe, essential to continue with the expansion of this technology, considering that there is a market of over 2,000 million € in animal gut.

In 2017 the construction works of the new plant with fibrous technology in Cáseda are progressing according to the plan to have new available capacity by the second half of this year. This investment constitutes an ambitious challenge for the Viscofan Group, allowing it to gain proximity to the European market whilst indirectly gaining flexibility in the US plant.



TECHNOLOGY AXIS

Key to the DNA of the Viscofan Group, our productive process is based on our own technology where the know-how of people is essential. It is a productive model of on-going improvement based on Centres of Excellence and technology transfer to other centres.

In this respect, the Brazil plant will drive forwards with the incorporation of an advanced converting technology, with the aim of improving efficiency in this productive phase. On the other hand, the incorporation of fibrous technology into a centre of excellence such as Cáseda expands its development possibilities.

The acquisition of Vector also involves implementing a new plastics technology within the Viscofan Group, with new products and know-how of over 40 years of experience.

Investments to improve and update production process to meet rapidly evolving industry requirements have also been envisaged for 2017, which will entail investments in industry 4.0, in systems and big data, among others.

COSTS AXIS

2016 was a year of intense activity for projects focusing on improving costs. The following are particularly noteworthy:

- Productivity improvements of European plants in Spain, Germany and the Czech Republic.
- In North America, the union agreement will provide the USA plants with labour stability.
- In Brazil, in a year marked by the weakness of domestic demand, the Viscofan Group focused on improving the stability of productive plants, and a year later they have reached better efficiency levels, which will permit them to capture the expected market growth in the Latin American market in a more efficient way.
- The Cáseda plant (Spain) achieved the environmental management certification ISO 14.001 without Non-Conformities. Under this, Viscofan establishes targets and objectives in environmental issues, policies and procedures, as well as in responsibilities, activities for training personnel, documentation and a control system. It also enables the reduction of the environmental impact and generates internal benefits by improving the use of resources.



In 2017 the productive consolidation of the new implantations and of the new installed capacity will be key, with the search for improvements in their learning curves. Also particularly noteworthy is the integration of the Vector operations and the search for productive synergies.

OUTLOOK FOR 2017

From this position we approach 2017 with confidence and we expect to grow in the main financial figures, as we move forward in the projects defined for the strategic period MORE TO BE 2016-2020.

Just as with the preceding strategic plans, the first phase is characterised by intensive operative activity. In the "MORE TO BE" Plan, this enhanced operative activity is accompanied by a new drive of investments, with an expected level of around 85 million euros. Of these investments, around 30% will be designated to increasing productive capacity, some 40% to improving processes, 7% to EHS projects for environmental, health and safety improvements, and 23% to other recurring investments.

As a result of this commitment, Viscofan's key position in a market with strong growth fundamentals, together with all the projects planned leads the Group to expect growth in revenue of between 4% and 7% to €760-785 million, growth in EBITDA of between 3% and 7% to €210-218 million, and 0% to 3% in the net profit, which would reach 125 to 129 million euros.

The baseline hypothesis for these objectives involves a scenario of 1.05US$/€ and 3.60BRL/€.

GUIDANCE 2017 (MILLIONS OF EUROS)

€85 millions	€760/785 millions	€210/218 millions	€125/129 millions
~0%	+4%/7%	+3%/7%	+0%/3%
CAPEX	REVENUE	EBITDA	NET PROFIT



MAIN STRATEGIC PROJECTS BY REGION

EUROPE: R&D in the four technologies as competitive advantage spearhead

Service axis
- Greenfield fibrous plant in Cáseda (Spain) 2017
- Nanopack acquisition ✔
- Support centre for new products. "specialities"
- Vector Europe acquisition ✔

Technology axis
- Adding fibrous technology to an excellence center 2017
- Upgrade plastics technology
- Upgrade technology for large collagen caliber
- Upgrade cellulose technology

Cost axis
- Higher production capacity in Serbia 2017
- Improve productivity in Spain, Germany and the Czech Republic ✔
- Energy efficiency. Development of safer production technologies
- Get the certificate ISO 14.001 of environmental management in all plants ✔ CÁSEDA

NORTH AMERICA: Focus on added value improvement

Service axis
- Plastics in Mexico ✔
- Improve facilities reliability
- Fibrous. Free capacity for the local market 2017
- Vector USA acquisition ✔

Technology axis
- New products: BTC plastics, specialities
- Upgrade fibrous technology

Cost axis
- Union agreement ✔
- Cruise speed in the new plastics plant in Mexico 2017
- Change in energy model
- Get the certificate ISO 14.001 of environmental management in all plants

LATAM: Leaders and committed with an area of outstanding market dynamism

Service axis
- Product development. New concepts to replace animal gut
- Stability in Brazilian plants ✔

Technology axis
- New extrusion machinery in collagen ✔
- Converting technology 2017

Cost axis
- Higher capacity in Uruguay ✔
- Uruguay plant consolidation 2017
- Efficiency in resources usage (water)
- Get the certificate ISO 14.001 of environmental management in all plants

ASIA: Wider offer and better service in the fastest growing region

Service axis
- Asian self-sufficiency 2017
- Availability, quality and sophistication in our offer
- Be the benchmark in the market ✔
- Push cellulose sales

Technology axis
- Consolidate operations ✔
- Production flexibility 2017

Cost axis
- Raw materials. New suppliers
- Operating leverage
- Change in the energy model (co-generation)
- Get the certificate ISO 14.001 of environmental management in all plants

STAKEHOLDERS


SHAREHOLDERS
MARKET
EMPLOYEES
SOCIETY

SHAREHOLDERS



GRI Indicators

2016 RESULTS	102-6	102-7	102-8	102-10	102-49
STOCK EXCHANGE MARKETS	102-21	102-43	102-33		

GLOBAL COMPACT OBJECTIVES RELEVANCE
This section contains relevant information about the achievement of the following Sustainable Development Goals (SDGs):

Financial indicators

	Strategy MORE TO BE 2016-2020		Strategy Be MORE Period					Strategy Be ONE Period		
	2016	Dif 16/15	2015	2014	2013	2012	TACC Be MORE	2011	2010	2009
Millions of Euros										
Revenue	730.8	-1.3%	740.8	687.1	660.2	649.2	7.0%	564.5	538.5	490.1
EBITDA	204.1	-4.6%	213.8	185.4	170.6	177.3	8.6%	153.6	146.3	124.1
% EBITDA margin	27.9%	-1.0 p.p.	28.9%	27.0%	25.8%	27.3%	1.7 p.p.	27.2%	27.2%	25.3%
EBIT	154.4	-4.0%	160.8	136.3	125.5	135.6	8.8%	114.6	105.5	89.1
% EBIT margin	21.1%	-0.6 p.p.	21.7%	19.8%	19.0%	20.9%	1.4 p.p.	20.3%	19.6%	18.2%
Profit before taxes	155.3	2.5%	151.5	134.2	122.4	128.6	5.4%	122.8	100.9	84.1
Net Profit	125.0	4.1%	120.0	106.5	101.5	105.1	4.3%	101.2	81.3	64.3
Capital expenditure	86.7	51.4%	57.3	61.0	98.0	70.7	-2.1%	62.3	46.6	45.2
Total equity	708.1	11.8%	633.2	575.9	521.6	498.6	8.9%	449.4	406.4	345.2
Net bank debt	8.8	c.s.	-3.2	74.6	84.6	64.7	c.s.	61.5	59.8	90.5
Market capitalisation at year-end	2,183.4	-15.8%	2,593.0	2,053.6	1,927.1	1,995.1	18.0%	1,335.7	1,321.7	827.7
Average headcount	4,363	3.1%	4,233	4,089	3,955	3,776	3.4%	3,699	3,523	3,625
Net bank debt/total equity (%)	1.2%	1.7 p.p.	-0.5%	13.0%	16.2%	13.0%	-14.2 p.p.	13.7%	14.7%	26.2%
ROE(*) (%)	18.6%	-1.3 p.p.	19.9%	19.4%	19.9%	22.2%	-3.1 p.p.	23.0%	21.6%	19.8%
Euros										
Year-end share price	46.85	-15.8%	55.64	44.07	41.35	42.8	18.0%	28.7	28.4	17.8
Earnings per share	2.684	4.2%	2.576	2.284	2.178	2.254	4.3%	2.172	1.745	1.379
Proposed remuneration per share (**)	1.450	7.4%	1.350	1.180	1.120	1.100	7.8%	1.000	0.800	0.623

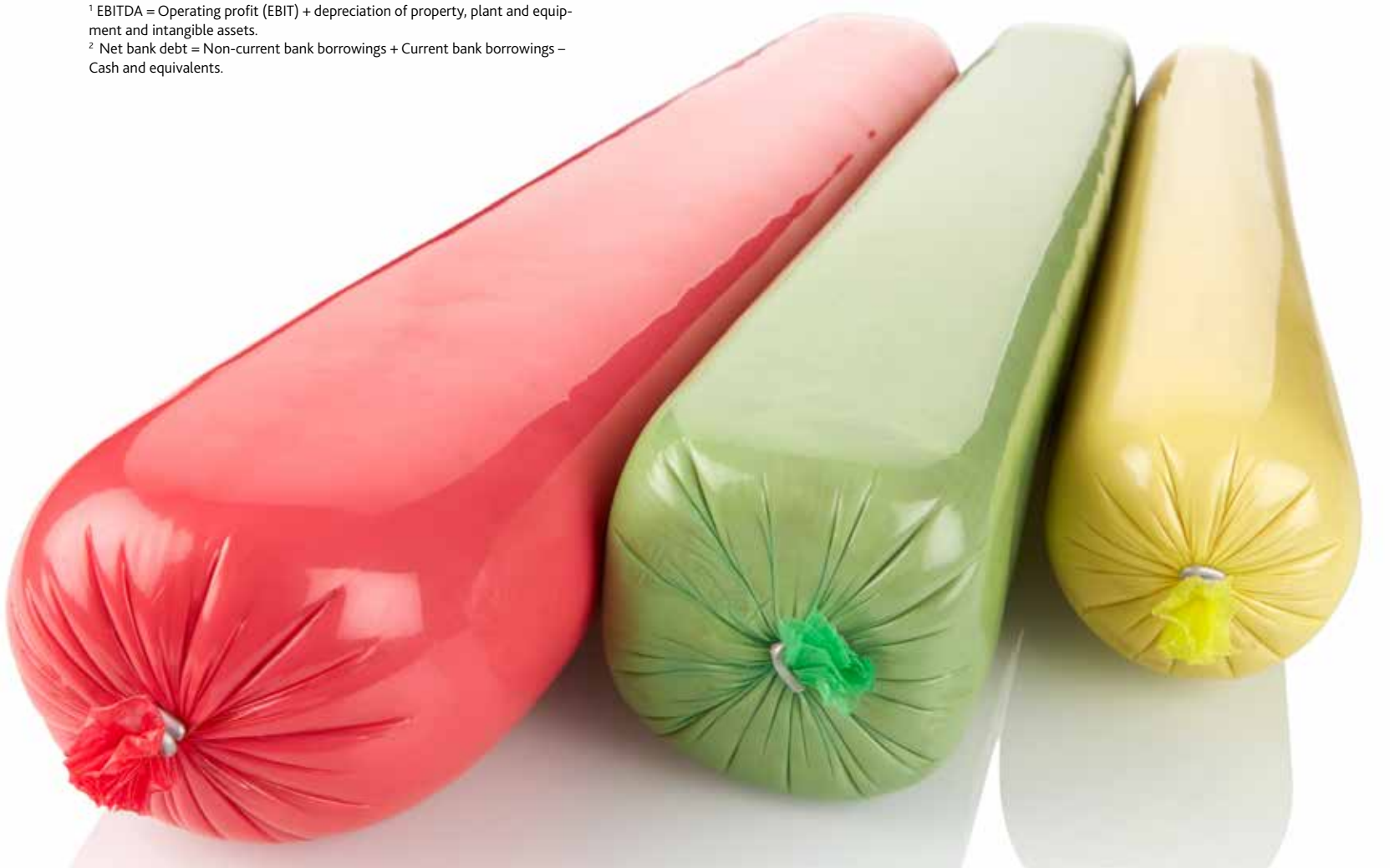
(*) Net profit / Average total equity.
(**) Includes dividends and bonus for attending the Shareholders' General Meeting.

2016 Results

MAIN HIGHLIGHTS OF 2016 RESULTS

- Net profit amounted to €125.0 million, up 4.1% year-on-year.
- EBITDA[1] amounted to €204.1 million, down 4.6% year-on-year.
- Revenue amounted to €730.8 million, down 1.3% year-on-year.
- Net bank debt[2] in December 2016 stood at €8.8 million compared with a net cash position of €3.2 million in December 2015.

[1] EBITDA = Operating profit (EBIT) + depreciation of property, plant and equipment and intangible assets.
[2] Net bank debt = Non-current bank borrowings + Current bank borrowings – Cash and equivalents.



Results January-December 2016. VISCOFAN GROUP ('000 €)

	Jan-Dec' 16	Jan-Dec' 15	Variation	Like-for-like [1]
Revenue	**730,833**	**740,770**	**-1.3%**	**0.0%**
Recurring EBITDA [2]	**201,134**	**210,840**	**-4.6%**	**-0.8%**
Recurring EBITDA Margin[2]	*27.5%*	*28.5%*	*-1.0 p.p.*	*-0.2 p.p.*
Non recurring result [2]	2,931	3,003	-2.4%	
EBITDA	**204,065**	**213,843**	**-4.6%**	
EBITDA Margin	*27.9%*	*28.9%*	*-1.0 p.p.*	
EBIT	**154,366**	**160,794**	**-4.0%**	
Net profit	**125,011**	**120,035**	**4.1%**	

(1) Like-for-like: For comparative purposes, like-for-like growth excludes the impact of the different exchange rates, the change in the scope of consolidation and non-recurring results.
(2) Recurring: Adjusted by the non-recurring results recorded in 2016 related with the acquisition of Vector in EEUU and Europe, and in 2015 due to the outsourcing of pensions in the US.

REVENUE

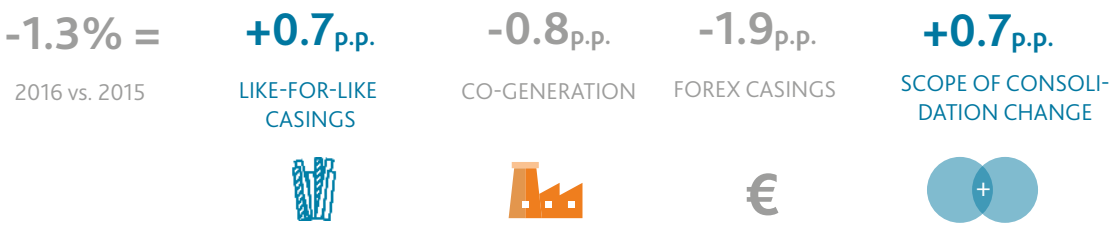
The pace of growth of the casings market in 2016 underperformed the historical average growth due to the slowdown in the Latin American market and North America.

However, market conditions started to pick up in the Latin American market in the second half of the year, chiefly in Brazil, increasing sales for the Viscofan Group in the region.

In addition, the acquisition of the Vector companies in the US and Europe contributed to revenue with €5.4 million in November and December 2016.

Accumulated revenue amounted to €730.8 million, down 1.3% year on year due mainly to the weakness of commercial currencies, which caused revenue for the year to fall by two percentage points, and the decline in co-generation revenue caused by the lower energy price, especially in the second half of the year, while higher casing sales in North America, Europe and Asia offset the drop in sales in Latin America.

GROUP REVENUE. GROWTH CONTRIBUTION



By type of revenue, casing sales amounted to €691.2 million (-0.5% vs. 2015) and co-generation revenue amounted to €39.6 million (-13.9% vs. 2015).

In like-for-like[3] terms, cumulative revenue in 2016 was stable compared with 2015.

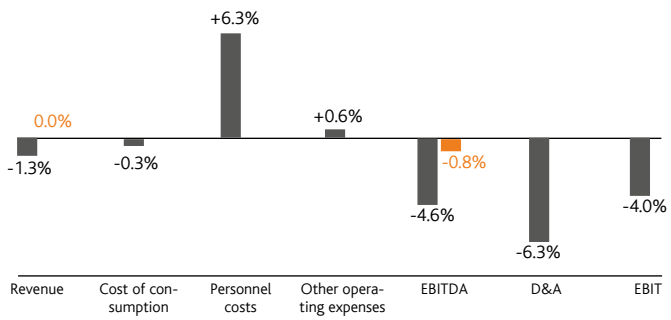
The geographical breakdown[4] of revenue in 2016 is as follows:

- In Europe and Asia revenue totalled €411.1 million, down 0.2% compared with 2015 due to the adverse impact of the depreciation of the main trading currencies against the €, most notably the CNY/€ (5.8%) and the GBP/€ (12.8%), and the double-digit decline in co-generation sales in Spain. However, in like-for-like terms, revenue in the region grew by 0.7% thanks to higher casings volumes.
- In North America, revenue totalled €217.3 million, up 0.7% compared with 2015 and 2.3% in like-for-like terms.
- In Latin America, revenue totalled €102.4 million, down 9.4% vs. 2015 owing to the weakness of volumes in Brazil and the depreciation of the Brazilian real against the euro (4.6%). In like-for-like terms, revenue for the year 2016 in Latin America fell by 7.0% year-on-year.

OPERATING EXPENSES

2016 saw a slight drop in the costs of the main production inputs - both raw materials and energy costs -, which, coupled with operational improvements carried out at the Viscofan Group, helped to keep operating expenses in check compared with 2015. However, the volatility of currencies, the higher expenses associated with a fire at a spare parts warehouse in Germany in November 2016 and the costs incurred in the acquisition of Vector caused operating expenses to rise in the fourth quarter.

2016 . YEAR-ON-YEAR CHANGE %



Like-for-like: For comparative purposes, like-for-like growth excludes the impact of the different exchange rates, the change in the scope of consolidation and non-recurring results.



[3] Like-for-like: For comparative purposes, like-for-like growth excludes the impact of the different exchange rates, the change in the scope of consolidation and non-recurring results.
[4] Revenue per origin of sales.

Despite the higher operating expenses associated with the fire in Germany, the Viscofan Group has insurance policies as part of its risk management system that cover expenses incurred among other contingencies.

Cost of consumption

The cost of consumption[5] stood at €202.9 million, down 0.3% compared with 2015. As a result, the cumulative gross margin[6] in 2016 stood at 72.2% compared with 72.5% in 2015.

Personnel expenses

The average headcount at the end of December 2016 was 4,363 persons, up 3.1% year on year. This reflects the strengthening of the workforce including the recruitment of personnel for the start-up of plastics production in Mexico and the new plant in Spain with fibrous technology, and the incorporation of the personnel from Vector's companies.

Personnel expenses in 2016 grew by 6.3% vs. 2015 to €168.6 million.

In recurring terms, i.e. excluding the accounting savings from the outsourcing of pension plans in the United States in 2015, cumulative personnel expenses advanced by 4.4% vs. 2015.

Other operating expenses

Other operating expenses in 2016 totalled €173.4 million, up 0.6% vs. 2015, while energy supply costs fell 8.1% year-on-year. This increase in Other Operating Expenses was driven by higher plant costs stemming from the start-up of new collagen production capacity in Uruguay, cleaning works in Germany and the non-recurring costs associated with the acquisition of the Vector companies (€1.5 million).



COST OF CONSUMPTION

€202.9 MILLION

-0.3% vs. 2015

PERSONNEL EXPENSES

€168.6 MILLION

+6.3% vs. 2015

[5] Cost of consumption = Supplies +/- Change in inventories of finished and unfinished products.

[6] Gross margin = (Revenue – cost of consumption) / Revenue.

RESULT FROM THE BUSINESS COMBINATION

Following the successful completion of the acquisition of Vector's companies in the US and Europe, accounting standards for business combinations require the assets acquired and liabilities assumed to be measured at their fair values by independent experts.

The share of the Viscofan companies in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. This difference was recognised in the profit for the year once the acquisition cost and the valuation of the net assets acquired had been reevaluated, generating a gain of €4.5 million in the consolidated financial statements of the Viscofan Group as a result of the higher appraisals by independent experts of the tangible and intangible assets of the group of companies acquired.

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OPERATING PROFIT

EBITDA amounted to €204.1 million, down 4.6% compared with 2015.

In like-for-like terms, EBITDA in 2016 was 0.8% lower than in 2015 against a backdrop of volume weakness in Latin America and lower co-generation revenue, partially mitigated by the growth in the other reported areas and the containment of operating expenses.

As a result, the Viscofan Group's EBITDA margin stood at 27.9% in 2016 (-1.0 p.p. vs. 2015).

Amortization and depreciation costs in 2016 amounted to €49.7 million (-6.3% vs. 2015).

In 2016, the Viscofan Group's EBIT amounted to €154.4 million, down 4.0% year-on-year.



NON-RECURRING IMPACTS

For a better comparison the non-recurring impacts reported in 2016 and 2015, which contributed a total of €2.9 and €3.0 million respectively to operating profit, are described below.

In 2016 a gain of €4.5 million was reported corresponding to the negative goodwill from the lower cost of business combination over the corresponding value of the identifiable assets acquired less that of the liabilities assumed from the acquisition of the Vector companies in the US and Europe.

The costs associated with the purchase of the Vector companies in the US and Europe amounted to €1.5 million in operating profit and €1.1 million in net profit.

In 2015 a non-recurring impact of €3.0 million on operating profit and €1.9 million on net profit was recorded due to the outsourcing of the "Hourly Employees" and "Salaried Employees" pension plans in the United States.

FINANCIAL RESULT

The lower average debt level in 2016 enabled the Group to reduce finance expenses to a total of -€1.8 million in 2016 (-€3.4 million in 2015). The Group also registered positive exchange differences of +€3.0 million in 2016 compared with negative differences of -€6.6 million in 2015 as a result of the currency fluctuations in balance sheet balances expressed in foreign currency. As a result, in 2016 the Group achieved a net finance gain of +€0.9 million compared with the losses of -€9.3 million reported in 2015.

NET PROFIT AND TAX

Profit before tax in 2016 stood at €155.3 million, with corporate income tax totalling €30.2 million. This reflects an effective tax rate of 19.5% (21.0% in 2015).

The difference between the theoretical tax rate for 2016 (28%) and the effective tax rate (19.5%) is basically due to the different taxes paid by non-resident subsidiaries in Navarre (Viscofan S.A. tax domicile) which pay tax in all of the countries in which they operate, applying the corporate (or similar) tax rate in force on profits for the period and tax allowances or tax credits associated with previous years' losses by various Group subsidiaries.

As a result, the Viscofan Group posted a new record net profit in 2016 in both reported and organic terms. Net profit was €125.0 million compared with €120.0 million in 2015, a year-on-year increase of 4.1%.

CAPITAL EXPEDITURES

With a view to improving its competitive position, the Viscofan Group is carrying out the MORE TO BE 2016-2020 strategic plan. This includes a host of initiatives involving all the Group's casing production technologies, with a particular emphasis on improving Viscofan's position in plastic and fibrous.

In 2016 the plastic casings plant was built in Cáseda, which started up production in the third quarter. The new capacity was also successfully installed in Uruguay and began operating in the final quarter of the year. This will further improve the service we offer to the Latin American market.

The most significant investment in the year was the outlay on the construction of a new plant in Cáseda (Spain). This will enable machinery for the production of fibrous casings to be installed in the second half of 2017.

Investment amounted to €86.7 million (€57.3 million 2015) and the breakdown is as follows:

- 51% of investment was in capacity and machinery.
- 22% of investment was in process improvements.
- 8% of investment was in energy equipment and in plant safety, hygiene and environmental improvements.
- Ordinary investments accounted for the remaining 19%.



EQUITY AND DIVIDENDS

The Group's equity stood at €708.1 million at the end of 2016, up 11.8% year-on-year due to the booking of a net profit of €125.0 million (4.1% vs. 2015) from which €26.6 million is deducted as a final dividend against 2016 earnings (+9.6% vs. 2015).

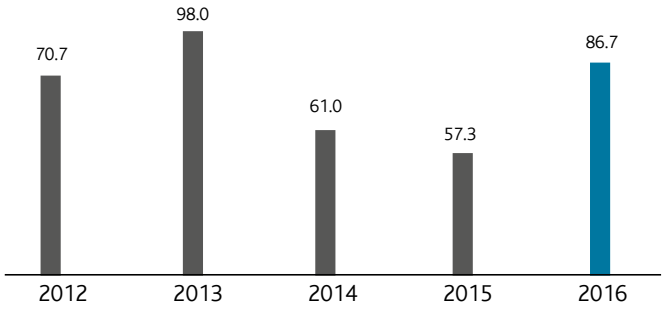
In addition, the Board of Directors of the Viscofan Group has agreed to propose to the General Shareholders' Meeting the distribution of a final dividend of €0.87 per share, with an amount of €40.5 million to be paid out on 8 June 2017.

This means total shareholder remuneration amounts to €1.45 per share consisting of:

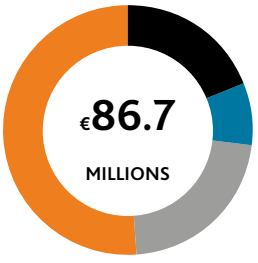
- An interim dividend of €0.57 per share paid on 22nd December 2016.
- A proposed final dividend of €0.87 per share for approval at the General Shareholders' Meeting,
- and a bonus for attending the General Shareholders' Meeting of €0.01 per share.

The remuneration proposed is 7.4% higher than the total remuneration of €1.35 per share approved last year, implying distribution of a total of €67.6 million, equivalent to 54% of the total net profit attributed to the Viscofan Group.

CAPEX (MILLIONS €)



CAPEX BREAKDOWN



51% CAPACITY
19% OTHERS
8% EHS
22% PROCESS UPGRADE

FINANCIAL LIABILITIES

The Viscofan Group ended 2016 with a robust balance sheet. The Group's growth projects resulted in an increase in investment and the strategic acquisition of companies were accompanied by strong cash generation from operations that enables these projects to be financed while shareholder remuneration is increased through the payment of cash dividends.

The Viscofan Group ended 2016 with net bank debt of €8.8 million compared with a net cash position of €3.2 million in December 2015. Net bank debt for 2016 rose in the final quarter following distribution of the interim dividend and the acquisition of Vector's companies in Europe and the US.

The Viscofan Group's financial situation means it is well placed to meet its scheduled payment obligations over the next 12 months.

CHANGES IN THE SCOPE OF CONSOLIDATION

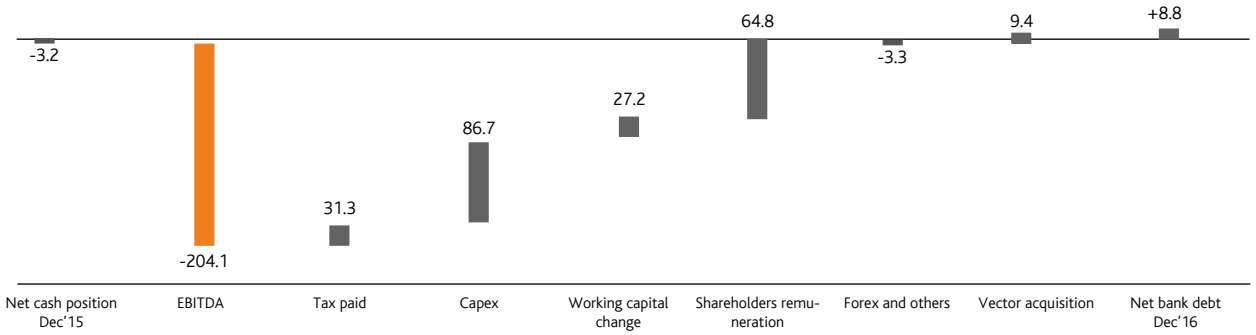
In October of 2016 Viscofan Group has signed the SPA to acquire the 100% of the shares of Vector USA Inc. and Vector Europe NV. including its subsidiaries in Europe (Vector Packaging Europe NV. y Vector UK Ltd.).

The companies acquired are included in the consolidation scope with effect from 1 November 2016 using the full consolidation method.

The share of the Viscofan companies of the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. This difference was recognised in the profit for the year once the acquisition cost and the valuation of the net assets acquired had been reevaluated, generating a gain of €4.5 million.

The most relevant factors that contributed to the cost of the combination and which entailed the recognition of the excess of net assets acquired over the cost of acquisition are the appraisals by independent experts of the tangible and intangible assets of the group of companies acquired.

NET BANK DEBT EVOLUTION (MILLIONS €)



Stock exchange markets

MACROECONOMIC CONTEXT

In 2016 the world economy displayed a slowing in growth in a backdrop characterised by a strong drop in oil prices in the first half of the year, less private investment and reduced inflation in developed areas, volatility and significant depreciation in some currencies in emerging areas, geo-political tensions and other factors. As such, according to estimations from the International Monetary Fund (IMF), the global GDP grew by +3.1% in 2016, below the +3.2% of 2015 and the +3.4% of 2014, exhibiting its lowest level since 2009.

Likewise, the scope of this framework and the financial markets were affected by the different monetary policies undertaken by the main central banks. In the United States the rate increase by the Federal Reserve and the expectations of inflation resurgence, especially by oil prices, led to progress in long-term interest rates. In Europe the risk of deflation led the European Central Bank to adopt quantitative expansion measures and to reduce interest rates to new lows.

The lower growth can be explained by developed areas whose GDP revealed a lower expansion rate, with +1.6% in 2016 compared to +2.1% in 2015. On the contrary, emerging areas with a rate of +4.1% have remained stable, slowing down five consecutive years of deceleration, countries such as Russia and Brazil, still in recession in 2016, revealed less weakness than in 2015, whilst China continues with its landing and rebalancing process.

China, the second global economy, continued in its slowing growth, though from very high rates. It is estimated that in 2016 the country's GDP grew at a rate of +6.7% in an economy that is in a transition phase towards a more sustainable growth model, driven by domestic demand. Although, at the end of the year the outlook improved, driven by the stimulus measures implemented in the country. On the other hand, throughout the year, particularly noteworthy was the weakness of the currency compared to the primary currency pairs, as well as the country's capital outflow and the reduction of foreign currency reserves.

In the United States, the GDP reduced its growth to +1.6% compared to +2.6% in 2015, a one p.p. decrease caused by less investment in inventories by corporations, government expenditure, private consumption, and by the weakness of exportations faced with the weakness of the global demand, and a US$ that remained strong. However, the country's development went from less to more, exhibiting better growth in the second half of the year. On the other hand, the United States continues to stand out for the strength of its labour market, which consistently created employment throughout 2016, reducing the unemployment rate from 5.0% in December 2015 to 4.7% in December 2016.

In the European Union moderate growth continued, with a slight deceleration compared to 2015. In 2016 an advance of the GDP is estimated of 1.7% compared to the 2.0% of 2015, the growth was driven yet another year by internal demand whilst the IMF indicates that the weakness of the balance sheets of the countries and corporations prevent new investment. Still noteworthy was the growth in Spain, with an expansion of 3.2%. Also contributing positively were the United Kingdom (+2.0%), Germany (+1.7%) and France (+1.3%).

The deflation risk remained latent for a large part of the year in the Euro Zone; although inflation had an upturn at the end of the year, up to +1.1% in December 2016 compared to +0.2% in December 2015, mainly due to energy prices. For yet another year, employment creation was consolidated, with a decreasing unemployment rate upon closing December, at 9.6% compared to the 10.5% in 2015, 11.6% in 2014 and 12.0% in 2013.

For 2017, the IMF hopes to see a recovery in global growth following two consecutive years of deceleration with a rate of +3.4% in GDP. An expectation underpinned by the improvement in the outlook of developed areas thanks to better performance in the second half of 2016, as well as normalisation in emerging economies. Emerging areas will continue to be catalysts of growth, with an expected advance of +4.5% compared to the +1.9% of developed areas, with Brazil and Russia emerging from two years of recession.

The organism indicates factors that they consider could affect upturns to be greater political stimulus in the USA and China, and the downturns to be global financial conditions, a worsening of geo-political tensions and a more marked deceleration in China.

STOCK EXCHANGE MARKETS

In 2016 the behaviour of the stock markets was very volatile and was marked by a multitude of effects, in some cases increasing the risk aversion and the sharp decline of the stock exchanges, especially during the first half of the year. Particularly noteworthy: a backdrop of deceleration in terms of growth, the marked fall in oil prices, divergence in monetary policies, depreciation and volatility in currencies in various emerging countries compared to the € and the US$, and political elements, in particular the unexpected victory of the option to leave the European Union in the British referendum.

However, during the last phase of the year the equity markets recovered negative ground, thanks to the slight improvement in world economic expectations, or investment plans in infrastructures of the new North American administration; particularly driving forward the North American stock exchange, which beat historical records. All this occurred while some economic and geopolitical risks that have punished the markets were to some extent ignored but which have not gone away.

Within this backdrop, stock markets also exhibited decorrelation: the US S&P 500 index closed the year with a rise of +9.5%, in Europe the Euro Stoxx 600 fell -1.2% and the IBEX 35 by -2.0%, whilst the DAX advanced +6.9% in Germany and the CAC rose +4.9% in France.

VISCOFAN´S SHARE

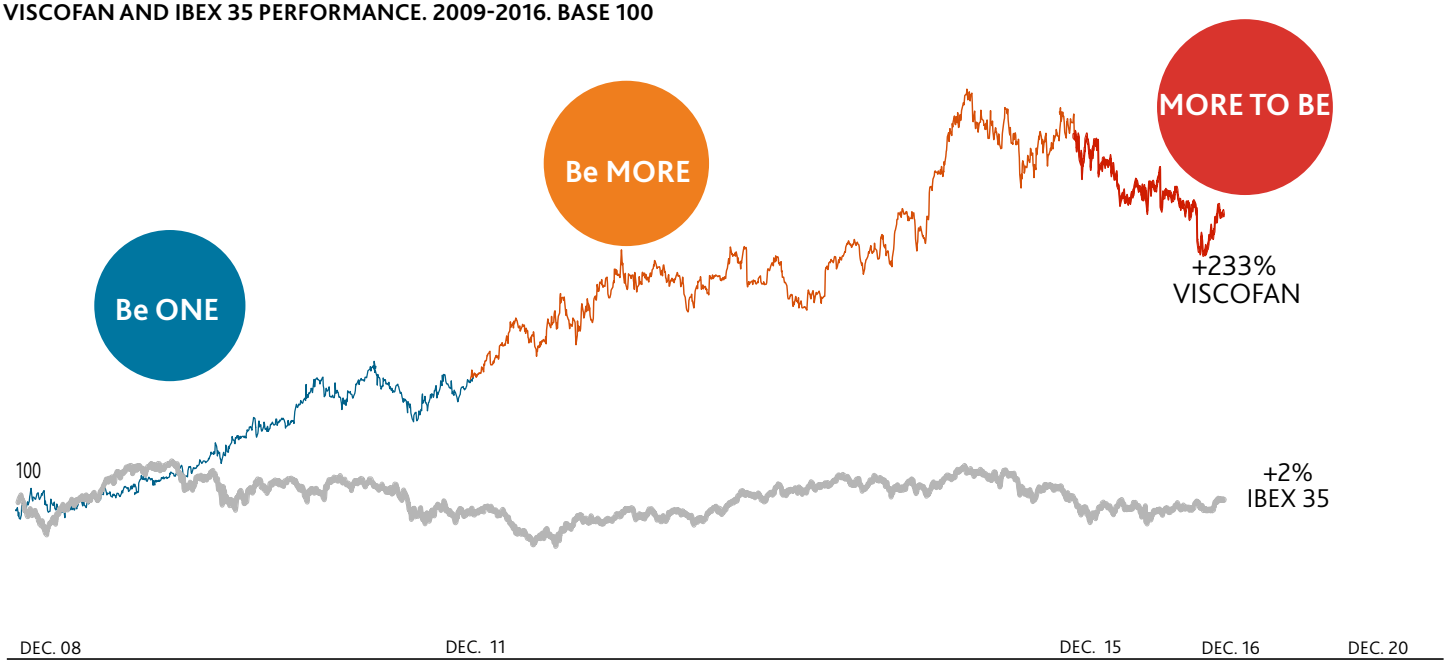
Viscofan's share is admitted to trading in the Spanish stock market in Madrid, Barcelona and Bilbao. Likewise, the share has been trading in the continuous market since its flotation in December 1986, belongs to the Ibex35 Index, the General Index of the Madrid Stock Exchange (IGBM) and is part of the Consumer Goods segment, the Food sub-sector, as well as the Euro Stoxx Food & Beverage Index and to the Eurostoxx 600 Index.

Viscofan´s share has been included in 2017 in the BCN- Profit 30 index, which considers the 30 listed Ibex 35 companies with higher net profit.

Viscofan's share price closed 2016 at €46.85, down 15.8% year-on-year and 13.3% including shareholder remuneration. The average daily quote throughout the year was €49.47 and market capitalisation stood at €2,183 million at the end of 2016.

Over 54.7 million Viscofan shares were traded in 2016, 117% of the total in circulation, with a traded volume of €2,707 million, equivalent to a daily average of €10.5 million.

VISCOFAN AND IBEX 35 PERFORMANCE. 2009-2016. BASE 100



VALUE CREATION FOR SHAREHOLDERS

The Viscofan Group has a proven development trajectory of a solid and flexible business model that generates a cash flow that enables it to continue to invest in the business to keep improving its value creation, which is shared with shareholders in cash payouts, whilst maintaining a solid balance sheet structure.

Accordingly, stock market recognizes Viscofan Group's value creation, while combined with our commitment to remunerate our shareholders. Thus, over the last decade, there has been an average annual return of 13%, or 14% including shareholder remuneration. Analysing value creation over time, this is greater for shareholders holding their Viscofan shares for a longer period of time. For example:

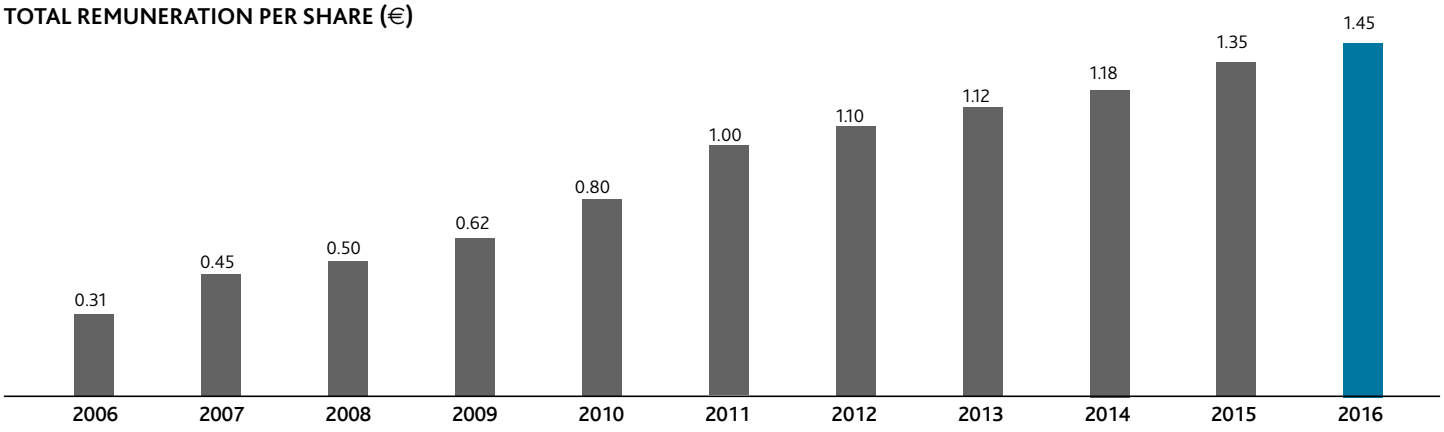
A shareholder investing 1,000 euros in Viscofan shares on 31st December 2011, and selling them 5 years' later on 31st December 2016, received 1,640 euros and 209 euros in dividends for this period. A combined return of 85%.

A shareholder with a greater investment horizon and who invested in Viscofan 10 years' ago, purchasing 1,000 euros in Viscofan shares on 31st December 2006, and still holding them on 31st December 2016, would have an investment worth 3,280 euros and has collected 630 euros in dividends for this 10 year period. A combined return of 291%.

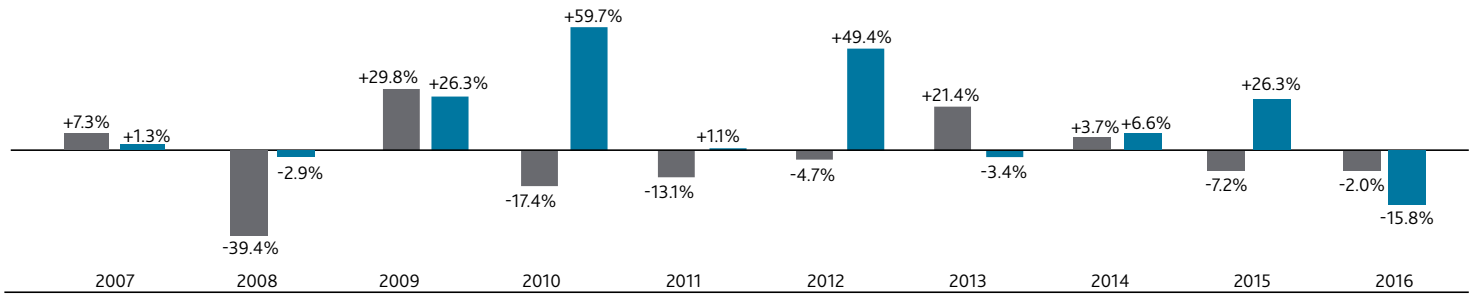
The Viscofan Group continues to look to the future with its creation of value. In this respect, 2016 was the first year of the strategic plan MORE TO BE 2016-2020, which entails the ob-

+7.4% vs. 2015

TOTAL REMUNERATION PER SHARE (€)



ANNUAL EVOLUTION. VISCOFAN vs. IBEX 35



VISCOFAN
IBEX 35

jective of leading the main casings markets in service, technology and costs. This ambitious target implies investor efforts, with €86.7 million destined to investments in the tax year and without asking for additional efforts from shareholders whilst maintaining a solid balance sheet.

The financial and operative strength and the historical Net Result allow for the on-going increase of shareholder remunerations. As such, the remuneration proposed by the Board of Directors for the 2016 year ascended to €1.45 per share, some 7.4% higher than that distributed in 2015, and entailing the distribution of a total of €67.6 million, equivalent to 54% over the total of the Net Result attributed to the Viscofan Group.

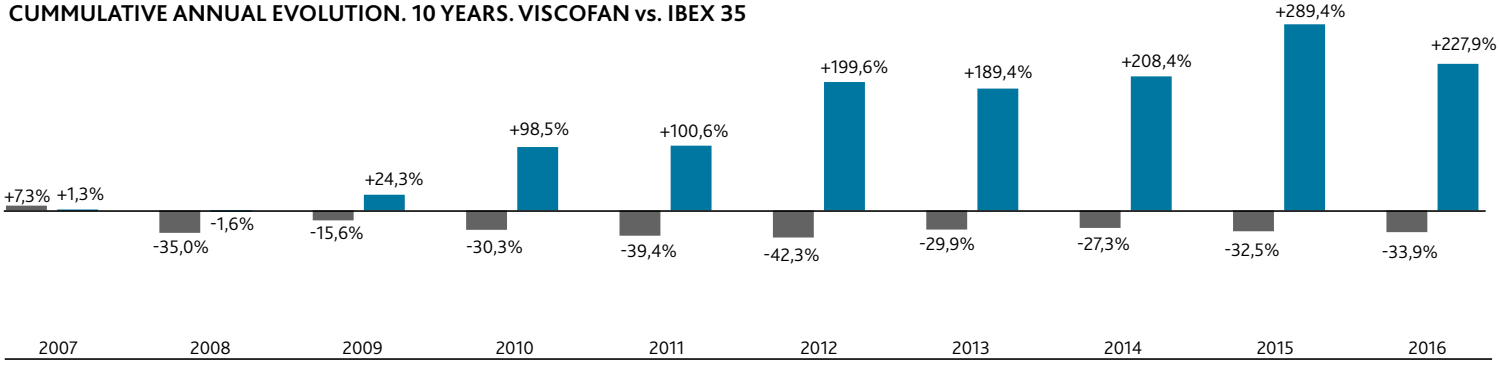
In terms of profitability, the total dividend proposed for 2016 is 2.9% over the average share quotation price during the year.

VISCOFAN, ITS SHAREHOLDERS AND THE INVESTMENT COMMUNITY

One of Viscofan's objectives is to create value for the investment community through its Shareholder and Investor Relations Department, by improving accessibility, information transparency and making the appropriate information available for a better understanding of the company, its results, strategy and operations.



CUMMULATIVE ANNUAL EVOLUTION. 10 YEARS. VISCOFAN vs. IBEX 35



Viscofan return vs. Ibex 35

Buy (31/12)		Sell (31/12)										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TSR
2006	Viscofan	1.3%	-1.6%	24.3%	98.5%	100.6%	199.6%	189.4%	208.4%	289.4%	227.9%	**12.6%**
2006	*Ibex 35*	*7.3%*	*-35.0%*	*-15.6%*	*-30.3%*	*-39.4%*	*-42.3%*	*-29.9%*	*-27.3%*	*-32.5%*	*-33.9%*	*-4.1%*
2007	Viscofan		-2.9%	22.7%	95.9%	97.9%	195.6%	185.6%	204.3%	284.3%	223.5%	**13.9%**
2007	*Ibex 35*		*-39.4%*	*-21.4%*	*-35.1%*	*-43.6%*	*-46.2%*	*-34.7%*	*-32.3%*	*-37.1%*	*-38.4%*	*-5.2%*
2008	Viscofan			26.3%	101.7%	103.8%	204.5%	194.1%	213.4%	295.7%	233.2%	**16.2%**
2008	*Ibex 35*			*29.8%*	*7.2%*	*-6.8%*	*-11.2%*	*7.8%*	*11.8%*	*3.8%*	*1.7%*	*0.2%*
2009	Viscofan				59.7%	61.4%	141.0%	132.8%	148.1%	213.3%	163.8%	**14.9%**
2009	*Ibex 35*				*-17.4%*	*-28.3%*	*-31.6%*	*-16.9%*	*-13.9%*	*-20.1%*	*-21.7%*	*-3.4%*
2010	Viscofan					1.1%	51.0%	45.8%	55.4%	96.2%	65.2%	**8.7%**
2010	*Ibex 35*					*-13.1%*	*-17.2%*	*0.6%*	*4.3%*	*-3.2%*	*-5.1%*	*-0.9%*
2011	Viscofan						49.4%	44.3%	53.8%	94.1%	63.5%	**10.3%**
2011	*Ibex 35*						*-4.7%*	*15.8%*	*20.0%*	*11.4%*	*9.2%*	*1.8%*
2012	Viscofan							-3.4%	2.9%	30.0%	9.4%	**2.3%**
2012	*Ibex 35*							*21.4%*	*25.9%*	*16.9%*	*14.5%*	*3.4%*
2013	Viscofan								6.6%	34.6%	13.3%	**4.3%**
2013	*Ibex 35*								*3.7%*	*-3.8%*	*-5.7%*	*-1.9%*
2014	Viscofan									26.3%	6.3%	**3.1%**
2014	*Ibex 35*									*-7.2%*	*-9.0%*	*-4.6%*
2015	Viscofan										-15.8%	**-15.8%**
2015	*Ibex 35*										*-2.0%*	*-2.0%*

COMMUNICATION CHANNELS

Viscofan offers the investment community a number of communication channels: presentations at seminars and events organised by the financial community; road shows with institutional investors, either promoted by the company or by brokers; the presentation of results; the General Shareholders' Meeting; organised visits to the Viscofan head office; phone calls to a dedicated investor, a shareholder helpline; e-mail; notifications and regular public information reported to the CNMV (Spanish Security and Exchange Commission). All this in addition to the information posted on the website www.viscofan.com, particularly in the section of Investor Relations in which Viscofan publicizes the latest news, relevant facts, reports and the quarterly presentation of results, annual report, evolution of the share price, etc.

During 2016 the Investor Relations section on the website and its different sections received 102,000 visits.

The effort put into communication over all these years, has been recognised by the investment community. Institutional Investor in its "All European Executive Team" in 2016 awarded Viscofan for the 1st CEO for Sell-Side and 2nd Best CEO combined, and 3rd IR for Sell-Side on Paper & Packaging sector. In previous years it awarded Viscofan, 2nd Best IR Professional and Best Investor Relations for the Sell-Side in 2015 and 2012 as 1st Best IR professional for the Sell-Side in the packaging and food sector respectively.

Two-way communication is important, enabling the Financial Community's questions and concerns to be taken into account and transmitted within the company, to give a more global view of it. In 2016 the most frequently asked questions were related to the evolution of the first year of the strategic plan MORE TO BE, shareholder remuneration, the weakness of the Brazilian casings market, the impact of the variation of the exchange rates, investments made, especially in fibrous and plastic technologies.



Investor´s and Shareholder´s phone

948 198 436



Investor´s and Shareholder´s e-mail

info-inv@viscofan.com



Website. Investor Relations section

Viscofan maintains fluid communication with the financial markets, insofar as in 2016 a total of 18 analysis companies, both national and international, covered the company recurrently. In this respect, over 100 analyst reports were published about Viscofan in 2016.

- Alantra Equities
- BBVA
- Bekafinance
- Berenberg
- BPI
- Caixabank
- Exane BNP Paribas
- Fidentiis
- Haitong Securities
- Intermoney
- JB Capital Markets
- Kepler-Cheuvreux
- Mirabaud
- Renta 4
- Sabadell
- Santander
- SG
- UBS

After the presentation in March 2017 of the results of the 2016 tax year and outlooks, the analyst consensus had the following profile: 56% of recommendations hold the value, 17% buy, 11% outperform, 11% underperform and 5% selling.

Likewise, in the course of 2016, Viscofan held 251 one-on-one meetings with investors, shareholders and non-shareholders alike, interested in the company. In 2015 there were 282, 282 meetings in 2014, 293 in 2013, and 207 in 2012. These meetings were held at the Group's head offices and in financial centres. Specifically, in 2016, Viscofan held meetings at 12 different financial centres, as in previous years. This diversity of centres is a result of the geographical diversification of the shareholder structure, with institutional investors in more than 25 countries around the world.

STOCK EXCHANGE HIGHLIGHTS

	STRATEGY MORE TO BE 2016-2020	Strategy Be MORE Period				Strategy Be ONE Period		
Share price €	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Year-end price	**46.85**	**55.64**	**44.065**	**41.35**	**42.81**	28.66	28.36	17.76
Year high	**56.06**	**60.93**	**48.36**	**43.70**	**42.81**	30.59	29.65	18.20
Year low	**41.84**	**43.04**	**36.24**	**35.65**	**28.45**	22.51	17.64	12.81

Change %	**Year end 2016**	**Year end 2015**	**Year end 2014**	**Year end 2013**	**Year end 2012**	**Year end 2011**	**Year end 2010**	**Year end 2009**
% annual change Viscofan	**-15.8%**	**26.3%**	**6.6%**	**-3.4%**	**49.4%**	1.1%	59.7%	26.3%
% annual change IGBM	**-2.2%**	**-7.4%**	**3.0%**	**22.7%**	**-3.8%**	-14.6%	-19.2%	27.2%
% annual change IBEX 35	**-2.0%**	**-7.2%**	**3.7%**	**21.4%**	**-4.7%**	-13.1%	-17.4%	29.8%
% annual change Euro STOXX 600	**-1.2%**	**6.8%**	**4.4%**	**17.4%**	**14.4%**	-11.3%	8.6%	28.0%
% annual change Medium Cap	**-6.6%**	**13.7%**	**-1.8%**	**52.0%**	**13.8%**	-20.7%	-5.6%	13.8%
% annual change Sub sector Food and beverages IGBM	**-5.4%**	**26.4%**	**-5.2%**	**4.7%**	**25.0%**	-6.3%	25.3%	7.0%

Stock market trading data	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Market capitalization at year-end (millions of €)	**2,183.38**	**2,593.03**	**2,053.59**	**1,927.06**	**1,995.10**	1,335.66	1,321.68	827.68
Traded volume (million of €)	**2,707.1**	**3.179,9**	**3.233,0**	**2.506,4**	**1.426,9**	1,274.1	925.4	663.1
Daily average trading volume (million of €)	**10.5**	**12,3**	**12,6**	**9,8**	**5,6**	5.0	3.6	2.6
Traded shares	**54,701,597**	**58,329,352**	**78,062,343**	**63,212,344**	**41,360,939**	47,049,517	41,668,063	42,112,723
Daily average of traded shares	**212,021.69**	**225,209.85**	**304,931.03**	**247,891.55**	**161,566.17**	183,787.18	162,765.87	165,798.12

Share ratios	**Year end 2016**	**Year end 2015**	**Year end 2014**	**Year end 2013**	**Year end 2012**	**Year end 2011**	**Year end 2010**	**Year end 2009**
Listed shares	**46,603,682**	**46,603,682**	**46,603,682**	**46,603,682**	**46,603,682**	46,603,682	46,603,682	46,603,682
Earnings per share (1)	**2.684**	**2.575**	**2.284**	**2.178**	**2.254**	2.172	1.745	1.379
Remuneration per share (2)	**1.450**	**1.350**	**1.180**	**1.120**	**1.100**	1.000	0.800	0.623

(1) Net earnings per share is calculated by dividing net profit by the average weighted number of ordinary shares in circulation during the year, excluding treasury stock
(2) Includes: dividends, capital reimbursement, refund of issue premium and bonus for attending the General Meeting



MARKET

GRI Indicators

PRODUCT DIVISIONS AND FAMILIES	102-2		
BRANDS	102-2		
A COMMITMENT TO QUALITY, SERVICE AND FOOD SAFETY	102-2	102-9	102-21

GLOBAL COMPACT OBJECTIVES RELEVANCE
This section contains relevant information about the achievement of the following Sustainable Development Goals (SDGs):

Product Divisions and Families

OUR PRODUCT RANGE

Viscofan offers the widest range of sausage making products available to the meat industry, in an ongoing endeavour to offer solutions that meet consumer demands.

In response to all these needs, Viscofan, as the world leader in the production and distribution of customized casings, is the only supplier to produce products in all four main technologies: cellulose; collagen; fibrous; and plastic. Viscofan puts every effort into improving and progressing year after year, offering a wide range of products and innovative solutions.

Each of our casings is developed with the aim of shortening times and reducing stages in the production process, in order to generate substantial savings and to contribute to the manufacture of new products and applications.

In order to define the ideal type of casing for each application type, it is necessary to have first-hand knowledge of the specific characteristics of the desired end product (mortadella, frankfurters, mini-snacks, salami, etc.) and the production equipment to be used by our customers.

The Viscofan Technical Support service offered to customers, plays a key role in helping them select the right casing from the wide range available. It also informs production of customer needs, suggesting product improvements or changes in order to offer customers the casing that best meets their needs.

Viscofan has positioned itself as "The Casing Company" saving costs and making easier to interact with meat processors. Our customers can choose what kind of technology they want to use depending on the desirable attributes of their product. There is no customers by technology, as customers that purchase the 4 technologies represent more than 55% of Viscofan sales. This trend is becoming even more important as meat processors are more sophisticated.

CELLULOSE CASINGS

These casings are made using natural cellulose as the raw material, and are primarily used in the manufacture of industrially cooked sausages.

Small-calibre cellulose casing is extremely stable, regular and calibre-constant. It ensures quick, uninterrupted production processes because it is extremely easy to peel. It is also ideal for smoking and absorbs colour and flavour perfectly. It can be produced in a wide variety of colours and its high transparency and brightness make the products very attractive. It is particularly suitable for traditional applications such as frankfurters, vienna sausages, hot dogs and rawcured products.

COLLAGEN CASINGS

These casings use collagen as their raw material, obtained from cattle and pig hides, which then undergo complex processing to be made into casings.

This is a clear alternative to animal casings, for the production of fresh and processed sausages alike, in either a straight or curved version. These casings improve the appearance of the sausage, thanks to their smoked properties and perfect development of colour and flavour, meeting the consumer's demand for a product with a traditional, appetising appearance, ideal for cooked or raw-cured meat sausages alike, allowing for the perfect clipping of the product. Moreover, collagen offers a high resistance of the casing during the stuffing process. Collagen products have a high stuffing calibre consistency for a uniform production and, moreover, small calibres have excellent crispy and tender byte properties.

Our classic collagen film, Coffi, and our shirred film with netting, Coffinet, offer new possibilities, such as the production of cooked ham and marinated and smoked products. Our products are environmentally friendly, easy to use and ensure optimum end product results.



FIBROUS CASINGS

Fibrous casings are cellulose casings strengthened with Manila hemp, making for high strength and a uniform calibre.

Fibrous casings are principally used for large calibre sausages such as mortadella and salami, which require a highly uniform calibre, mechanical strength and easy peelability, whilst always maintaining the natural appearance of the end product.

Fibrous casings stand out for transferring colour and aroma evenly, and the wide variety of shades of colour available enhances the visual appeal of the end product.

PLASTIC CASINGS

Plastic casings are made from a number of different polymers, as their raw material. Our extensive variety of plastic casings means we can offer the perfect product for each type of application. Plastic casings present superior barrier properties to maximize product shelf-life and cooking yields. Thanks to the wide range of colours, formats and properties available, our casings are able to meet all producer and customer requirements.

Viscofan's plastic casings offer exceptional characteristics like outstanding peeling and slicing properties, greater protection for products that need to keep for a long time, easy product moulding and clipping, and uniform smoked aroma, flavour and colour transferral.

PACKAGING MATERIALS

Within the plastics division there is a family of products designed for food packaging. Viscofan has specialised in two products of this kind. On the one hand, "Nanopack" plastic films, which are sheets to separate sliced foods. The films - also called interleavers - strengthen the visual characteristics of the product, its colour and shine, and enhance presentation as they ensure that the product slices do not stick together. On the other hand, shrink bags and "Vector" brand packaging films widen the range of existing shrink bags that have been available at the company for years, adding new moulding properties that make this kind of bag more adaptable to large-sized and unevenly shaped cold cuts.

MACHINERY SOLUTIONS

Machines specifically designed to enable Viscofan's customers to make the most of our casings.

The machines marketed by Viscofan have been developed for those casings which have a special application and for which the meat machinery market offers no suitable solutions.

Brands

Viscofan
The casing company

VISCOFAN
BIO ENGINEERING

Colfan

CoffiNet

Viscofan
Class

Viscofan
Natur

VECTOR

NANOPACK
technology & packaging, s.l.

A commitment to quality, service and food safety

THE CUSTOMER AT THE CENTRE OF OPERATING DECISIONS

The Viscofan Group places the customer at the centre of its operational decisions, always seeking the best value proposition for customers, in order to improve their efficiency and have a greater product diversification yet without compromising on strict quality controls and food safety.

In this respect, Viscofan is able to boast the largest commercial network in the industry and a level of service by its technicians that is widely recognised throughout the market.

As experts in artificial casings, we are the only company in the sector that offers a total, comprehensive service to our clients and are able to offer the casings solution that best adapts to their needs.

In its continuous improvement model, and via multidisciplinary teams from its sales, operations and R&D departments, Viscofan Group identifies those areas of most concern to the meat industry, developing and incorporating related improvements.

Maintaining our leadership position in the global market in an environment as dynamic as the current one would be impossible without Viscofan's excellent level of service and diversification; as a result of our presence in 15 countries we are able to provide suitable casing solutions to more than 1,700 customers in 100 countries around the globe.

This global outlook has been recognised on a number of occasions. Viscofan's awards include the 2013 Aster award for its business trajectory, by ESIC (Business and Marketing School), the Award for the Internationalisation trajectory granted to Viscofan by the Businessmen's Association together with Wharton University of Pennsylvania; and the Export award granted by the Chamber of Commerce and Industry of Navarra.

The Supply Chain department is directed at improving customer service and optimising working capital. In order to achieve these objectives, initiatives have been implemented to improve and standardise the supply chain management tools and to enhance the coordination of the corporate teams. Likewise, the number of contact persons between orders and complaints has been simplified, making use of a unique scale in the casings market, helping to speed up procedures and improve customer service.

COMMUNICATION CHANNELS WITH OUR CUSTOMERS

Our value creation proposal is supported by a fluid communication channel and customer relationship, primarily through:

1.- Seminars and events organised by Viscofan.

2.- A technical assistance and continuous service telephone number.

3.- Active attendance of industry fairs, particularly the IFFA in Germany, the largest food sector fair in the world held every three years in Frankfurt.

4.- Visits to clients.

5.- Local presence directly by the company or through agents and suppliers.

6.- Access to an own extranet (Visnet) accessible from www.viscofan.com

PRODUCT SAFETY AND FOOD HYGIENE FROM THE SUPPLIER TO THE CONSUMER

One of the main functions of the casing is to protect the sausage contained inside. Processed meat is a basic food product for billions of people around the world. Viscofan, as the sector leader, perfectly understands that this market demands the establishment of principles that guarantee that the production process and the end product fully comply with legal requirements and have passed the appropriate quality controls, thereby obtaining, in addition to excellent quality, a product that offers complete safety and hygiene for its customers.

The company's commitment to quality and food hygiene takes the form of our mandatory processes applied throughout the production process and involves stringent working practices that are audited both internally and externally.

This commitment begins with the selection of raw materials, from the principal elements (cellulose, collagen hides, abaca paper and polyamides) to auxiliary components used in the chemical and mechanical transformation of these raw materials during the production process.

To make this selection, Viscofan Group has established a supplier approval system, and suppliers need to comply with demanding quality, safety and cost criteria. This system establishes impartial and objective treatment in the supplier and contractor selection process.

Aware of the strategic importance of a suitable supply of raw materials and services, Viscofan Group is committed to its suppliers and establishes relationships founded on reciprocal contribution, mutual respect, trust and the quality of products and services.

In turn, to guarantee the excellence of its products and services at all times, as a guarantee for both its clients and the end consumer, Viscofan has a product and food hygiene safety system that covers every relevant aspect from its own production installations built in accordance with food safety regulations, to training programmes in food hygiene and product safety, quality control of raw materials, which must comply with specifications established with authorised suppliers, systems for detecting unsuitable materials during the production process, pest control, control of dangerous materials, staff hygiene and a visitors' policy.

These protocols configuring our product safety and quality system are based on the following core principles:

HAZARD ANALYSIS AND CRITICAL CONTROL POINT

Viscofan has a hazard analysis and critical control point (HACCP) system in place. The company formed an inter-disciplinary team that assesses every step of the production process to detect possible hazards (physical, chemical and microbiological contamination, including allergens), identify critical control points, establish relevant controls and take any required corrective action. The system is updated annually in line with any changes in the production process.

COMPLIANCE WITH THE APPLICABLE LEGISLATION

The Production technical scope in casings production is increasingly highly regulated in food safety area by different countries and supranational institutions, constituting a growing frame in constant update of requirements that cannot be eluded.

This regulatory framework directly affects the activity of production facilities, due to the legislation of origin countries, requirements of destination countries and globally accepted international standards.

Given the complexity of this situation, Viscofan Group has created Patents and Regulatory Affairs Department to strengthen the fulfillment of its products with different food safety regulations. The main functions of this department are:

- Follow-up of national and international regulatory frameworks of food industry, especially those that may affect casings industry, its implementation and internal compliance.
- Supervision of the fulfillment in every production facilities. Coordination and implementation of action plans.
- Dialogue with organisms, associations and lobbies related with the regulation of issues affecting food and casings industries.

PRODUCT TRACEABILITY AND IDENTIFICATION

Viscofan operates a product traceability system that enables us to identify, at any time and in full detail, the history of every unit and even sub-unit sold, from receipt of raw materials to product use by our customers.

In Europe, Viscofan fully implements a food traceability system under European Community Directive 178/2002 and its related legislation.

AUDIT AND CERTIFICATION

To ensure that our product safety and food hygiene systems comply with requirements, our production processes are audited internally on a regular basis. Furthermore, the production facilities are continuously audited by the health authorities, numerous customers and, when applicable, by the certifying bodies, as is the case with all of the European plants, which are successfully certified each year in accordance with the strictest market standards (British Retail Consortium Standards).

This certification, effective for years in manufacturing sites of Spain, Germany and Czech Republic, has been expanded to other non-European factories, such as those in Mexico, the United States, Uruguay, Brazil and China.

Moreover, Viscofan has internationally accepted certifications to enable meat processors to homologate its suppliers, and thus be approved for sale in main world distribution chains:

- **BRC - Global Standard for Food Safety:** Global food safety protocol aims to ensure that every supplier comply with requirements that guarantee the safety of their food**.**

- **BRC/IoP - Global Standard For Packaging and Packaging Materials.** This certification is addressed to manufacturers of packaging and materials in contact with food.

Certificates that evidence the Organisation's commitment to safety, health, quality at its workplaces and in its products and in all activities performed at a national and international level, showing the company's ongoing interest to offer and ensure compliance with the highest standards.

The certification, through the audit of an authorized external entity, guarantees that group production plants have necessary systems to identify and control the risks that can negatively affect food safety through a system of Hazards Analysis and Critical Control Point (HACCP).Furthermore, counting on the strong commitment of management team.

Key factors on which is based:

- Guarantee food safety. Efficient and dynamic risks control.
- Compliance with applicable legislation in production countries, requirements of destination countries and globally accepted international standards.
- Cost reduction of possible errors in any production chain.
- Organized and effective communication with all stakeholders (internal, suppliers, clients, authorities).

Furthermore, Viscofan Group has Halal and Kosher certification, so is able to supply these products in any market worldwide. These certifications for food products are key to break into different markets. Halal certification is specifically designed for commercialized products in Muslim countries and Islamic communities, while Kosher certification is a consumption requirement for food products in Jewish community.

Our commitment with food hygiene and quality is reflected in our mandatory procedures, which are applicable to our entire production process and involve a strict working procedure that is audited internally and externally.

CERTIFICATIONS	ISO 9001:2008	BRC FOOD	BRC PACKAGING
Spain	✔	✔	✔
Germany	✔	✔	
Serbia	✔		✔
Czech Republic	✔	✔	✔
USA	✔		✔
Mexico	✔		✔
Brazil Itu	✔	✔	✔
Brazil Ermelino	✔		(2018)
China	✔	(2017)	(2017)
Uruguay	✔	✔	
Belgium Vector	✔		✔
USA Vector			SQF M-2*
Nanopack	✔		✔

✔ Certified
() Expected date
* SQF Safe Quality Food system based on risk analysis

EMPLOYEES



GRI Indicators

TEAM AND COMMITMENT	102-7	102-8	102-35	102-41	102-43	404-1	405-1

GLOBAL COMPACT OBJECTIVES RELEVANCE
This section contains relevant information about the achievement of the following Sustainable Development Goals (SDGs):

Team and commitment

A MULTICULTURAL GROUP OF PEOPLE

The Viscofan Group's leading position is based on the unique value of its know-how and the commitment of everyone who works for it. At the end of December 2016, the Group employed a growing multicultural team of 4,541 qualified, competitive people receiving constant training who, despite cultural differences, all shared the same base values and ethical principles.

In 2016 the Group continued to increase the average number of staff it employed, chiefly as a consequence of expansion into new geographical areas and the recruitment of reinforcements to improve the levels of service provided to strengthen its leading global position.

Thus, net job creation was 130 persons up to an average number of employees of 4,363, a growth of 3.1% by comparison to 2015, due to increased employee recruitment in Spain, Mexico, China and Brazil, together with the acquisition of Nanopack in Spain and Vector in US and Belgium.

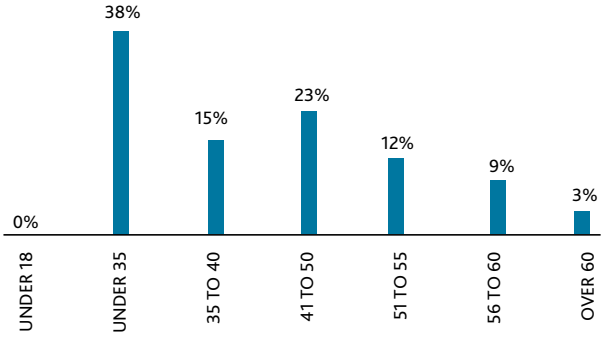
In 2016, 96.3% of Group employees had open-ended contracts vs. 95% in 2015.

The average age of the Group's employees approached 37, having declined over recent years. 38% were under 35, 15% of its personnel were aged from 35 to 40, 23% from 41 to 50, 12% from 51 to 55, 9% from 56 to 60 and 3% over 60.

Viscofan's Code of conduct strictly prohibits all forms of child labour and, consequently, the Group does not recruit anybody under the age of 18 and requires its suppliers to follow suit.

As Global Compact signants, Viscofan Group protects freedom of association of workers. In 2016 around 77% of Viscofan employees are under a collective agreement.

BREAKDOWN OF PERSONNEL BY AGE



AN EFFICIENT, COMPETITIVE TEAM

Employees are an essential part of MORE TO BE Strategic Plan and therefore, their know-how, commitment and always evolving work engaged in a continuous process of improvement constitutes a sound competitive advantage for the Group.

In 2016 the income per employee reduced by 4.3% as a result of the increase in the staff-base linked to the Group's expansion, in a year that was otherwise marked for its weakness in revenues. Nevertheless, this figure compares to 2015 where a maximum for the latest years was achieved.

The importance of this stakeholder is observed in the matrix of resources generated and resources distributed. The employees received expenses distributed worth €145.0MM.

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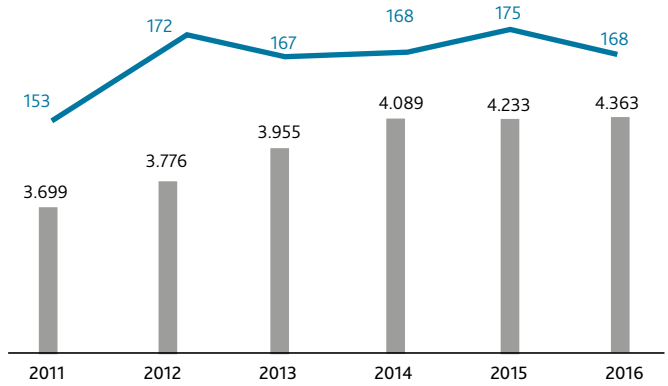
INTERNATIONAL MEMBERS OF A GLOBAL GROUP

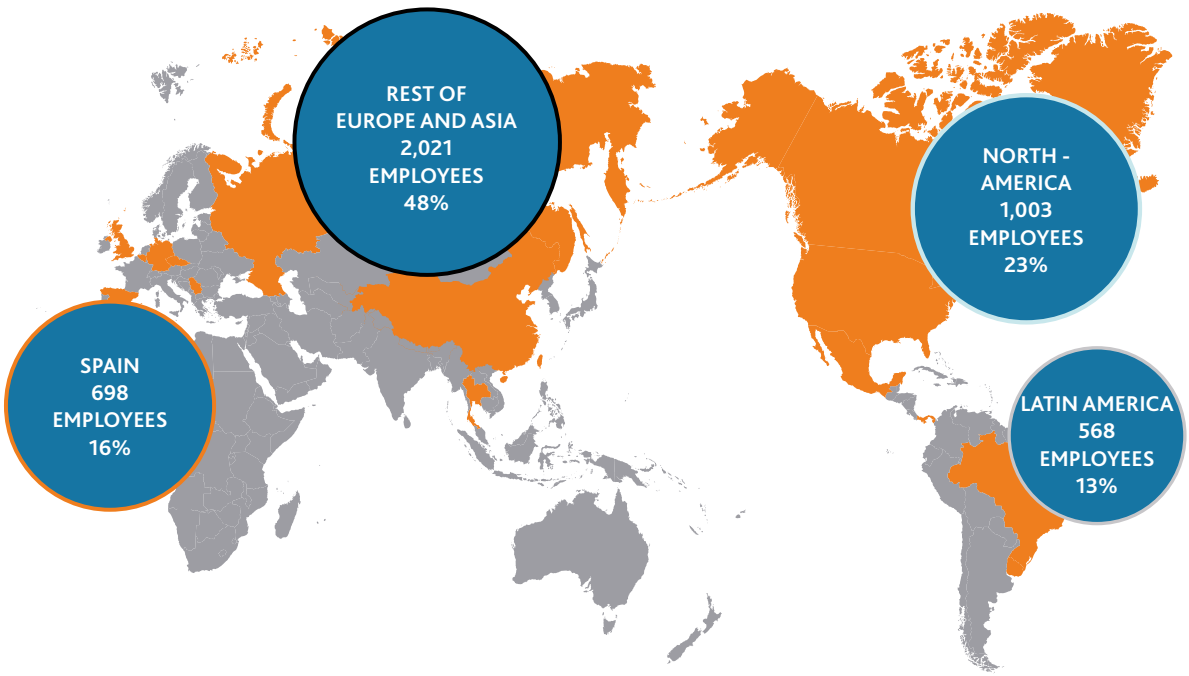
Viscofan consists of a group of people widely spread out in all the countries in which the company has a strategic presence: Spain, Germany, Brazil, Canada, China, Costa Rica, the United States, Mexico, the United Kingdom, the Czech Republic, Belgium, Russia, Serbia, Thailand and Uruguay, creating a complex multicultural environment. This represents both a challenge and an opportunity for international development for those working in the Group, which carries out a great many knowledge transfer projects between its different production facilities and holds specific global training seminars. The international nature of the Group is evidenced by the fact that people of 15 different nationalities currently work for it.

The geographical breakdown of the average workforce in 2016 was as follows:

AVERAGE WORKFORCE AND PRODUCTIVITY



AVERAGE NO. EMPLOYEES
INCOME PER EMPLOYEE (THOUSAND €)





International mobility is a constant in the Group, as demonstrated by the average of 35 people who took part in international projects as long-term expatriates; the wide variety of countries, both of origin and destination, involved is a consequence of the Group's internationalisation strategy and initiatives to boost international mobility and transfer its best practices to all its subsidiaries, through benchmarking.

Our position as a global company means that frequent and occasional travel volumes are particularly high, which is why one of Viscofan's objectives is to promote greater security during these journeys. For this purpose there are "Risk Reports" for countries where we are present, either with production centres or commercial subsidiaries. The reports highlight the key risks for the country in question, as well as recommendations (regarding crime, conflicts, etc.). Likewise, they include emergency contact telephone numbers and references to the closest medical centres to our facilities. Along these lines, during 2016 the Internal Risk Committee decided to incorporate a specific management indicator (KRI) for the risk map, with the aim of controlling and reducing - where necessary - the presence of employees in high-risk countries.

TALENT DEVELOPMENT AND A COMMITTED TEAM

The Viscofan Group, through the Human Resources departments in its different subsidiaries, encourages the development of people by means of different initiatives through which to manage knowledge and make the most of its employees' capacities in order to achieve the Group's objectives. Training is one of the Group's fundamental objectives as far as people management is concerned. Training is provided on a continuous basis to bolster personal and professional development. With this development objective in mind, the Human Resources teams managed more than 125,530 hours of training. The Group devoted close to €2MM to this human capital training drive, €0.55MM was specific training on safety and health, and €1.45MM to specific training to develop their skills and professional career.

The Group also works more with the chief universities in the countries in which it operates in order to attract and develop talent. The Group managed 43 work placement and intern processes, involving more than 32,000 hours of practical experience.

RECRUITMENT, PROMOTION AND SOCIAL NETWORKS

In a growing Group, Viscofan's staff selection and recruitment policy is key to holding onto its leading position. In this regard, the development and acknowledgement of those already working in the Viscofan Group is being encouraged by announcing vacancies open throughout the Group on its internal channels of information, such as the Group intranet.



(1) ACCESS JOBSITE

In 2016 the strategy to attract talent was strengthened through international selection, recruitment, internal mobility and expatriation management tools. This second year of operation of the "job site" (1) on the Group saw 2,057 CVs register, showing the interest which exists in forming part of the Viscofan Group. Around 9,785 candidate registrations were received, revealing the interest shown in joining the Viscofan Group. During 2016, internal offers were published using this site, offering current employees the chance to develop their own professional careers or to change their duties. Furthermore, over 21 external vacancies were offered, which included management positions to qualified technician positions, for vacancies in the Group.

Moreover and thanks to our strategy of improving talent attraction, we have updated the search and recruitment tool, associated to Viscofan website. In the following months we will add to this tool a new module of vacancies selection and management.

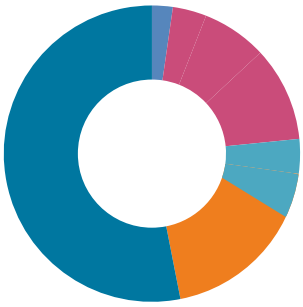
Furthermore, our impact in Linkedin has increased one more year and we already count with 3,690 followers. Besides, through our "LinkedIn Recruiter" tool we anticipate business needs, identifying and contacting the best talent worldwide, while covering future positions.

The industrial nature of the Group means that it requires both a lot of operators and a significant number of specialised employees. Working as it does in an increasingly demanding, global industry in terms of requirements which call for greater knowledge and specialisation, the Group hopes to meet the challenge posed by investing in people's know-how and the continuous training efforts aimed at those already on the payroll.

In this regard, the Group continues increasing trained personnel. This trend was consolidated with the number of employees in possession of a doctorate, which increased 50% on the previous year, with a total of 63 employees. There are 501 employees with a university degree. This feature of the team which makes up Viscofan clearly sets it apart from its competitors and is key to achieving excellence in production and maintaining the levels of innovation which the business requires.

The breakdown of employees by categories was as follows at the end of 2016:

BREAKDOWN OF EMPLOYEES BY CATEGORIES



2% DIRECTORS
21% TECHNICALS
8% ADMINISTRATIVES
14% SPECIALISTS
55% LABOURERS



DIRECTORS	62	10
TECHNICALS	723	227
ADMINISTRATIVES	145	225
SPECIALISTS	494	137
LABOURERS	1,795	723
	3,219	**1,322**

In addition to providing employees with more and better channels of information, the Human Resources department, as part of a dynamic global Group, has implemented and will continue to implement a range of measures and applications to enhance staff and talent management. The most important of these are:

- **People net 8**. In accordance with previous years, throughout 2016 staff management improvements were developed, through the implementation of global budgeting processes and by monitoring their evolution. On the other hand, a Talent Management system was equipped with an identification procedure for candidates with high potential, which in the future will be integrated into the global tool of people management.

- **Opinion Survey 2015.** Throughout 2016 the results and analyses of this second study of employees' opinions were incorporated into working team management meetings in countries such as the USA and Brazil. Likewise, in the case of Spain, open sessions were organised for all the staff in which the results were explained and disseminated.

CHANNELS OF COMMUNICATION WITH EMPLOYEES

Viscofan places a number of information resources at the disposal of its employees in order to keep them up to date with general Group news and information specific to certain areas:

1) **Employee channel**. It establishes direct communication with Viscofan employees, providing them with information of great utility, including career opportunities within the Group.

2) **Group news and announcement portal.** The Group uses this platform to publish its latest appointments, organisational changes, strategic projects, product launches, financial results, competitions, etc.

3) **"Vis a Vis", a magazine for Group employees.** Viscofan publishes an internal biannual magazine in the main languages spoken in the Group (Spanish, English, Chinese, Czech, Serbian, German and Portuguese). In the magazine, workers can find a range of contents, including a letter from the CEO explaining the progress made by the Group, interviews with employees, articles on meetings, employee seminars, reports on corporate teams, etc.

4) **Viscofan Opinion Survey**. A study on the work environment at Viscofan, in Spain and in the other Group subsidiaries. Via this study, the direct opinion of employees is obtained regarding different issues, from work organisation to the contents of the position and the company image.

5) **Meetings and presentations**. Throughout the year numerous departmental meetings take place, including corporate presentations by Management to the rest of the employees.

DEFENDING HUMAN RIGHTS

The Viscofan Group is committed to respect for and the defence of human rights as described in international standards such as the International Bill of Human Rights or the United Nations Global Compact, to which the Company subscribed in December 2015.

The Group's Code of Conduct states that, as part of their work, Viscofan employees must contribute towards respect for and the protection of human rights, and avoid any conduct which they detect within the scope of their work which contravenes them.

More particularly, Viscofan Group employees, in all their geographical and cultural plurality, must refrain from any type of conduct involving discrimination on grounds of race, sex, nationality, language, religion, ideology or any other individual, social or personal characteristic (disability, economic position, trade union membership, etc.) and promote work in decent conditions, avoiding all types of exploitation, with special protection to avoid child labour.

The Viscofan Group has defined basic common guidelines for human resources which include the institution of decent working conditions, equality in all areas and access to the job market for people with disabilities. In this regard, employee´s minimun remuneration in each geography is established in response to the wage reality and legal framework of each country where Viscofan operates.

Within the field of equality and the protection of workers' rights, 77% of the company's employees are covered by general collective employment conditions regulating their working lives which better the minimum requirements set in relevant labour legislation. During 2016 there have been relevant negotiations of collective agreements in US, Germany and Czech Republic.

EQUALITY AND LABOUR CONCILIATION POLICIES

We are currently undertaking the II Equality Plan 2016-2019. The aim, as with the I Plan, was to highlight the company's strong points, propose improvements and establish targets to be met in the issues of equality and labour conciliation.

Via the CGI (Company Gender Equality) procedure, the study has been focused on four major areas: leadership, policy and strategy; people; process management; and the relationship with the working environment, by which each has a specific action plan up to 2019.

The measures applied in 2016 included the carrying out of training sessions to increase the employability of women in production positions, which will entail the hiring throughout 2017 of some candidates for these positions. Likewise, candidates were hired for highly qualified positions, including doctorates in the R&D Department.



Some of the improvements in the issue of equality identified in 2016 were:

- An increase in hiring women for specially qualified positions (+8.7%), higher than the average staff increase (3.1%).
- Better access for men to conciliation policies (reduced working schedule to look after children, extended leave, unpaid leave to look after family members, etc.).

SAFETY IN THE WORKPLACE

The Group's corporate safety in the workplace policies are overseen by its EHS department in close collaboration with its corporate and local Human Resources departments, and measures are continually adopted and investments made in order to improve the working conditions of the group's employees. The Viscofan Group strives to define consistent, reliable indicators with which to measure and compare performance in the different countries in which it operates in order to spread best practices regarding health and safety to all its production plants.

Viscofan is convinced that all accidents are avoidable and so, in addition to working to make its facilities safer, the group also strives to make all its employees aware of the fact that their attitude to safety is fundamental. The Viscofan Group continues to work hard to standardise its procedures and communicate company policy in this field through specific courses and information made available to workers in their work areas.

In order to carry out these initiatives, the Board of Directors has passed a Group EHS policy containing the following guidelines related to the safety in the workplace:

- Provide all workers with a safe, healthy workplace.
- Identify and comply with applicable legislation and regulations regarding the Environment, Health and Safety (EHS) wherever the Group operates, as well as other commitments voluntarily undertaken by Viscofan in order to improve in these fields.
- Ensure that senior management, employees and all the personnel working for the organisation or on its behalf are aware of this policy and trained in accordance with their responsibilities in order to comply with it.
- Define indicators to measure the development of the Group's performance in these areas.
- Promote the creation of a continuous improvement culture for EHS, defining objectives and applying corporate standards.
- Develop partnerships with stakeholders to facilitate open, objective dialogue and help everyone assume joint responsibility in these areas.

The health and safety of those who work for the group is a priority for Viscofan and in 2016 it strengthened this commitment one more year by linking hours lost as a result of accident or sick leave in with the variable remuneration received by its senior management. It is worth noting that the percentage has decreased from 0.44% of 2015 to 0.34% in 2016, with a total average of 7,575 less hours lost with respect to previous year.

Training in the prevention of accidents and the importance of safe habits is one of the cornerstones on which the protection of the health of our workers is based. In 2016 more than 26,300 hours were devoted to safety and prevention training, an improvement of 8% with regards to 2015. This training covered everything from basic preventive measures to be taken in the workplace and the importance of heart-healthy habits as part of day-to-day life, through to the part played by middle management and enhancing its leading role in the field of safety. In this respect, during 2016 no deaths occurred as a result of accidents in the workplace.

TRAINING HOURS IN SAFETY

26,300 HOURS

990€ per employee

SOCIETY

GLOBAL COMPACT OBJECTIVES RELEVANCE
This section contains relevant information about the achievement of the following Sustainable Development Goals (SDGs):



GRI Indicators

R&D AND INNOVATION	102-13	102-21								
OUR RELATIONSHIP WITH THE COMMUNITY	102-12	102-13	201-1							
ENVIRONMENT	102-20	102-29	201-2	301-2	302-4	305-1	305-2	305-5	413-1	102-43

R&D and innovation

Viscofan's products look simple and are simple to use. This belies the sophisticated technology underlying the manufacturing process, which only a few companies worldwide have developed.

The small caliber sausage production industry requires products with extremely high quality features at competitive prices, in order to make the large scale production of sausages possible. Responding to this demand implicitly requires an enormous technological and developmental challenge that Viscofan successfully meets as the largest supplier of cellulose casings for hot-dog-style sausages and one of the main suppliers of edible collagen for a wide variety of regional specialties.

In the large caliber range, used in dry, boiled and delicatessen-style sausages, the company responds by developing customized solutions to meet demands from manufacturers around the world. An extensive variety of collagen films, reinforced fibrous casings and plastic structures make it possible to reach the demanding and diverse world market with its enormous variety of classic and innovative meat products: sliced, pre-smoked, boiled, cured, etc.

For this reason, Viscofan takes the view that its leading position in the highly competitive world market can only be sustained by cutting-edge efforts in R&D and innovation of its technology and products. Only through the application of this philosophy will Viscofan be able to continue advancing in its leadership of innovation in the global artificial casings market, creating value for all of its stakeholders.

Viscofan couples its growth as a business with the development of its innovation capability so that it can access the best technologies available in the market, implement them and improve on them, and develop its own technologies to create an enduring competitive edge.

The complexity of Viscofan's production process and the sophisticated technology underlying its products means that Research and Development units are structured into teams that specialise in each process and casing type. The average staff headcount is more than 100 people within the Group. The corporate research and development centre in Spain coordinates and supports the specific research and development activities conducted at each production plant, and coordinates the multidisciplinary teams which Exchange best practices, technological knowledge and ideas across product sites.

There is a technological spin-off from the centres with technology development units, both for products and processes, to the rest of the group's plants. The aim is to harmonise and standardise production standards at world level, based on the most advanced concepts and processes both in terms of manufacturing technologies and in the philosophies of control, quality and product characteristics that have made Viscofan what it is today.

At present there are several strategic product and technology development projects across the entire casings range in progress (cellulose, collagen, fibrous and plastic casings), as well as other diversification products aimed at developing applications that equip Viscofan with the product range required to reinforce its presence in the world market. On-going and completed research and development projects focus mainly on:

- Development of various products, new agreements with the target markets defined in the expansion plan, and new generation creations designed and aimed at offering customers products that stand out due to their performance and characteristics.

- Development of active and functional casings capable of transferring properties or functionalities to the meat product processed in them.

- The development of production alternatives through technological breakthroughs which allow an increase in added value or significantly reduce production costs for meat casings through modernisation, streamlining and simplification, improving Viscofan's competitiveness.

- Research into raw materials, focused on the development of technological processes that make it possible to expand the range of materials suitable for manufacturing casings.

- Technological support for improving existing products and processes, and the international expansion of the company;

all compliant with Viscofan technological and quality standards and current regulations, as well as for optimisation of production costs.

SUPPORT FROM INTERNATIONAL RESEARCH CENTRES

Viscofan regularly collaborates with research centers and universities of different countries. In Spain: the University of Navarra, the Public University of Navarra, the Multidisciplinary Centre of Technologies for the Industry (CEMITEC), the National Centre for Technology and Food Safety (CNTA), the Plastics Technology Centre AIMPLAS and the Food Technology Centre (AINIA).

In an international level, the following collaborations outstand: the University of South Carolina (USA), the Hochschule Manheim and the Fraunhofer Institute (Germany); and Soochow University (China).

These collaborations are mainly focused on the following issues: food safety, study and development of new materials, process and food engineering, advanced physical-chemical analysis, basic research on materials and alternative uses and new packaging systems.

Besides the aforementioned collaboration with research centers, Viscofan has significant support from local governments bodies of the countries in which the group makes developments on R&D, both the Center for Technical Industrial Development (CDTI) and the Spanish Ministry of Economy and Competitiveness (MINECO) in Spain, the Federal Ministry of Education Research in Germany and other entities in Brazil and Mexico.

Viscofan plays an active role in the customized casings industry and is therefore involved in several industry associations and groups that seek to cooperate towards enhancing the industry's contribution to the community. Among these associations are:

- **Comité Internationale de la Peliculle Cellulosique (CIPCEL)**. Based in Brussels, CIPCEL comprises the leading producers of regenerated cellulose film products.

- **Collagen Casing Trade Association (CCTA)**. Also based in Brussels, CCTAA comprises the leading producers of collagen casings.

- **Centro Español de Plásticos (CEP)**. This is the Spanish association of entities relating to the manufacture and processing of plastics.

- **Gelatin Manufacturers of Germany (GMG)**. An organisation of German gelatin producers.

- **AINIA.** Food technology centre based in Spain that provides support for the research and development carried out by its members, mainly in the areas of quality, food safety, sustainability, environment and design and industrial production.

- **ANICE.** The Spanish Meat Industry Association is the largest meat association in Spain and advises, represents and defends the interests of the meat industry.

- **The National Centre for Technology and Food Safety (CNTA),** whose aim is to provide advanced technological services to improve the competitiveness of the agro-food sector through quality and innovation, under the principle of food safety.

- **AIMPLAS.** The Plastics Technology Centre offers integral solutions to companies from the plastic sector by developing technical R&D&i projects.



Our relationship with the community

The Viscofan Group considers itself to be another driver within society, and therefore it has a corporate social responsibility (CRS) to create sustainable and balanced value for all the groups of people to which the Company is related.

Society is one of these interest groups, understood in both global and local terms, i.e. the communities where the company operates on a daily basis, which are the regions comprising the 15 countries where Viscofan is present, either with its commercial offices or production plants.

As a result of this commitment, in 2015 the Company joined the United Nations Global Compact to meet the sustainability targets to which all the companies undersigned in this agreement are committed. A drive to make the Company grow by aligning its strategies and operations around universal principles of human, labour, environmental and anti-corruption rights. Over 9,200 companies from 164 countries are undersigned to this Compact, which seeks to transform the companies into more sustainable, advanced and better prepared organisations to generate a positive impact on society.

The CRS has thus become the attitude adopted by the Company when interacting with people. As a result of dialogue with these interest groups, the Company now understands their value expectations and orientates its activity towards achieving these goals ethically and sustainably. This way Viscofan can contribute its resources and know-how to support social initiatives that contribute to the improvement of the environments in which it operates, in particular in four key spheres: health and food; the development of knowledge and R&D; community development and environmental protection. These areas of responsible action in which Viscofan wishes to keep growing are aligned with the universal principles of the United Nations Compact, and encompass one or various of the 17 sustainable development targets to attain a more socially committed company.

Throughout 2016 the Company supported tens of projects, both in Spain and in the other countries where it operates. In Spain alone, Viscofan collaborated with over 30 organisms (foundations, associations, NGOs, universities, etc.). Below are some of its most outstanding initiatives:

HEALTH AND FOOD PROJECTS



Nutrition Research Centre of the University of Navarra Viscofan collaborates with this centre of research to investigate in cutting-edge fields within the area of nutrition, like the new nutritional applications for collagen.

The Mexican Association for Helping Children with Cancer (AMANC). This is the second year that Viscofan supports with a financial aid of 10,000$ the Association's work, specifically in the state of San Luis Potosí, where Viscofan has a factory. The donation helps support the treatment of children suffering from the illness, facilitate the accommodation of the children and their families, and provide psycho-social support to the patients and their families.

Spanish Red Cross. Viscofan is a collaborating partner of the Red Cross, with the aim of supporting all the social action undertaken by this entity in Spain.



KNOWLEDGE AND R&D PROJECTS



Collaboration with universities. In the area of promoting education and culture, Viscofan Works with the two local universities – University of Navarra and the Public University of Navarra working to facilitate the incorporation of graduates in companies, either through study grants, internships, or through talks and participation in employment forums.

Cetena Foundation. Viscofan is part of the Cetena Foundation directed at promoting and developing activities focussed on scientific research, technological development and the promotion of innovation, in order to improve business competitiveness.

Entrepreneurial Drive Action. Viscofan has supported the fourth edition of this programme promoted by the Government of Navarre, for which it has sponsored a waste management project, offering economic sponsorship and mentoring work.

COMMUNITY DEVELOPMENT PROJECTS



ASPACE. For yet another year running, Viscofan has collaborated with this non-profit making entity dedicated to improving the quality of life of people with cerebral palsy, through its work to promote their rights and dignity.

Prado Museum Foundation. In its efforts to promote art and culture in Navarre, Viscofan offers its support to a series of conferences about pictorial art of the Prado Museum, which around 1,700 people attended.

Restoration of the Library of the Leyre Monastery (Navarra, Spain. Viscofan has collaborated one more year in the restoration of 15 ancient books of the abbey, dating from the XVI and XVII centuries.

ENVIRONMENTAL PROTECTION PROJECT



Sueskola Foundation. This is an entity that aims to promote environmental improvements by fighting against fires, through awareness campaigns, and in particular, via training actions in fire prevention and extinguishing.

VISCOFAN VALUES

The Viscofan Group corporate culture is deeply rooted within a series of values that act as a guideline, and are written in the internal "Code of Conduct". These values are:

- Respecting fundamental human rights, just as stipulated in the United Nations World Pact to which Viscofan is affiliated.
- Service, which is reflected in the constant attitude to drive added value to our clients and moreover, to the entire society.
- Quality, which is the permanent direction towards excellence in the work done, whatever it may be, which results in a demanding and engaged work style committed to driving the company forward.
- Entrepreneurship, understood to mean the attitude of pushing forward growth, facing changes with enthusiasm and remaining open to innovation.
- Focus on results, which leads the company to working with a view to completing specific targets in all the projects embarked upon.

Bioengineering

The BioEngineering unit within Viscofan is the result of the company's vast knowledge around collagen and its processing. The underlying conviction is that the company is responsible for applying its knowledge to improve the well-being and health of the community.

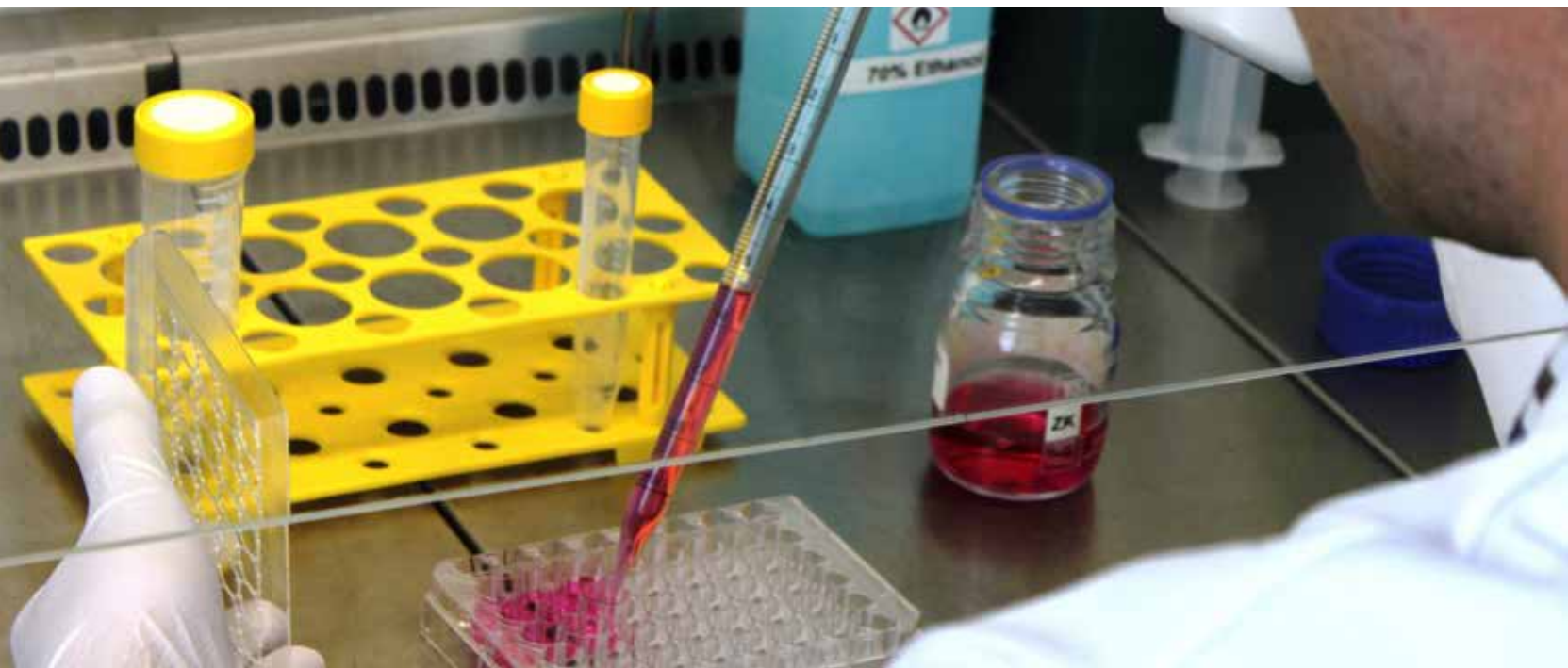
Collagen is the most prevalent protein in humans and mammals and forms the essential structural element of most of their tissues. That makes collagen an ideal substrate for regenerative therapies. Viscofan BioEngineering has developed a range of collagen-based products for biomedical applications including a collagen membrane (CCC) for tissue engineering and a collagen suspension (Viscolma®) for coating of medical devices.

An example of use of the solutions developed with Viscofan's collagen materials is the product VB-C01, which combines our collagen membrane CCC with Stem Cells isolated from adipose tissue for the treatment of patients with heart failure. After implantation onto the damaged cardiac tissue VB-C01 has shown significant improvement of heart function in relevant preclinical rat and swine models.

These advances have led the Viscofan Group to invest in the installation of a clean room in Weinheim (Germany) that will be operative in 2017. This annex to the collagen production centre is especially constructed to fulfill the requirements to produce collagen products for medical use. It has the latest state-of-the-art technologies for collagen processing and will run under a certified ISO 13485 quality management system, which is required for medical products.

This investment opens the possibility to advance with our implant VB-C01 to tests in cardiac patients. A first-in-human clinical trial will be carried out in the framework of the recently approved project "Cardiomesh". The project is funded by the Spanish Ministry of Economy and Competitivity and will be accomplished in collaboration with the University of Navarra Clinic, the Hospital Gregorio Marañón in Madrid and the Center for Minimally Invasive Surgery Jesús Usón in Cáceres.

With its experience in collagen processing, Viscofan BioEngineering can meet with its know-how the needs of many companies requiring biological materials for medical applications. The team in the BioEngineering unit is committed to finding solutions for our customers and developing further medical applications with collagen materials out of the main casing business.



Environment

Viscofan has a strong global presence, operating in a world with an ever-increasing growth in population and consumption and subsequent rise in the use of natural resources. At the same time, there is a growing social awareness with regard to the need for the effective use of resources, for a sustainable future in which economic growth goes hand in hand with environmental and social needs. Viscofan acknowledges this situation and is responsibly committed to the protection and conservation of the environment.

This particular company commitment is based on human rights and on the following corporate principles:

- Maintain a preventive focus that favours the Environment (identification of environmental aspects)
- Promote initiatives that encourage greater environmental awareness (mainly through training)
- Encourage the development and dissemination of Environmentally-Friendly technologies (evaporators, catalytic gas cleaning, etc.)

This commitment is stated in the corporate policy of EHS which defines the organisation's values and establishes the following priorities with regard to the environment:

- To identify and comply with all applicable Environment, Health and Safety (EHS) legislation and regulations in those places in which the group operates, and also with other voluntary commitments adopted by Viscofan and directed at improving EHS..
- To seek continuous improvement in all its operating areas and, in particular, those relating to the environment and to the health and safety of its employees.
- To responsibly use raw materials, energy and water.
- To ensure that management and employees alike, and any personnel working for or on behalf of the organisation, are aware of this policy and are trained, to comply with this policy to the extent of their responsibilities.
- To establish indicators that make it possible for us to assess the progress of our performance in these areas.
- To promote the creation of a continuous improvement culture with regard to EHS, defining goals and implementing corporate standards.
- To develop a cooperative relationship with stakeholders, in order to facilitate an open and unbiased dialogue, helping to assume the joint responsibility of each and everyone of us with regard to EHS.

To ensure the principles included in the policy are applied, the Viscofan Group has created the EHS Management Directives, which establish the common grounds for implementing health and occupational safety and environmental management systems. A total of 15 directives specify requirements for 15 areas such as managing regulation compliance, identifying and assessing risks and environmental issues, or preparing emergency procedures, among others. At the end of 2016, practically 100% of the EHS Management guidelines were implemented across all of the Group's productive plants, except for the new acquisitions (Vector) with which the process was initiated in 2017.

Moreover, we are convinced of the effectiveness of dialogue with our different interest groups in understanding their concerns and various suggestions for improvements in this issue.

The Company wishes to promote a production model that backs long-term sustainability in the use of resources and that contributes to preventing climate change.

The importance that Viscofan gives the sphere of the EHS is reflected in the inclusion of the ISO 14001 and OHSAS 18001 certifications across all of the productive plants as one of the targets to meet in the "MORE TO BE" period. Viscofan SA, the Group matrix, is a spearhead with its certification under ISO 14001 obtained at the end 2016. This certification joins those already achieved in previous tax years in energy efficiency management (ISO 50001), Occupational Health and Safety (18001), Quality (ISO 9001) and Food Hygiene (BRC). With this successful experience, the Group hopes that at least 50% of its plants will obtain the ISO 14001 and OHSAS 18001 certifications by the end of 2017.

These objectives reflect the Company's performance in Environmental Protection, Employee Health and Safety Protection, and the level of fire protection in the Company facilities, which requires a new drive towards sustainability.

Likewise, Viscofan has been part of the United Nations Global Compact since 2015, clearly aligned with its desire to grow in sustainability, as well as in terms of ODS related to the environment (climate change, preservation of marine resources, protection of ecosystems, sustainable water management). Throughout 2016, Viscofan underwent its diagnostic phase and identified its main improvement challenges within the Compact targets. Information that was reported in the first Progress Report of the Viscofan Group.

LINES OF ENVIRONMENTAL ACTION

The Viscofan Group works along two key lines that group together and guide the Company's projects in environmental issues:

- The sustainable use of resources
- Contributing to preventing climate change

THE SUSTAINABLE USE OF RESOURCES

As long as the Viscofan Group is able to use available resources more efficiently, whether raw materials, energy or water resources, the Company will get closer to its sustainability target.

The fact that Viscofan has production plants in 10 different countries - each with their own specific legislation in environmental issues - establishes the challenge of defining homogeneous information criteria. Throughout 2016 a huge effort was made to incorporate new resources and tools, which have given the first results of the project to unify report criteria across all of the Group's plants, and have established new environmental management indicators for the "MORE TO BE" 2016-2020 strategic period, which on many occasions are even more demanding than the environmental regulations in each country. These indicators include water management, they examine the raw materials-production process-waste management cycle, and establish direct and indirect CO2 emission measurements.

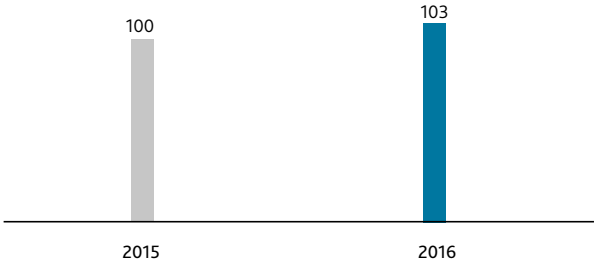
The indicators that are displayed in this report take 2015 tax year as the base 100. Due to the non-homogeneity of the indicators of the preceding strategic plan, and with the aim of offering historical information about the Group's environmental management, in this report the evolution of the indicators established for the preceding strategic plan (Be MORE) are also displayed, which included the years from 2012 to 2015.

WATER MANAGEMENT

We work in an environment with an increasing demand for industrial water, which is why its optimised usage is one of the cornerstones supporting Viscofan's environmental policy. We have identified the key management indicators with a double objective: the optimisation of water in all possible Company subsidiaries, and on the other hand the improvement of the water treatment process with the aim of reducing its contaminating impact.

During 2014 we began working on establishing indicators for the consumption and use of water, which in 2015 allowed us to follow-up the evolution of consumption of the different plants and to set up an internal benchmarking system to transfer best practices between the centres, the same way as with production technology.

WATER CONSUMPTION IN LITERS/METERS PRODUCED



BASE 100 YEAR 2015

In 2016, continuing with the water management improvement processes, knowledge has advanced, as well as the optimisation of supply sources in the different Group companies, though no significant reductions have yet been reported in the ratios of water consumption per meter produced in the extrusion plants, which are those that employ water most intensively. The inefficiencies emerging from the process of setting up new installations, such as the capacity expansion carried out in Uruguay and the inclusion in the indicator of all the productive processes, make the water consumption per meter extruded higher in 2016 compared to the previous year.

This same objective has led to the initiation of projects to reuse water in Serbia, Uruguay and China, which hopefully will enable us to achieve additional improvements.

The intensity ratio of water consumption (m^3/million metres produced) in 2015 shall be used as the base 100 to measure the evolution of our water consumption intensity over the coming years and to establish improvement targets.

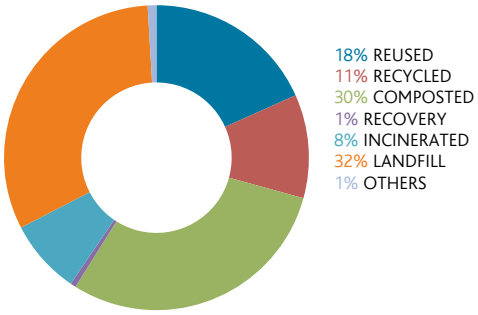
On the other hand, Viscofan understands that appropriate management of water also includes the correct treatment of waste waters and the minimisation of the impact of its activities on the environment. In 2016 an investment was made to improve the water treatment plant in Uruguay with the implementation of an "membrane ultra-filtration" system, with the aim of increasing the capacity and performance of the plant. This technology will be implemented in 2017 in the water treatment plant in our extrusion plant in China to increase its treatment capacity.

Raw materials and waste

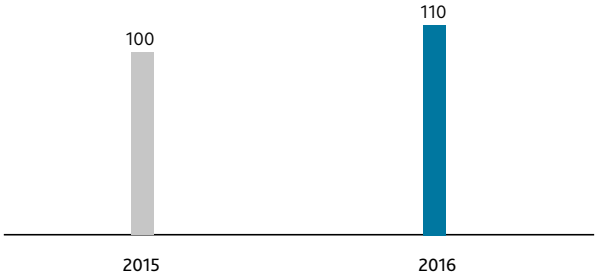
Another cornerstone of the EHS policy is to reduce waste and improve recovery rates, giving priority to management systems that employ less waste processes. In this respect, the efficient use of raw materials is key and has a doubly beneficial outcome, both for Viscofan and the environment.

The reduction of waste generation and the optimisation of its management, giving priority to recovery or recycling as opposed to other systems such as destruction or disposal, should, over the coming years, become one of the cornerstones of EHS management. Under the new report criteria, in 2016 the percentage of recovered waste following the consolidation of all the Group's information was 60.4%.

WASTE AND SUBPRODUCTS MANAGEMENT



WASTE AND SUBPRODUCTS EVOLUTION



BASE 100 YEAR 2015

This percentage is the result of multiple initiatives across all the Group's plants, such as the example of the plant in the Czech Republic, which, by separating each waste type at the source and by seeking out recycling solutions, was able to increase the percentage of recycled waste from 8% in 2012 to almost 75% in 2016, including recycled and reused waste, or the plant in Germany with almost 90% of its waste destined for compost. We continue to strive to improve waste management to increase its recovery. The transfer of knowledge from some centres to others, and research into new uses or new processes for waste treatment are lines that we kept open in 2016 and that we will continue to work on in 2017.

USE OF ENERGY. CONTRIBUTE TO PREVENTING CLIMATE CHANGE

The Viscofan Group's focus on sustainability is geared towards an efficient use of energy with a low environmental impact. We wish to promote the rational and efficient use of energy across the entire Viscofan value chain, from our factories to our suppliers. Our strategy for achieving this is to simultaneously reduce greenhouse gas emissions and limit the adverse effects of these gases on our environment.

CO_2 EMISSIONS DIRECT AND INDIRECT (TN/KM PRODUCED)



BASE 100 YEAR 2015

World awareness of the need to achieve a sustainable energy model able to reduce CO2 emissions based on saving, efficiency and renewable energies continues to grow.

We understand that efficient energy use is key to achieving the target of contributing to prevent climate change. Effective use of heat, even in our production process effluents, or substituting equipment with high energy requirements for more efficient ones, form part of the Viscofan strategy, focused on reducing global CO2 emissions. Reducing our energy requirements and getting the very maximum use out of the various forms that are used in our processes.

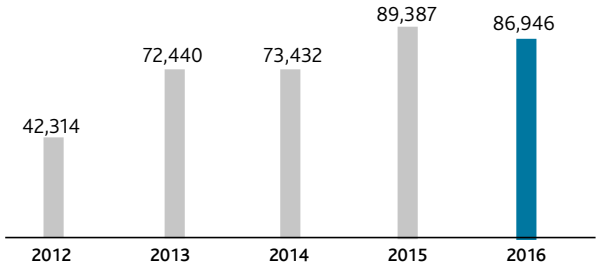
Viscofan continuously invests in the use of new, more efficient technologies in different areas of its processes, such as the new evaporation system in Brazil. This new system, which allows for reductions of over 50% in the energy needed to evaporate each Kg of water in comparison with the previous system, is the Group's new evaporation benchmark. The installation of a new evaporator with this technology in our Cáseda plant has been envisaged for 2017.

In this casing production process, an efficient use of energy is the key to a competitive advantage. In this respect, the Viscofan Group has co-generation plants in Caseda (Spain), with an installed capacity of 48MW, another in Zacapu (Mexico), and another installed in 2014 in Weinheim (Germany), which has allowed for greater energy and production savings. In 2017 the existing co-generation equipment is set to be renewed in our plant in Mexico, with the aim of obtaining better efficiency.

This transformation was an important milestone in Viscofan energy efficiency, allowing the Group to produce more than half its energy from certified management systems in compliance with ISO 50.001 regulations governing energy efficiency. This energy efficiency Management system enables us to prepare for compliance with the new RD 56/2016 governing energy efficiency, referring to energy Audits transposing the 2012/27/EU directive. Going further than meeting regulations, the management improvement allowed for a 40% increase in the percentage of thermal energy provided by co-generation in our Cáseda plant between 2012 and 2016.



CO_2 TONS THAT HAVE BEEN SAVED DUE TO ENERGY OPTIMIZATION



The use of co-generation as an energy and heat generation source implies an emission reduction in comparison with other systems such as conventional steam generation. In the case of Caseda, a CO2 emissions saving of over 30% has been achieved. In 2016 over 40% of the electrical energy consumed by the Group's plants was produced in their own co-generation plants. In 2017 this % will increase with the expansion performed on the Zacapu plant in Mexico.

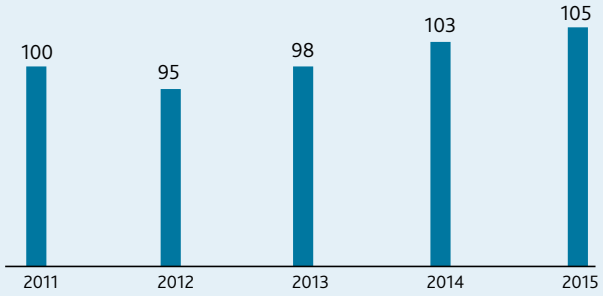
ECONOMIC RESOURCES DESIGNATED TO EHS PROJECTS

This growing commitment with sustainability is also evident in the financial aspect, as the environment, health and safety projects that in 2014 involved an investment of €4.9B, reached €5.17B in 2015, representing 9% of total investments, among which the following are outstanding given the amounts designated to them: optimising steam and energy generation facilities, waste water treatment and improvements to fire protection facilities, ergonomic improvements, restructuring water consumption, new facilities for treating waste water, equity security, etc.

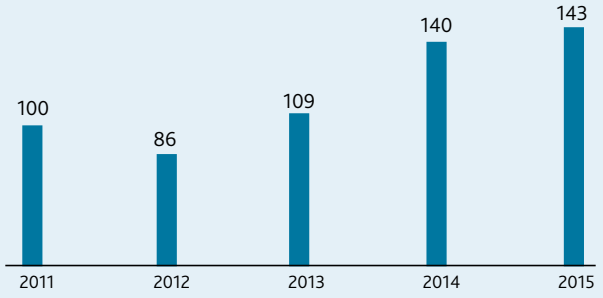
ENVIRONMENTAL OBJECTIVES FOR THE STRATEGIC PERIOD 'BE MORE 2012-2015'

The following figures show the principal indicators in the environmental realm of the strategic period 'Be MORE 2012-2015'

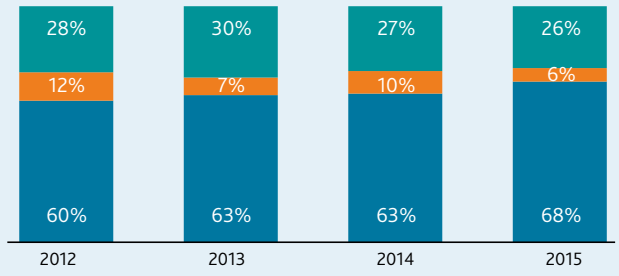
CO_2 EVOLUTION. TON/KM PRODUCED. BASE 100



WASTE AND SUBPRODUCTS EVOLUTION



WASTE AND SUBPRODUCTS MANAGEMENT



Sites

REGISTERED OFFICE

VISCOFAN S.A.
Polígono Industrial Berroa
C/ Berroa nº 15 - 4ª planta
31192 Tajonar
Navarra - Spain
Phone: +34 948 198 444
e-mail: info@viscofan.com
www.viscofan.com

SALES OFFICES

Spain
VISCOFAN S,A,
Polígono Industrial Berroa
C/ Berroa nº 15 - 4ª planta
31192 Tajonar
Spain

NANOPACK TECHNOLOGY & PACKAGING, S.L.
Polígono Industrial Berroa
C/ Berroa. 15. 4ª planta
31192-Tajonar
Spain

Germany
NATURIN VISCOFAN GmbH.
Badeniastrasse 13
D- 69469 Weinheim
Germany

Belgium
VECTOR EUROPE NV
Ekkelgaarden 2.
3500 Hasselt
Belgium

Brazil
VISCOFAN DO Brazil.
Society COMERCIAL
E INDUSTRIAL Ltda,
Avda, Roque Petroni Jr. 999-1º
Andar Cjtos 11 e 12
CEP 04707-000 SAO PAULO SP
Brazil

Canada
VISCOFAN CANADA Inc.
290 Benjamin Hudon
Ville St, Laurent
H4N 1J4 Montreal - Quebec
Canada

Costa Rica
VISCOFAN DE
CENTROAMÉRICA
COMERCIAL. S,A,
700 mts Oeste y 200 mts
Norte de Jardines del Recuerdo,
Lagunilla. Heredia, 1000 San José
Costa Rica

China
VISCOFAN TECHNOLOGY
SUZHOU
CO, LTD, (VISCOFAN CHINA)
Zhao Feng World Trade Building.
20th Floor. Unit G, Jiangsu Road.
369, 200,050 Channing District
Shanghai
China

USA
VISCOFAN USA Inc.
50 County Court
Montgomery. AL 36105
USA

VECTOR USA INC
2021 Midwest Road
Suite 307
Oak Brook. Illinois 60523
USA

Mexico
VISCOFAN DE MÉXICO
S, DE RL, DE CV
Av, del Siglo nº 150
Parque Industrial Millennium
Zona Industrial del Potosí
E-78395 San Luis Potosí SLP
Mexico

United Kingdom
VISCOFAN UK Ltd,
Unit 5 Plant Industrial State
Maidstone Road Platt
Sevenoaks-Kent TN15 8jl
United Kingdom

Czech Republic
VISCOFAN CZ s,r,o,/
GAMEX CB s,r,o,
Prumyslova 377/2
370 01 Ceske Budejovice
Czech Republic

Russia
VISCOFAN MOSCOW
Krasnopresnenskaya Nab. 12
Mezhdunarodnaja. 2
Suite 717 123610, Moscú
Russia

Serbia
KOTEKS VISCOFAN DOO
Primorska 92 - 21 000 Novi Sad
Serbia

Thailand
VISCOFAN THAILAND
59/377 Ramkhamhaeng
Soi 140. Sukhapiban 3 Road
Sapansoong District
Bangkok 10240
Thailand

PRODUCTION SITES

Spain
VISCOFAN S,A,
Ctra, Aibar a Cáseda Km 5
31490 Cáseda (Navarra)
Spain

VISCOFAN S,A,
C/ Bentalde 4
31810 Urdiain (Navarra)
Spain

NANOPACK TECHNOLOGY & PACKAGING, S.L.
c/ Gironés. 3- Pol, Mas Aliu
17181 - Aiguaviva - Girona
Spain

NANOPACK TECHNOLOGY & PACKAGING, S.L.
Ctra, Aibar a Caseda km 5
Cáseda (Navarra)
Spain

Germany
NATURIN VISCOFAN GmbH.
Badeniastrasse 13
D- 69469 Weinheim
Germany

Belgium
VECTOR PACKAGING EUROPA NV
Ekkelgaarden 2.
3500 Hasselt
Belgium

Brazil
VISCOFAN DO Brazil
Society COMERCIAL E
INDUSTRIAL Ltda,
Estaçao Comendador Ermelino
Matarazzo s/n
CEP 03806-000 Sao Paulo SP
Brazil

VISCOFAN DO Brazil
Society COMERCIAL
E INDUSTRIAL Ltda,
Rod. Waldomiro C Camargo
Km 52.8
CEP 133000-000
ITU Sao Paulo SP
Brazil

Uruguay
VISCOFAN URUGUAY SA
Ruta 8 Km, 29500
Cno, Sastre S/N
91001 - Pando - Canelones
Uruguay

China
VISCOFAN TECHNOLOGY
SUZHOU CO, LTD,
8 Shuilang Steet. Weiting
District Suzhou Industrial Park
215,122 Jiangsu
China

VISCOFAN TECHNOLOGY
SUZHOU CO, LTD,
159 Wangjiang Road. Weiting
District - Suzhou Industrial Park
215,121 - Jiangsu
China

USA
VISCOFAN USA Inc.
50 County Court
Montgomery. AL 36105
USA

VISCOFAN USA Inc.
915 North Michigan Avenue
Danville. IL 61832 3532
USA

VECTOR USA Inc.
102 East Bailie Street
Kentland. Indiana 47951
USA

Mexico
VISCOFAN DE MÉXICO
S. DE RL. DE CV
Av, del Siglo nº 150
Parque Industrial Millennium
Zona Industrial del Potosí
E-78395 San Luis Potosí SLP
Mexico

VISCOFAN DE MÉXICO
S, DE RL, DE CV
Carretera Kilómetro 3.5
Zacapu Panindicuaro
Zacapu Michoacan 58600
México

Czech Republic
VISCOFAN CZ s,r,o,/
GAMEX CB s,r,o,
Prumyslova 377/2
37021 Ceske Budejovice
Czech Republic

Serbia
KOTEKS VISCOFAN DOO,
Primorska 92
21 000 Novi Sad
Serbia

Uruguay
VISCOFAN URUGUAY SA
Ruta 8 Km, 29500
Cno, Sastre S/N
91001 - Pando - Canelones
Uruguay

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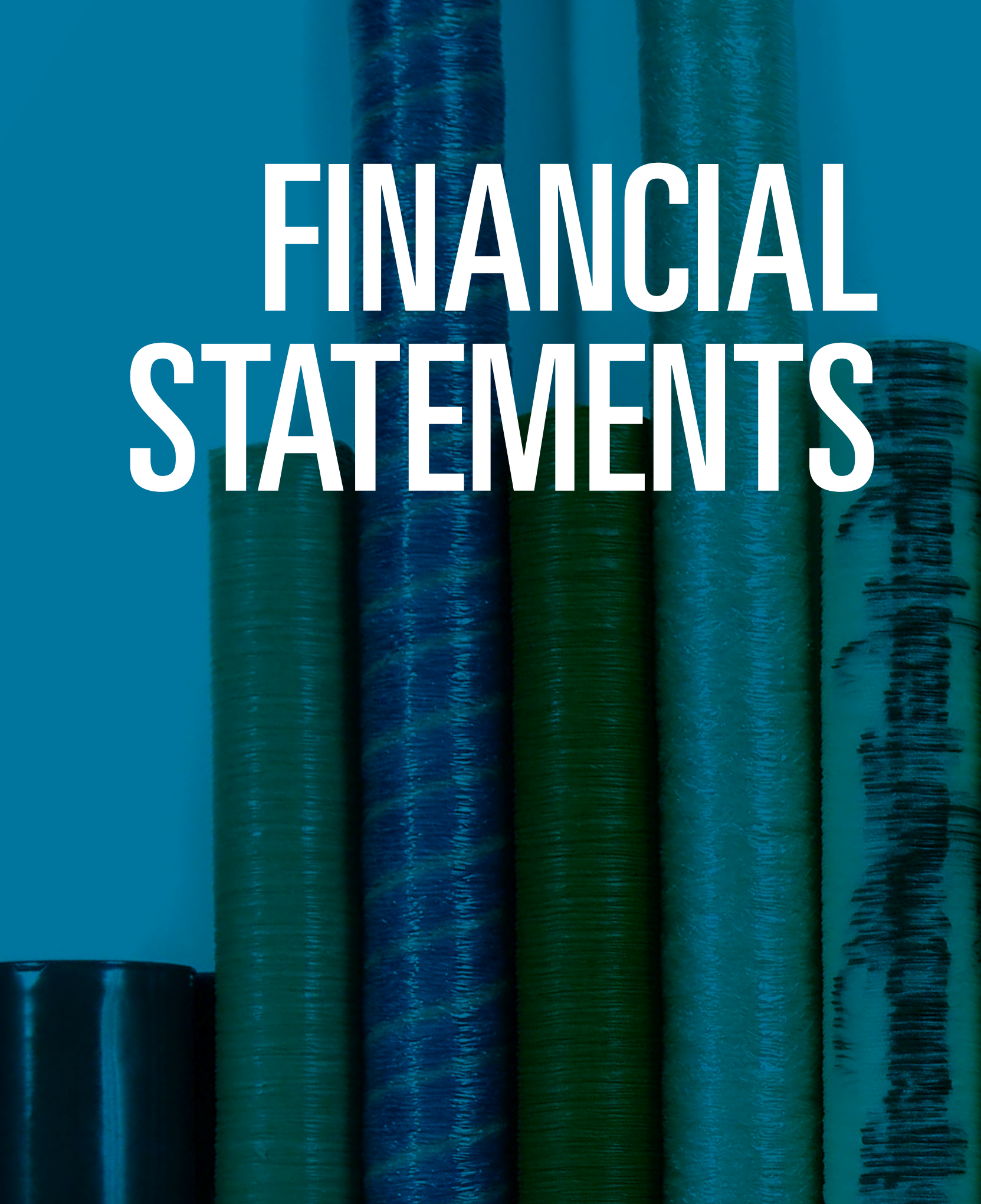
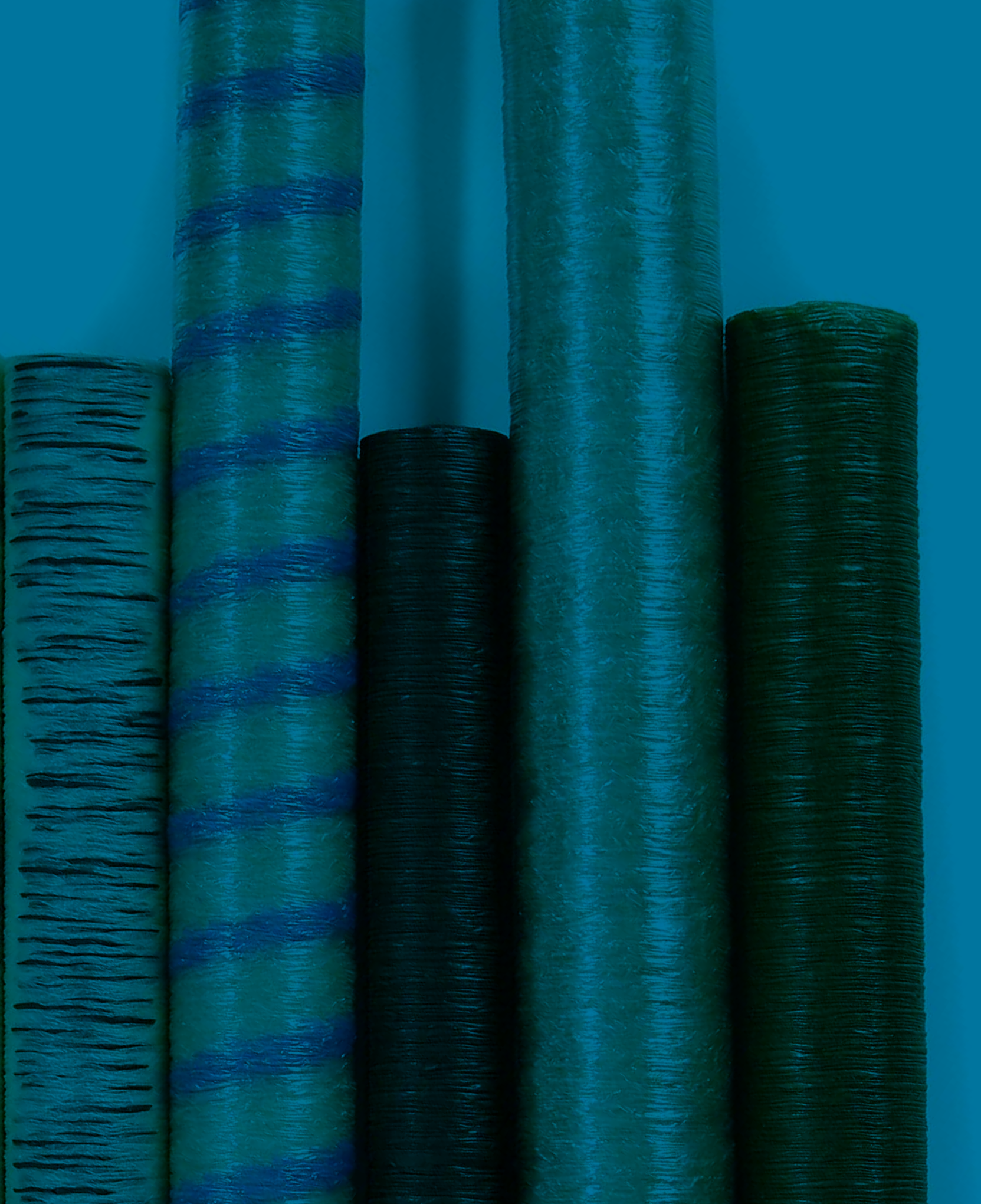


FINANCIAL STATEMENTS



Independent Audit Report

VISCOFAN, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2016

Ernst & Young, S.L.
Avda. Pío XII, 22
31008 Pamplona

Tel.: 948 175 510
Fax: 948 178 085
ey.com

Building a better working world

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of VISCOFAN, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of VISCOFAN, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated statements of financial position at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of VISCOFAN, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of VISCOFAN, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of VISCOFAN, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

(Signed on the original)

Alberto Peña Martínez

February 28, 2017

A member firm of Ernst & Young Global Limited



VISCOFAN, S.A. AND SUBSIDIAIRES

Consolidated Financial Statements and Consolidated Management report for the year ended

December 31, 2016

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails)

VISCOFAN, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements at December 31, 2016

Consolidated statements of financial position
(Thousands of euros)

Assets	Note	2016	2015
Property, plant and equipment	7	431,910	382,025
Intangible assets	8	16,425	18,334
Deferred tax assets	19	16,329	14,518
Other non-current financial assets	11	12,793	1,311
Total non-current assets		**477,457**	**416,188**
Inventories	9	229,578	208,637
Trade and other receivables	10.1	147,641	130,937
Receivable from public administrations	10.2	23,781	24,126
income tax receivable	19	3,449	4,233
Prepayments		2,574	2,133
Current financial assets	11	1,460	1,214
Cash and cash equivalents	12	45,054	44,453
Total current assets		**453,537**	**415,733**
Total assets		**930,994**	**831,921**

Consolidated statements of financial position
(Thousands of euros)

Equity and liabilities	Note	2016	2015
Share capital	13.1	32,623	32,623
Share premium	13.2	12	12
Other reserves	13.3	592,173	536,278
Profit for the year		125,084	120,022
Interim dividend	13.6	(26,564)	(24,234)
Translation differences		(17,704)	(28,931)
Hedge transaction reserves	13.4	2,240	(2,861)
Equity attributable to equity holders of the parent		**707,864**	**632,909**
Non-controlling interests		**217**	**290**
Total equity		**708,081**	**633,199**
Grants	14	3,001	3,578
Provisions	15	23,317	20,718
Non-current financial liabilities	17	54,867	37,616
Deferred tax liabilities	19	22,811	20,627
Total non-current liabilities		**103,996**	**82,539**
Current financial liabilities	17	30,119	29,837
Trade and other payables	16.1	65,440	62,777
Payable to public administrations	16.2	10,156	10,401
Income tax payable	19	6,524	8,071
Provisions	15	6,678	5,097
Total current liabilities		**118,917**	**116,183**
Total equity and liabilities		**930,994**	**831,921**

VISCOFAN, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements at December 31, 2016

Consolidated income statement
(Thousands of euros)

	Note	2016	2015
Sales and services rendered	20.1	730,833	740,770
Other income	20.2	13,781	7,551
Changes in inventories of finished goods and work in progress		2,387	23,531
Consumption of raw materials and other consumables		(205,307)	(226,980)
Employee benefits expense	20.3	(168,576)	(158,545)
Other operating expenses	20.4	(173,412)	(172,362)
Property, plant and equipment depreciation	7	(46,417)	(49,104)
Intangible assets amortization	8	(3,282)	(3,945)
Impairment and gains (losses) on disposal of non-current assets		(116)	(122)
Negative differences from business combinations	5	4,475	-
Operating profit		**154,366**	**160,794**
Finance income	20.5	431	694
Finance costs	20.5	(1,819)	(3,373)
Losses on non-trade receivables	20.5	(721)	-
Exchange differences	20.5	2,998	(6,608)
Profit before tax		**155,255**	**151,507**
Income tax expense	19	(30,244)	(31,883)
Net result for the year from continued operations		**125,011**	**119,624**
Net result for the year from discontinued operations	**5**	**-**	**411**
Profit for the year		**125,011**	**120,035**
Result attributable to equity holders of the parent		125,084	120,022
Retulst attributable to non-controling interests		(73)	13
Earnings per share, basic and diluted, from profit for the year attributable to equity holders of the parent (in euros)	21	2.6840	2.5754
Earnings per share, basic and diluted, from continuing operations attributable to equity holders of the parent (in euros)	21	2.6840	2.5666

Consolidated statements of other comprehensive income
(Thousands of euros)

	Note	2016	2015
Result attributable to equity holders of the parent		**125,084**	**120,022**
Exchange differences on translation of foreign operations		11,227	(8,313)
Net movement on cash flow hedges		7,164	2,493
Income tax effect		(2,063)	(441)
Net other compehensive income to be reclasified to profit or loss in subsequent periods		**16,328**	**(6,261)**
Re-measurement gains (losses) on defined plans			
Germany		(2,376)	1,527
United States		(125)	(92)
Others		11	(42)
Income tax effect		812	(382)
Net other compehensive income not to be reclasified to profit or loss in subsequent periods	**15.1**	**(1,678)**	**1,011**
Other comprehensive income for the year, net of tax		**14,650**	**(5,250)**
Total comprehensive income for the year, net of tax attibutable to equity holders of the parent		**139,734**	**114,772**

VISCOFAN, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements at December 31, 2016

Consolidated statement of changes in equity
(Thousands of euros)

	Equity attributed to the parent								
	Share capital (Note 13.1)	Share premium (Note 13.2)	Reserves (Note 13.3)	Interim dividend (Note 13.6)	Profit for the year attributable to equity holders of the parent	Hedge transaction reserves (Note 13.4)	Currency translation differences	Non-controlling interests	total equity
Balance at January 1, 2015	**32,623**	**12**	**483,283**	**(20,972)**	**106,452**	**(4,913)**	**(20,618)**	**-**	**575,867**
Total recognized income and expense	**-**	**-**	**1,011**	**-**	**120,022**	**2,052**	**(8,313)**	**-**	**114,772**
Profit for the year attributed to equity holders of the parent	-	-	-	-	120,022	-	-	-	120,022
Other comprehensive income	-	-	1,011	-	-	2,052	(8,313)	-	(5,250)
Transactions with shareholders and owners	**-**	**-**	**245**	**(3,262)**	**(54,713)**	**-**	**-**	**-**	**(57,730)**
Dividends paid	-	-	-	(3,262)	(54,713)	-	-	-	(57,975)
Dividends paid	-	-	245	-	-	-	-	-	245
Other changes in equity	**-**	**-**	**51,739**	**-**	**(51,739)**	**-**	**-**	**-**	**-**
Transfers between equity accounts	-	-	51,739	-	(51,739)	-	-	-	-
Non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**290**	**290**
Profit for the year attributed to non-controling interests	-	-	-	-	-	-	-	13	13
Non-controlling interests arising on a business	-	-	-	-	-	-	-	277	277
Balance at December 31, 2015	**32,623**	**12**	**536,278**	**(24,234)**	**120,022**	**(2,861)**	**(28,931)**	**290**	**633,199**
Total recognized income and expense	**-**	**-**	**(1,678)**	**-**	**125,084**	**5,101**	**11,227**	**-**	**139,734**
Profit for the year attributed to equity holders of the parent	-	-	-	-	125,084	-	-	-	125,084
Other comprehensive income	-	-	(1,678)	-	-	5,101	11,227	-	14,650
Transactions with shareholders and owners	**-**	**-**	**-**	**(2,330)**	**(62,449)**	**-**	**-**	**-**	**(64,779)**
Dividends paid	-	-	-	(2,330)	(62,449)	-	-	-	(64,779)
Other changes in equity	**-**	**-**	**57,573**	**-**	**(57,573)**	**-**	**-**	**-**	**-**
Transfers between equity accounts	-	-	57,573	-	(57,573)	-	-	-	-
Non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(73)**	**(73)**
Profit for the year attributed to non-controling interests	-	-	-	-	-	-	-	(73)	(73)
Balance at December 31, 2016	**32,623**	**12**	**592,173**	**(26,564)**	**125,084**	**2,240**	**(17,704)**	**217**	**708,081**

Consolidated statement of cash flows
(Thousands of euros)

	Note	2016	2015
Profit for the year before tax		**155,255**	**151,507**
Depreciation of property, plant and equipment	**7**	46,417	49,104
Amortization of intangible assets	**8**	3,282	3,945
Changes in provisions		1,654	(3,648)
Capital grants	**14**	(1,284)	(671)
Gains/(losses) on disposal of non-current assets		117	122
Negative differences from business combinations	**5**	(4,475)	-
Finance income	**20.5**	(431)	(694)
Finance costs	**20.5**	1,819	3,373
Losses on non-trade receivables	**20.5**	721	-
Foreign currency translation differences (net)	**20.5**	(2,999)	6,608
Adjustments to reconcile profits before tax with net cash flows		**44,821**	**58,139**
Inventories		(7,443)	(19,955)
Trade and other receivables		(11,665)	(20,286)
Trade and other payables		(8,054)	5,808
Changes in working capital		**(27,162)**	**(34,433)**
Income tax paid		(31,330)	(29,943)
Contributions and other payments related to pension plans		(1,065)	(7,572)
Cash flow from operating activities		**140,519**	**137,698**
Acquisition of a subsidiary, net of cash acquired	**5**	1,110	(3,995)
Payments for acquisition of property, plant, equipment and intangible assets		(80,747)	(56,702)
Proceeds from/(payments on) acquisitions of financial assets	**5**	-	55,803
Interest received		678	1,103
Increase (decrease) from discontinued operations		796	694
Cash flows from investing activities		**(78,163)**	**(3,097)**
Proceeds from borrowings		26,532	8,037
Repayment of borrowings		(25,361)	(67,058)
Dividends paid to shareholders of the parent		(64,779)	(57,975)
Interest paid		(1,708)	(3,292)
Other financial liabilities (net)		2,504	(288)
Grants received	**14**	612	1,880
Cash flows from financing activities		**(62,200)**	**(118,696)**
Impact of changes in exchange rates on cash and cash equivalents		445	2,947
Net increase (decrease) in cash and cash equivalents		**601**	**18,852**
Cash and cash equivalents at January 1,	12	44,453	25,601
Cash and cash equivalents at December 31,	**12**	**45,054**	**44,453**

VISCOFAN, S.A. AND SUBSIDIARIES
Notes to the consolidated financial statements at December 31, 2016

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1. Description and Principal Activities

Viscofan, S.A. (hereinafter the Company or the parent) was incorporated with limited liability on October 17, 1975 as Viscofan, Industria Navarra de Envolturas Celulósicas, S.A. At a meeting held on June 17, 2002 the shareholders agreed to change the name of the Company to the current one.

Its statutory and principal activity consists of the manufacture of artificial casings, mainly for use in the meat industry, as well as, to a lesser extent, the generation of electricity for sale to third parties through cogeneration systems. Its industrial installations are located in Cáseda and Urdiain (Navarra). Its main offices and registered address are in Tajonar (Navarra).

Viscofan, S.A. is the parent of a group of companies (the Viscofan Group or the Group) which mainly carry out their activities in the food sector and in cellulose, plastic, fibrous and collagen casing sectors, as explained in more detail in Note 2.

The entirety of Viscofan S.A.'s shares have been listed since 1986, and are quoted on the Spanish electronic trading platform (continuous market).

The Group's 2015 consolidated financial statements were approved at the General Shareholders' Meeting held on April 21, 2016.

The parent's directors expect these 2016 consolidated financial statements, which were prepared on February 28, 2017, to be approved by the shareholders in general meeting without modification.

2. Viscofan Group

During October 2016, 100% of the shares in Vector USA Inc and Vector Europe NV were acquired, including their European subsidiaries (Vector Packaging Europe NV and Vector UK Ltd).

The fair value of net assets acquired is reflected in Note 5.2.

In March of 2015 Viscofan finalized its sale of Industrias Alimentarias de Navarra S.A.U. and its subsidiaries, Lingbao Baolihao Food Industrial Co. Ltd. and IAN Perú, S.A. to Servicios Compartidos de Industrias Alimentarias, S.L., managed by Portobello Capital Gestión, S.G.E.C.R., S.A. The Company accepted a 55.8 million euro offer of 100% of its shares, paid for in cash during the signing of the contract, with after-tax capital gains of 0.4 million euros, which was recognized under "Profit (loss) after tax from discontinued operations" on the consolidated income statement.

On May 27, 2015, 51.67% of Nanopack Technology & Packaging, S.L.'s share capital was acquired. The total cost of this transaction was 4 million euros. Subsequent to this date, Viscofan S.A. entered into a capital increase, and now owns 90.57%.

Details of the subsidiaries and associates comprising the Viscofan Group at December 31, 2016 and 2015, including certain additional information, are shown below:

2.1. Details of subsidiaries and associates comprising the Viscofan Group at December 31, 2016

Group companies	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Gamex, C.B. s.r.o.	100.00%	-	warehouse (to the Group)/Other services	Ceske Budejovice (Czech Republic)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.	90.57%	-	Manufacture of interleaver film	Tajonar-Navarra (España)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Vector Europe NV.	100.00%	-	Marketing of artificial casings	Hasselt (Belgium)
Vector Packaging Europe NV.	-	100.00%	Manufacture and marketing of artificial casings	Hasselt (Belgium)
Vector UK Ltd.	-	100.00%	Marketing of artificial casings	Manchester (United Kingdom)
Vector USA Inc.	-	100.00%	Manufacture and marketing of artificial casings	Oak Book, Illinois (USA)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

2.2. Details of subsidiaries and associates comprising the Viscofan Group at December 31, 2015

Group companies from continued operations	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Gamex, C.B. s.r.o.	100.00%	-	warehouse (to the Group)/Other services	Ceske Budejovice (Czech Republic)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.	90.57%	-	Manufacture of interleaver film	Tajonar-Navarra (España)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

3. Basis of preparation

The consolidated financial statements have been prepared based on the accounting records of Viscofan, S.A. and the companies comprising the Group. The consolidated financial statements for 2016 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at December 31, 2016 and 2015, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognized income and expenses for the year then ended. The Group adopted EU-IFRS on January 1, 2004, and also applied IFRS 1 First-time Adoption of International Financial Reporting Standards at that date

3.1. New and amended standards and interpretations

The accounting policies used during the preparation of these consolidated financial statements are the same as those applied for the 2015 consolidated financial statements, apart from the revision of IFRS 3 - Business combinations.

The new standards and amendments applied for the first time during 2016 had no impact on the Group's consolidated financial statements.

Amendments clarifying IAS 16, "Property, plant, and equipment" and IAS 38 "Intangible assets" indicate that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. Revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. They are applied prospectively, and had no impact on the Group, as no revenue-based methods were used.

Amendments to IAS 1 Disclosure initiative

The amendments to IAS 1 "Presentation of financial statements" clarify:

- Its materiality requirements.
- The specific items on the income statement, the statement of other income, and the statement of financial position can be desegregated.
- Entities are allowed flexibility as regards the order in which they present their notes to the financial statements.
- The share of profit or loss of associates and joint ventures which are accounted for under the equity method, the investment must be presented disclosing the related effect on a separate line, and classified among items which should or should not subsequently be reclassified to the income statement.

Amendments clarifying applicable requirements when additional subtotals are presented on the statement of financial position, the income statement, and other comprehensive income. These changes had no effect on the Group.

3.2. Published standards which are not applicable

The Group intends to adopt these standards, interpretations, and amendments thereof published by the IASB but not considered mandatory in the European Union at the date these consolidated financial statements were prepared. However, they will be applied when they come into force. The Group is currently analyzing the impact of application of these new and amended standards and interpretations. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the consolidated financial statements apart from the following:

IFRS 9 ***Financial instruments***

In July of 2014, the IASB published the definitive version of IFRS 9, "Financial Instruments;" it covers all phases of financial instrument projects, and replaced IAS 39 "Financial Instruments: recognition and measurement," as well as all the prior versions of IFRS 9. This standard includes the three phases of financial instruments: classification, valuation, impairment, and hedge accounting. IFRS 9 indicates applicable standards for the years commencing January 1, 2018, and permits early application, and has not year been accepted by the European Union. Apart from hedge accounting, it requires retroactive application, but no modifications to comparative information. Hedge accounting criteria are generally applied prospectively, excepting for limited exceptions.

The Group plans to adopt the new standards at the required date of application. In general, the Group does not expect notable changes in its balance sheet or equity.

(a) Classification and measurement

The Group does not foresee any important changes in its balance sheet or equity arising from the application of IFRS 9. It expects to continuing measuring its financial assets at fair value as is its current practice.

Loans and trade receivables are held for contractual cash flow, and it is expected that these will be solely used to pay principal and interest. Therefore, the Group expects to continue to recognize amortized cost in accordance with IFRS 9. However, the Group will perform a more in-depth analysis of the characteristics of the contractual cash flows of these instruments prior to concluding on whether they meet the criteria for valuation at amortized cost, in accordance with IFRS 9.

(b) Impairment

IFRS 9 requires the Group to recognize expected credit losses on all its debt instruments, loans, and trade receivables, either on a 12-month period or indefinitely. The Group expects to apply the simplified model, and recognize expected losses over the lives of all its trade receivables. The Group does not expect there to be any relevant changes in the impairment provisions recorded.

IFRS 16 – Leases.

IFRS 16 was published in January of 2016, and represented important changes for lessees, since an asset must be recognized for the right to use, and a liability must be recognized for amounts payable for the majority of leases. Lessors are able to avail themselves of very few amendments with respect to the current IAS 17.

This new standard replaces prior lease legislation. The total or modified retroactive application is necessary for years commencing January 1, 2019 inclusive, making its early application accepted, although this has not yet been adopted in the European Union. The Group plans to adopt the new standards at the required date of application, based on the modified retroactive transition. The Group has begun its preliminary evaluation of IFRS 16 as well as its potential effects on its consolidated financial statements.

Apart from arrangements already considered leases in accordance with IAS 17, and which continue to be recognized as such under the new standard, the Group does not have any other contracts which could be considered leases due to the right to control the use of the identified asset, as there are no service agreements based on the asset's use.

Existing lease agreements were analyzed which also include providing a service, which are not significant.

A practical solution will be applied permitting financial leases still applicable during the date of the application of the new standards to be accounted for in accordance with current regulations (IAS 17).

However, its main effect on the Group's financial statements is the registration of the right to use and debt corresponding to operating leases on the balance sheet. Note 7 reflects non-cancelable minimum future operating leases payments at December 31, 2016, The Group is still determining whether the periods corresponding to these future minimum payments will be similar to those under IFRS 16.

During 2017, the Group plans to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

3.3. Policies used by the Group when several options are permitted

International Financial Reporting Standards occasionally allow for more than one alternative accounting treatment for a transaction. The criteria adopted by the Group for its most relevant transactions are the following:

- Capital grants can be recognized reducing the cost of the assets for which financing was granted or as deferred income (which was the Group's choice). They are recognized in the income statement under "Other income."

- Certain property, plant, and equipment may be measured at market value or historical cost less depreciation and impairment loss. Viscofan has chosen the latter criteria.

3.4. Comparison of information

These consolidated financial statements present for comparative purposes, for each of the headings on the consolidated statement of financial position, the consolidated income statement, the consolidated comprehensive income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, except when an accounting standard specifically establishes that this is unnecessary.

3.5. Relevant accounting estimates, assumptions and judgments

The preparation of financial statements in conformity with EU-IFRS requires Group management to make judgments, estimates, and assumptions, and to apply relevant accounting estimates in the process of applying Group accounting policies.

This section describes the main assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(c) Taxes

The subsidiaries comprising the Group are individually responsible for their own local tax obligations, and do not file consolidated tax returns.

The Group establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the Group and the corresponding tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country where the respective Group company is domiciled. The Group's policy, affecting all subsidiaries, is to apply conservative criteria when interpreting the different prevailing regulations in each of the countries where it operates.

Deferred tax assets are recognized for all unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and future taxable profits together with future tax planning strategies.

The years open for review by the tax authorities vary depending on each country's tax legislation, and returns are not considered definitive until the corresponding inspection period has elapsed or until they have been inspected and accepted by tax authorities.

The Company's management considers that all applicable taxes have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying financial statements.

Further details on taxes are disclosed in Note 19.

(d) Pension benefits

The cost of defined benefit pension plans and other obligations and the present value of pension obligations are determined using actuarial valuations. Actuarial valuations involve making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future pension increases. Due to the complexity of the valuation and its long-term nature, calculating the obligation is highly sensitive to changes in these assumptions.

To determine the discount rate, Management considers the interest rates on corporate bonds that have a minimum credit rating of AA established by a reputable rating agency and are denominated in the same currency as the defined benefit commitment, extrapolating the underlying yield curves that correspond to the expected maturities of the defined benefit obligations.

Mortality rates are based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective countries.

Details on the hypotheses used and a sensitivity analysis are provided in Note 15.1.

(e) Provisions for litigation and contingent assets and liabilities

Estimation of the amounts to provision with respect to potential assets and liabilities arising from ongoing litigation is carried out based on the professional opinion of the legal representatives hired to deal with such matters and the internal evaluation performed by the Group's Legal Department.

The breakdown of provisions for litigations is shown in Note 15.3, while the main contingent assets and liabilities that may give rise to the future recognition of assets and liabilities are described in Note 15.7.

(f) Other accounting estimates and hypotheses

- Assessment of possible impairment losses on certain assets: (Notes 4.7 and 7).
- Useful life of property, plant, and equipment and intangible assets: (Notes 4.6 and 4.7)
- Measurement of derivative financial instruments: (Note 4.13)

4. Significant accounting principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as endorsed by the European Union (EU-IFRS).

A summary of the most significant principles is as follows:

4.1. Going concern basis

The consolidated financial statements have been prepared on a going concern basis.

4.2. Method of consolidation

All the subsidiaries were consolidated using the full consolidation method.

Control is obtained when the Group is exposed, or has the rights attached to variable interest rates arising from its involvement in a subsidiary, and is able to influence them as a result of the exercise of power over the subsidiary. Specifically, the Group has control of a subsidiary if, and only if it has:

- Power over the subsidiary (existing rights allowing it to manage relevant subsidiary's activities)
- Exposure, or rights, to variable returns from its involvement with the other company
- The ability to use its power over the other company to affect the amount of the company's return

Generally, it is presumed that the majority of voting rights grants control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. Subsidiaries are excluded from the consolidation scope from the moment control is lost. Note 2 breaks down the nature of the relationships between the parent and its subsidiaries.

The Group has applied the exemption permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards regarding business combinations. Consequently, only business combinations which occurred subsequent to January 1, 2004, the date of transition to EU-IFRS, have been recognized using the purchase method. Entities acquired prior to that date were recognized under the former Spanish general chart of accounts, once the necessary transition date adjustments and corrections were considered.

All of the assets, liabilities, equity, income, expenses, and cash flow arising from transactions between Group companies are totally eliminated during the consolidation process.

The accounting policies of subsidiaries have been adapted to those of the Group.

The financial statements of consolidated subsidiaries reflect the same reporting date and period as that of the parent.

4.3. Effects of changes in foreign exchange rates

(a) Foreign currency transactions

The consolidated financial statements are presented in thousands of euros, which is the functional and presentation currency of the parent.

Each Group entity determines its own functional currency and the balances included in the financial statements of each company are measured using this functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities expressed in foreign currencies have been translated into euros at the year-end exchange rate, whereas non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the transaction date. Non-monetary assets denominated in foreign currencies measured at fair value are translated to euros at the foreign currency exchange rate prevailing at the date the value was determined.

Differences arising on settlement of transactions in foreign currency and on translation of monetary assets and liabilities expressed in foreign currency are taken to the income statement. Exchange differences arising from the translation of monetary items forming part of the net investment in foreign operations are recognized as translation differences in equity.

Translation gains or losses related to monetary financial assets or liabilities expressed in foreign currency are also recognized in the income statement.

(b) Translation of foreign operations

Translation differences are recognized in the Group's equity. Translation of foreign operations, excluding foreign operations in hyperinflationary economies, is based on the following criteria:

- Assets and liabilities, including goodwill and adjustments to net assets arising from the acquisition of businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date.

- Income and expenses relating to foreign operations, including comparative balances, are translated at the exchange rates prevailing at each transaction date; and

- Foreign exchange differences arising from application of the above criteria are recognized under translation differences in equity

The Group does not carry out any business activities in hyperinflationary countries.

Translation differences arising as a result of the sale of foreign businesses recognized in equity are recognized as a single line item in the consolidated income statement when such businesses are sold.

4.4. Business combinations and goodwill

Business combinations are recognized by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Related acquisition costs are recognized under "Other operating expenses" as they are incurred,

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as financial assets and liabilities in accordance with IAS 39 *Financial Instruments*: The fair value is taken, recognizing changes in fair value as changes in the fair value on the income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the Group conducts a news assessment to ensure that all the acquired assets and assumed obligations have been correctly identified, and reviews the applied procedures to perform the valuation of the amounts recognized at the acquisition date. If an excess in the fair value of net assets acquired over the aggregate amount of the transferred consideration, the difference is recognized as profit on the income statement.

After initial recognition, goodwill is recognized at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4.5. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current or non-current based on the following criteria:

- Assets are classified as current when they are expected to be realized, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date. The Group classifies the remainder of its assets as non-current.

- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date. The Group classifies the remainder of its liabilities as non-current.

- Deferred tax assets and liabilities are classified as non-current assets and liabilities.

4.6. Impairment of non-financial assets subject to depreciation or amortization

The Group periodically evaluates whether there are indications of possible impairment losses on assets other than financial assets, inventories, deferred tax assets and non-current assets held for sale, to determine whether their carrying amount exceeds their recoverable value (impairment loss).

(a) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling value and value in use. An asset's value in use is calculated based on the expected future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Recoverable amounts are calculated for individual assets, unless the asset does not generate cash inflows that are largely independent from those corresponding to other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

(b) Reversal of impairment

Impairment losses are only reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment losses on goodwill are not reversible.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment had been recognized.

The amount of the reversal of the impairment of a CGU is allocated to its assets, except goodwill, pro rata on the basis of the carrying amount of the assets, to the limit referred to in the previous paragraph.

4.7. Property, plant, and equipment

(a) Initial recognition

Property, plant, and equipment is stated at cost, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, considering the principles established to determine the cost of production. The cost of production is capitalized with a charge to work performed by the Group on non-current assets in the consolidated income statement.

The cost of assets which have long installation periods includes finance costs accrued prior to their being put to use. Such costs meet the capitalization requirements described above.

The Group opted to use the previous GAAP revaluation of property, plant, and equipment, as the cost recognized at January 1, 2004, as permitted by IFRS 1 First Time Adoption of IFRS.

(b) Amortization and depreciation

Property, plant, and equipment is depreciated systematically over the useful life of the asset. The depreciable amount of PP&E items is the cost of acquisition less the residual value. Each part of a PP&E item with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of PP&E items is calculated using the straight-line method over their estimated useful lives, as follows:

	Estimate useful life (years)
Buildings	30.50
Plant and equipment	10.
Other installations, tools and furniture	5.15
Property, plant, and equipment	4.15

The Group reassesses residual values, useful lives, and depreciation methods at the end of each financial year. Changes to the initially established criteria are recognized as a change in accounting estimates.

(c) Subsequent recognition

Subsequent to initial recognition of the asset, only costs that will probably generate future economic benefits and which may be measured reliably are capitalized. Ordinary maintenance costs are expensed as they are incurred.

Replacements of property, plant, and equipment which meet the requirements for capitalization are recognized as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it has not been practical to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

4.8. Leases

(a) Finance leases

The Viscofan Group classifies as finance leases all lease agreements in which the lessor substantially transfers to the lessee all the risks and rewards incidental to ownership of the asset. All other leases are classified as operating leases.

Assets acquired under finance leases are recognized as non-current assets according to their nature and purpose. Each asset is depreciated/amortized over its useful life when the Group considers there to be no doubt that it will acquire ownership of the assets at the end of the lease term. The assets are recognized at the lower of the fair value of the leased item and the present value of future lease payments.

(b) Operating leases

Lease payments under an operating lease, net of any incentives received, are recognized as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.

4.9. Intangible assets

(a) Self-constructed assets

Expenditure on research activities is recognized in the consolidated income statement as an expense as incurred.

Expenditure on activities which cannot be clearly distinguished from costs attributable to the development of intangible assets is recognized in the consolidated income statement. Expenditure on development that was recognized initially as an expense is not recognized subsequently as part of the cost of an intangible asset. The Group has not capitalized any development expenses.

(b) Other tangible assets

Other intangible assets are stated at cost, less accumulated amortization and impairment losses.

Software maintenance costs are expensed as incurred.

(c) Useful lives and amortization rates

The Group evaluates whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is considered to have an indefinite useful life where there is no foreseeable limit to the period over which it will generate net cash inflows. At December 31, 2016 and 2015, the Group had no intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortized by allocating the depreciable amount systematically on a straight-line basis over the useful lives of the assets in accordance with the following criteria:

	Estimate useful life (years)
Concessions, patents, and licenses	10.
Development costs	5.
Concession rights	10.-30
Concession land rights in China	50.
Software	4.6

The depreciable amount of intangible asset items is the cost of acquisition or deemed cost less the residual value.

The Group reassesses residual values, useful lives, and amortization methods at the end of each financial year. Changes to initially established criteria are recognized as a change in accounting estimates.

4.10. Inventories

Inventories comprise non-financial assets which are held for sale by the consolidated entities in the ordinary course of business.

Cost comprises all costs of acquisition, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Inventory conversion costs comprise the costs directly related with the units produced and a systematically calculated part of the indirect, variable or fixed costs incurred in the conversion process. Indirect fixed costs are distributed on the basis of the normal production capacity or actual production.

Indirect fixed costs distributed to each production unit are not increased as a result of a low level of production or idle production capacity. Indirect costs that are not distributed are recognized as expenses for the financial year in which they are incurred. In periods of abnormally high production, the amount of indirect costs distributed to each production unit is decreased so that inventories are not measured above cost. Variable indirect costs are distributed to each production unit on the basis of the actual use of the production facilities.

The methods applied by the Group to determine inventory costs are as follows:

- Raw materials, other materials consumed, and goods for resale: at weighted average cost.

- Finished and semi-finished products are stated at weighted average cost of raw and other materials and includes direct and indirect labor, plus other manufacturing overheads.

Volume discounts from suppliers are recognized when it is probable that the discount conditions will be met. Prompt payment discounts are recognized as a reduction in the cost of inventories acquired.

The cost of inventories is adjusted against profit or loss in cases where cost exceeds net realizable value. Net realizable value is considered as the following:

• Raw materials and other supplies: replacement cost: The Group only makes adjustments if the finished products in which the raw materials are incorporated are expected to be sold at a price equivalent to their production cost or lower;

• Goods for resale and finished products: estimated sale price, less selling costs.

• Work in progress: estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

Write-downs and reversals of write-downs are recognized in the consolidated income statement for the year. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed against the following headings: “Changes in inventories of finished products” and “Work in progress and consumption of materials and other supplies.” Write-downs may be reversed to the limit of the lower of cost and the new net realizable value.

(a) Emission rights

The Viscofan Group recognizes its emissions rights under “Inventories;” during the previous year they had been recognized under “Intangible assets.”

Rights assigned free of charge to each plant under each national emission rights assignment plan are initially measured at market value on the date granted and are recognized as a credit to "Grants" (Note 4.16) in the consolidated statement of financial position. Rights acquired from third parties are recognized at their acquisition cost.

These assets are measured using the cost method. At each year end they are analyzed for any indications of impairment of their carrying amounts.

These emission rights are eliminated from the statement of financial position when they are sold, delivered, or have expired. Should the rights be delivered, they are derecognized from the provision made when the CO2 emissions take place applying the FIFO method (first in, first out).

4.11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, demand deposits with banks, other short-term highly-liquid investments with original maturities of three months or less, providing these are readily convertible to known amounts of cash.

4.12. Financial instruments- Initial recognition and subsequent measurement

(a) FINANCIAL ASSETS

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in "effective hedges," as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Measurement after recognition

Subsequent measurement of financial assets depends on their classification, as described below:

Loans and receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are re-measured at amortized cost using the effective interest rate method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. Interests accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized as "Finance costs" for loans and in "Other operating expenses" for receivables.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity and which are recognized at amortized cost.

Held-to-maturity investments are initially recognized at fair value, including transaction costs that are directly attributable to the acquisition, and are subsequently carried at amortized cost using the effective interest method.

Interests accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized under "Finance costs" in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group held no debt securities classified under this category during 2016 and 2015.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated income statement, or if the investment is found to be impaired the cumulative loss is reclassified to "Financial expense" in the income statement. Interest earned while holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and Management's intention to do so may significantly change in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Group.

(b) Impairment and irrecoverability of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

(c) Financial liabilities:

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are initially recognized at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

4.13. Derivatives and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps, and forward commodity contracts, to hedge its foreign currency risks, interest rate risks, and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 is recognized in the income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment

When arranging each hedge transaction, the Viscofan Group formally documents each transaction for which hedge accounting will be applied. The documentation identifies the hedge instrument, the item hedged, the nature of the risk to be hedged, and how the effectiveness of the hedge will be measured. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are recognized as follows:

- Changes in the market value of hedging derivatives are recognized in the consolidated income statement for the ineffective portion of the hedges. Those related to the effective portion are recognized under "Unrealized gains (loss) reserve" in the consolidated statement of financial position. The cumulative gain or loss recognized in these headings is transferred to the related consolidated income statement heading (i.e. the heading affected by the hedged item) as it impacts profit or loss in the year in which the item is sold.

- When hedging of futures transactions gives rise to a non-financial asset or non-financial liability, their amount is taken into account when determining the initial carrying amount of the asset or liability which gives rise to the transaction hedged.

- When hedging futures transactions give rise to a financial asset or liability, this balance is recognized under "Unrealized gains (loss) reserve" until the risk hedged in relation to the futures transaction impacts the consolidated income statement.

- If the hedged transaction does not give rise to an asset or liability, the amounts debited or credited to "Unrealized gains (loss) reserve" in the consolidated statement of financial position are taken to the consolidated income statement in the same period as the hedged transaction.

- When the hedge is discontinued, the cumulative gain or loss recognized in "Unrealized gains (loss) reserve" is held under this heading until the hedged transaction is carried out, at which time the gain or loss on the transaction is adjusted by the cumulative gain or loss. If the forecast transaction is no longer expected to occur, the gain or loss previously recognized under this heading is taken to the consolidated income statement.

Fair value hedges are recognized as follows:

- The change in fair value of a hedging derivative is recognized in the income statement under "Financial expenses." The change in fair value of the hedged item attributable to the hedged risk is recognized as part of the hedged item's carrying amount and in the income statement under "Financial expenses."

- In the case of fair value hedges related to items recognized at amortized cost, any adjustments to the carrying amounts are recognized in the income statement for the remaining life of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

- If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

- All the hedging instruments used by the Viscofan Group in 2016 and 2015 were derivatives not traded in organized financial markets. Consequently, these are measured using assumptions based on market conditions at year end:

- The fair value of interest rate swaps is measured as the value of the rate swap spreads discounted to present value at market interest rates.

- Exchange rate futures contracts are measured by discounting future cash flows to present value based on forward exchange rates at year end.

The market value of purchase-sale agreements of non-financial items to which IAS 39 is applicable, is calculated from the best estimate of the future price curves of these items available at year end.

4.14. Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. Current tax assets or liabilities are measured for amounts payable to or recoverable from tax authorities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Current and deferred tax is recognized as income or an expense and included in profit or loss for the year except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different year, directly in equity, or from a business combination.

(a) Taxable temporary differences

Taxable temporary differences are recognized in all cases except where:

- Arising from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit, or

- Associated with investments in subsidiaries over which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the timing difference will reverse in the foreseeable future.

(b) Deductible temporary differences

Deductible temporary differences are recognized provided that:

- It is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

- The temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Tax planning opportunities are only considered on evaluation of the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be used.

(c) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and reflecting the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities.

The carrying amounts of deferred tax assets are reviewed by the Group at each balance sheet date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilized.

Deferred tax assets which do not comply with the aforementioned conditions are not recognized in the consolidated statement of financial position. At year end the Group reassesses unrecognized deferred tax assets.

(d) Classification and offsetting

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group only offsets tax assets and liabilities where it has a legally enforceable right, where these relate to taxes levied by the same tax authority and on the same entity and where the tax authorities permit the entity to settle on a net basis, or to realize the asset and settle the liability simultaneously for each of the future years in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Deferred tax assets and liabilities are recognized on the consolidated statement of financial position under non-current assets or liabilities, irrespective of the date of realization or settlement.

4.15. Dividend:

The interim dividends approved by the Board of Directors in 2016 and 2015 are included as a reduction of the Viscofan Group's equity.

4.16. Government grants

Government grants are recognized on the face of the balance sheet when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

(a) Capital grants

Government grants in the form of non-monetary assets are recognized at fair value in the same manner, with a debit to deferred income. They are transferred to “Other income” in the consolidated income statement in line with the depreciation of the related asset.

Non-repayable grants related to emission rights are initially recognized at market value on the date granted under "Grants," and are recognized in the consolidated income statement as they are used. They are recognized in "Other income" on the consolidated income statement.

(b) Operating subsidies

Operating subsidies are recognized as “Other income” in the consolidated income statement.

(c) Interest rate subsidies

Financial liabilities with implicit interest rate subsidies in the form of below-market rates of interest are initially recognized at fair value. The difference between this value, adjusted where applicable by the costs of issue of the financial liability and the amount received, is recorded as an official grant based on the nature of the grant.

4.17. Employee benefits

(a) Liabilities for retirement benefits and other commitments

Defined benefit plans include those financed by insurance premium payments for which a legal and implicit obligation exists to settle commitments with employees when they fall due or pay additional amounts in the event the insurer does not pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit liabilities recognized in the consolidated statement of financial position reflect the present value of defined benefit plans at year end, less the fair value of the assets related to those benefits.

Defined benefit plan costs are recognized under "Employee benefits expense" in the consolidated income statement and comprise current service costs plus the effect of any reduction or liquidation of the plan.

Interest on the net liability/(asset) relating to the defined benefit plan is calculated by multiplying the net liability/(asset) by the discount rate and is recognized in financial results under "Financial expenses."

Subsequent to initial measurement, the reevaluation, which comprises actuarial gains and losses, the effect of the limit on the assets, excluding amounts included in net interest and performance of the plan assets are recognized immediately in the statement of financial position with a credit or debit to reserves, as appropriate, through other comprehensive income in the period in which they occur. These changes are not reclassified to profit or loss in subsequent periods.

A description of each of the Group's defined benefit pension plans is included in Note 15.1.

(b) Termination benefits

The Group recognizes termination benefits unrelated to restructuring processes when it is demonstrably committed to terminating the employment of current employees before the normal retirement date. The Group is demonstrably committed to terminating the employment of current employees when a detailed formal plan has been prepared and there is no possibility of withdrawing or changing the decisions made.

Indemnities payable in over 12 months are discounted at interest rates based on market rates of quality bonds and debentures.

(c) Short-term employee benefits

Short-term benefits accrued by Group personnel are recorded in line with the employees' period of service. The amount is recorded as an employee benefit expense and as a liability net of settled amounts. If the contribution already paid exceeds the accrued expense, an asset is recorded to the extent that it will reduce future payments or a cash refund.

The Group recognizes the expected cost of short-term benefits in the form of accumulated compensated absences, when the employees render service that increases their entitlement to future compensated absences, and in the case of non-accumulating compensated absences, when the absences occur.

The Group recognizes the expected cost of profit-sharing and bonus payments when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

4.18. Provisions

(a) General criteria

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, provided a reliable estimate can be made of the amount of the obligation.

The amounts recognized as a provision in the consolidated statements of financial position are the best estimate of the expenditure required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties related to the provision and, where significant, financial effect of the discount, provided that the expenditures required in each period can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The financial effect of provisions is recognized under finance costs in the consolidated income statement.

Reimbursement rights from third parties are recognized as a separate asset where it is practically certain that these will be collected. The income reimbursed, where applicable, is recognized in the consolidated income statement as a reduction in the associated expense and is limited to the amount of the provision.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed against the consolidated income statement where the corresponding expense was recorded.

(b) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(c) Restructuring expenses

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Provisions for restructuring only include payments directly related to the restructuring which are not associated to continuing activities of the Group.

(d) Emission rights provision

Provision is made systematically for expenses related to the emission of greenhouse gases. This provision is cancelled once the corresponding free-of-charge and market-acquired rights granted by public entities have been transferred.

4.19. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of VAT and any other amounts or taxes which are effectively collected on the behalf of third parties. Volume or other types of discounts for prompt payment are recorded as a reduction in revenue if considered probable at the time of revenue recognition.

(a) Goods sold

Revenue on the sale of goods is recognized when the following conditions have been satisfied:

- The Group has transferred the significant risks and rewards of ownership of the goods to the buyer.

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue and incurred or to be incurred costs can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Group; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Services rendered

When the outcome of a transaction involving the rendering of services can be estimated reliably revenue associated with the transaction is recognized in the income statement by reference to the stage of completion of the transaction at the balance sheet date.

4.20. Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to the parent by the weighted number of ordinary shares outstanding during that year, excluding the average number of shares of the parent, Viscofan, S.A. held by any of the Group companies.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares which would be in issue if all potential ordinary shares were converted into ordinary shares of Viscofan, S.A.

In the case of the Viscofan Group's financial statements for the years ended December 31, 2016 and 2015, there is no difference in basic earnings per share and diluted earnings per share as there were no instruments potentially convertible into ordinary shares during those years.

4.21. Calculation of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company considers that its cash, trade and other receivables, trade and other payables, and balances of accounts payable to and receivable from public administrations, have a fair value very close to their carrying amounts mainly as a result of their coming due in the short term.

The fair values for the remaining financial assets and liabilities are disclosed in Notes 11 and 17, respectively.

4.22. Environment

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Costs incurred from these activities are recognized under “Other operating costs” in the year in which they are incurred.

Assets used by the Group to minimize the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group’s operations, are recognized in the consolidated balance sheet based on the criteria for recognition, measurement, and disclosure detailed in Note 4.7.

4.23. Related party transactions

Transactions with related parties are accounted for in accordance with the valuation criteria described in this Note 4. The only transactions that were carried out with related parties are described in Note 25 "Information relating to directors of the parent and key management personnel of the Group."

4.24. Non-current assets held for sale and discontinued operations

The Group classifies assets whose carrying amount is expected to be realized through a sale transaction, rather than through continuing use, as "Non-current assets held for sale" when the following criteria are met:

- When they are immediately available for sale in their present condition, subject to the normal terms of sale; and

- When it is highly probable that they will be sold.

Non-current assets held for sale are accounted for at the lower of their carrying amount and fair value less cost to sell, except deferred tax assets, assets arising from employee benefits, and financial assets which do not correspond to investments in Group companies, joint ventures and associates, which are measured according to specific standards. These assets are not depreciated and, where necessary, the corresponding impairment loss is recognized to ensure that the carrying amount does not exceed fair value less costs to sell.

Disposal groups held for sale are measured using the same criteria described above. The disposal group as a whole is then remeasured at the lower of the carrying amount and fair value less costs to sell.

Related liabilities are classified as "Liabilities held for sale and discontinued activities."

A disposal group of assets is considered a discontinued operation if it is a component of an entity which either has been disposed of or is classified as held for sale and:

- Represents a significant and separate major line of business or geographical area of operations.

- Is part of a single coordinated plan to dispose of a significant and separate major line of business or geographical area of operations.

Discontinued operations are presented in the consolidated income statement separately from income and expenses from continuing operations, on a single line under "Profit from discontinued operations."

Note 5 presents further breakdowns. The remaining notes to the financial statements include amounts corresponding to continuing operations unless otherwise indicated.

5. Business combinations

5.1. Acquisitions in 2016

On October 28, 2016, the date effective control was taken, the Group acquired 100% of the shares in Vector USA and Vector Europe, including its European subsidiaries (Vector Packaging Europe and Vector UK) through its parent Viscofan S.A. and its subsidiary Viscofan USA.

The fair value of the compensation received at the acquisition date amounted to 2,671 thousand euros, of which 641 thousand euros were paid in cash; an agreement was reached to pay the remainder in installments up to two years in total. The amount payable in installments might be less should any liabilities unrecognized be identified which correspond to the period prior to the Group taking control.

A breakdown of these companies with additional information is presented in Note 2.1.

The acquisition of Vector USA Inc. and Vector Europe NV makes it possible to increase the Viscofan Group product range, while improving its plastic technology production offer, to thereby support its strategy to become the reference in the casings market and improve the service worldwide.

Amounts recognized at the date the assets, liabilities, and contingent liabilities were recognized at their fair value follow:

	Thousands of euros
Property, plant and equipment (Note 7)	9,443
Intangible assets (Note 8)	719
Deferred tax assets	442
Inventories	6,887
Receivables	7,107
Cash and cash equivalents	1,716
Total assets	**26,314**
Non-current financial liabilities	(5,217)
Current financial liabilities	(5,301)
Payables	(6,836)
Deferred tax liabilities	(1,814)
Total liabilities	**(19,168)**
Total identifiable net assets	**7,146**
Negative differences from business combinations	(4,475)
Purchase consideration transferred	**2,671**

Subsequent to the acquisition, the Group paid off nearly the entirety of its bank borrowings, representing payment of 9,067 thousand euros (disbursement included in the cash flow of financing activities).

The 1,544 thousand euros in transaction costs were recognized under “Other operating expenses” (including cash flow for operating activities).

The acquired business generated a consolidated profit for the period for the Group amounting to 106 thousand euros during the period ranging from the acquisition date and year end, and ordinary income totaling 5,353 thousand euros, which were incorporated in the consolidated income statement.

Ordinary income generated during the entire year from the acquired business totals 32,794 thousand euros, with net ordinary total results of 40 thousand euros.

The profit arising from the transaction totaled 4,475 thousand euros, and is recognized on the consolidated income statement under "Negative difference on business combinations."

Net assets recognized on the 2016 financial statements were definitively measured at fair value; in this regard, the Group obtained an independent appraisal on Vector's land and buildings. The remaining acquired net assets were also valued, including those which are intangible. The Group used an independent expert to carry out the main valuations.

The most relevant factors contributing to the generation of a negative difference on business combinations is the Vector Group's financial situation, which indicates that it would be not be complying with certain financial ratios. After obtaining control of Vector, the Group paid off all its bank borrowings.

5.2. Acquisitions in 2015

On May 27, 2015, Viscofan, S. A. acquired 51.67% of the voting shares of Nanopack Technology & Packaging, S.L., an unlisted company based in Aiguaviva (Girona).

It is a technological R&D health base, specifically for food film products.

The company is fully consolidated in the Viscofan Group.

The total value of the company's assets and liabilities was recognized on the consolidated statement of financial position for the year. The consolidated income statement reflected the 7-month impact of the entirety of its transactions.

The Group valued external partners at the aggregate of the consideration transferred.

The fair value of acquired assets and liabilities assumed from Nanopack Technology & Packaging, S.L. during the acquisition was:

	Thousands of euros
Property, plant and equipment	1,510
Intangible assets	668
Other non-current financial assets	3
Inventories	77
Receivables	195
Cash and cash equivalents	5
Total assets	**2,458**
Non-current financial liabilities	(604)
Current financial liabilities	(150)
Payables	(551)
Deferred tax liabilities	(224)
Total liabilities	**(1,529)**
Total identifiable net assets	**929**
Non-controlling interest	(449)
Good will	3,520
Purchase consideration transferred	**4,000**

The Group used the services of an independent expert to value the identifiable assets acquired and the liabilities assumed at their acquisition-date fair value.

Goodwill was initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Goodwill amounting to 3,520 thousand euros, comprises the fair value of the expected synergies arising from the acquisition, most notably those related to the investigation, development, transfer, and innovation in packaging designed for food use.

A capital increase of 2,000 thousand euros was approved by the shareholders of Nanopack Technology & Packaging, S.L, in general meeting, to which Viscofan, S.A. contributed 1,928 thousand euros, to thereby own 90.57% of its share capital.

With the acquisition of this additional interest, reserves totaling 245 thousand euros were recognized.

5.3. Assets held for sale

In 2015, Viscofan concluded the sale of IAN S.A.U.and subsidiaries, which generated an after-tax capital gains of 411 thousand euros, which is recognize under “Profit (loss) after tax from discontinued operations” in the consolidated income statement.

6. Segment reporting

GIRL 8: "Operating segments" establishes that an operating segment is a component of an entity:

a) when it engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

b) when its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

c) for which discrete financial information is available.

The Group's management bases its decisions on the assignment of resources and performance evaluations on the profitability of the markets in which it operates; its key geographic areas are Spain, Europe, and Asia, North America, and South America. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss on the consolidated financial statements.

The Group also carries out production-related activities, and sells electricity through its cogeneration plants in Spain, Mexico, and Germany. These cogeneration activities have three aims: to decrease the cost of electricity while remaining self-sufficient, and at the same time reducing CO2 emissions. Although the plants located in Spain and Mexico sell part of the energy produced to third parties, these activities are not organized as business segments, nor are they contemplated as business units to be reported on per se.

The following PP&E items and intangible assets in different segments were acquired during 2016 and 2015:

	Thousands of euros					
Year 2016	**Spain**	**Other European and Asian countries**	**North America**	**South America**	**Eliminations and other**	**Consolidated**
Revenue from external customer	97,677	313,399	217,328	102,429	-	730,833
Revenue from inter-segment	78,522	215,432	98,531	14,442	(406,927)	-
Total revenue	176,199	528,831	315,859	116,871	(406,927)	730,833
Depreciation and amortization	(12,437)	(21,661)	(9,358)	(6,243)	-	(49,699)
Finance revenue	47	75	258	51	-	431
Finance costs	(591)	(654)	(380)	(194)	-	(1,819)
Exchange differences	271	244	(450)	2,933	-	2,998
Segment profit	**17,616**	**89,015**	**19,976**	**23,923**	**4,725**	**155,255**
Total assets	**200,285**	**412,160**	**249,113**	**176,066**	**(106,630)**	**930,994**
Total equity and liabilities	**117,179**	**94,331**	**90,400**	**36,204**	**(115,201)**	**222,913**
Acquisition of assets	**26,550**	**20,291**	**21,084**	**18,775**	**-**	**86,700**

	Thousands of euros					
Year 2015	**Spain**	**Other European and Asian countries**	**North America**	**South America**	**Eliminations and other**	**Consolidated**
Revenue from external customer	105,889	305,934	215,864	113,084	-	740,771
Revenue from inter-segment	76,589	208,803	106,232	14,516	(406,140)	-
Total revenue	182,478	514,737	322,096	127,600	(406,140)	740,771
Depreciation and amortization	(11,436)	(21,432)	(14,338)	(5,844)	-	(53,050)
Finance revenue	110	91	89	403	-	693
Finance costs	(847)	(1,269)	(291)	(966)	-	(3,373)
Exchange differences	(173)	(796)	993	(6,632)	-	(6,608)
Segment profit	**23,241**	**83,130**	**26,562**	**20,539**	**(1,965)**	**151,507**
Total assets	**173,629**	**397,851**	**214,522**	**133,768**	**(87,849)**	**831,921**
Total equity and liabilities	**90,064**	**99,377**	**65,163**	**38,792**	**(94,674)**	**198,722**
Acquisition of assets	**12,921**	**14,395**	**20,219**	**9,726**	**-**	**57,261**

7. Property, plant, and equipment

The breakdown and movements in property, plant, and equipment during 2016 and 2015 are as follows:

	Thousands of euros							
	Land and buildings	Plant and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Advances and assets under construction	Depreciation	Impairment	Total
Balance at January 1, 2015	**209,576**	**632,535**	**79,681**	**26,310**	**34,712**	**(601,211)**	**(640)**	**380,963**
Translation differences	(1,648)	(6,192)	(41)	377	(1,526)	4,638	(12)	(4,404)
Acquisition of a subsidiary (Note 5.2)	-	1,374	58	78	-	-	-	1,510
Additions	593	15,140	2,545	852	35,147	(49,104)	-	5,173
Disposals	(2,251)	(2,059)	(111)	(361)	(34)	3,535	64	(1,217)
Transfers	7,848	27,894	1,824	2,169	(39,735)	-	-	-
Balance at December 31, 2015	**214,118**	**668,692**	**83,956**	**29,425**	**28,564**	**(642,142)**	**(588)**	**382,025**
Translation differences	2,296	12,227	230	274	233	(11,410)	5	3,855
Acquisition of a subsidiary (Note 5.1)	6,212	3,080	16	31	104	-	-	9,443
Additions	5,634	28,758	3,237	2,657	43,619	(46,417)	(128)	37,360
Disposals	(709)	(17,145)	(5,211)	(2,682)	(662)	25,280	356	(773)
Transfers	6,724	29,820	1,114	795	(38,347)	(106)	-	-
Balance at December 31, 2016	**234,275**	**725,432**	**83,342**	**30,500**	**33,511**	**(674,795)**	**(355)**	**431,910**

The net balances of this heading at December 31, 2016 and 2015 are the following:

	Thousands of euros					
	31.12.2016			31.12.2015		
	Cost	Depreciation and Impairment	Total	Cost	Depreciation and Impairment	Total
Land and buildings	234,275	(103,389)	130,886	214,118	(96,494)	117,624
Plant and machinery	725,432	(486,786)	238,646	668,692	(459,364)	209,328
Other installations, equipment and furniture	83,342	(63,662)	19,680	83,956	(65,399)	18,557
Other property, plant and equipment	30,500	(21,313)	9,187	29,425	(21,473)	7,952
Advances and assets under construction	33,511	-	33,511	28,564	-	28,564
TOTAL	**1,107,060**	**(675,150)**	**431,910**	**1,024,755**	**(642,730)**	**382,025**

During 2016, investments were made in the Group totaling 83,905 thousand euros, with the most noteworthy following: construction of the plastics plant in Caseda, which began production during the third quarter, installation of a second collagen production line in Uruguay, which started up operations during the fourth quarter of the year and is focused on continuing to improve service provided to the Latin American market, termination and startup of the plastics production plant in Mexico, startup of a new plan for beginning fibrous production in Caseda, and new production lines in China. Investments were still being made in technical improvements focused on energy optimization in all the Group's plants, especially in Mexico.

On November 3, 2016, a fire broke out in the spare parts plant warehouse of its subsidiary Naturim Viscofan, Gmbh in Weinheim (Germany), halting production for two days, and nearly destroying the entire warehouse. During the year, no items of PP&E affected by the fire were derecognized waiting for the expert´s report. The carrying amount of these items totaling 160 thousand of euros.The replacement value and damages were all covered by the Group's insurance policy.

Details of fully depreciated property, plant, and equipment in use at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	**2015**
Buildings	34,401	33,217
Plant and machinery	333,715	323,250
Other installations, equipment and furniture	50,296	47,750
Other property, plant and equipment	14,004	13,546
Fully depreciated property, plant and equipment	**432,416**	**417,763**

The Group's buildings, plant, and equipment were partly financed by government grants of 78 and 1,880 thousand euros in 2016 and 2015, respectively (Note 14).

The Group has insurance policies covering the various risks to which its items of property, plant, and equipment are exposed. Management considers that these policies provide sufficient coverage.

Within the framework of the annual investment plan, at year-end 2016 there were commitments to acquire PP&E in the amount of 7,460 thousand euros, which were mainly related to optimizing energy use in Mexico and Spain, as well as processes and technological updates

2015 year end acquisition commitments amounted to 12,399 thousand euros are mainly related to the plastic casings production plant project in Mexico, as well as improvements made to increase efficiency and boost cellulose, fiber, and collagen casings production capacity.

Finance leases

The Group leases buildings and other items under finance leases as follows:

	Thousands of euros	
	Cost	Amortization
At January 1, 2015	1,131	(283)
Net movement	23	(150)
At December 31, 2015	**1,154**	**(433)**
Net movement (*)	-	(142)
At December 31, 2016	**1,154**	**(575)**

Details of minimum payments and current finance lease liabilities, by maturity date, are as follows:

	Thousands of euros			
	2016		2015	
	Minimum payments (Note 17)	Interest	Minimum payments (Note 17)	Interest
Up to one year	182	11	216	20
Between one and five years	160	4	343	16
Total	**342**	**15**	**559**	**36**

Operating leases

The Group leases various warehouses and other PP&E items in various countries. The future minimum payments for these operating leases at year end are as follows

	Thousands of euros	
	2016	2015
Up to one year	3,082	2,016
Between one and five years	4,217	2,818
More than five years	590	558
Total	**7,889**	**5,392**

Lease-related expenses during the year totaled 4,663 thousand euros (2015: 3,974 thousand euros - Note 20.4).

The breakdown of leased items of property, plant, and equipment follows:

	Thousands of euros	
	2016	**2015**
Buildings	2,561	1,495
Machinery and other equipment	3,409	2,831
Vehicles	1,919	1,066
Total	**7,889**	**5,392**

Impairment test

No evidence of impairment was detected in any of the Group's cash-generating units, as they are generally performing well; therefore, it was not considered necessary to perform any impairment tests.

8. Intangible assets

The breakdown and movements in other intangible assets during 2016 and 2015 are as follows:

	Thousands of euros							
	Client portfolio	**Software**	**Concessions, patents, licenses and use rights**	**Emission rights**	**Good will**	**Prepayments**	**Amortization**	**Total**
Balance at January 1, 2015	**-**	**28,063**	**18,043**	**796**	**-**	**388**	**(33,740)**	**13,550**
Translation differences	-	199	1,058	-	-	(60)	(961)	236
Acquisition of a subsidiary	-	-	668	-	-	-	-	668
Additions	-	2,073	171	2,330	3,520	740	(3,945)	4,889
Disposals	-	(329)	-	(1,009)	-	-	329	(1,009)
Transfers	-	192	-	-	-	(192)	-	-
Balance at December 31, 2015	**-**	**30,198**	**19,940**	**2,117**	**3,520**	**876**	**(38,317)**	**18,334**
Translation differences	-	574	191	-	-	35	(822)	(22)
Acquisition of a subsidiary (Note 5.1)	621	98	-	-	-	-	-	719
Additions	-	2,207	-	-	-	586	(3,282)	(489)
Disposals	-	(1,467)	-	-	-	-	1,467	-
Transfers	-	1,272	-	(2,117)	-	(1,258)	(14)	(2,117)
Balance at December 31, 2016	**621**	**32,882**	**20,131**	**-**	**3,520**	**239**	**(40,968)**	**16,425**

The balances of this heading at December 31, 2016 and 2015 are the following:

	Thousands of euros					
	31.12.2016			31.12.2015		
	Cost	Depreciation and Impairment	Total	Cost	Depreciation and Impairment	Total
Client portfolio	621	-	621	-	-	-
Software	32,882	(24,920)	7,962	30,198	(23,049)	7,149
Concessions, patents, licenses and use rights	20,131	(16,048)	4,083	19,940	(15,268)	4,672
Emission rights	-	-	-	2,117	-	2,117
Good will	3,520	-	3,520	3,520	-	3,520
Prepayments	239	-	239	876	-	876
TOTAL	**57,393**	**(40,968)**	**16,425**	**56,651**	**(38,317)**	**18,334**

"Software" includes the ownership and usage rights for IT programs acquired from third parties.

At year-end 2016, greenhouse gas emission rights were classified under "Inventories" as they are used to cancel the obligations arising from the Group's emissions during the year; therefore, they are assets which remain in its equity during a period which generally falls under a year.

Details of the cost of fully amortized intangible assets in use at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	2015
Software	17,716	14,511
Concessions, patents, licenses and use r	13,088	13,064
Fully anortizated intangible assets	**30,804**	**27,575**

Impairment test

Goodwill recorded on the Group's consolidated balance sheet corresponds to Nanopack Technology & Packaging, S.L.; its CGU corresponds to the legal company or subgroup (Note 5.2). It engages in manufacturing and marketing of film plastics and new products based on the acquired technology and its expected development.

The acquired company is a start-up very focused to R+D+I in the plastic technology, having reach promising developments. As happen with companies of similar characteristics need to be supported both financing and marketing to introduce their novel products in the market. Despite the CGU's negative turnover in 2016, it is expected to increase in 2017, once the Company's performance reflects the efforts made in its new Caseda plant, as well as novel products developed in Girona, which add value and establish the foundations for growth in the future.

During 2016, the first complete year within the Group, Viscofan has invested in new property, plant and equipment items, based in the expected growth projections made by the Management, coherent with the long term and industrial policies of Viscofan Group. The assumptions include an increasing volume of sales during the first year's activity. 5-year projections were done, in which Management established forecasted business figures broken down by CGU managers (by year, country, customer, average product sales prices) based on historic data (internal/external sources), market, competition scenarios, information on new products and those in development, and actions to be implemented aimed at geographical expansion, and available macroeconomic forecasts.

The main assumption affecting to the cash flows arise from the projections made based on hypotheses on increasing volume average and use of the installed capacity, keeping constant price sales an costs. The Management has estimated a prudential use of the 60% of the installed capacity in the calculation of the sustainable cash flow. The residual value includes a growth rate of 1.5%, related with expect growth rate. The pre-tax discount rate (Wacc) is 8%.

The cash flows projections did not contemplate investments from capital increases. Investments during the year made it possible to reach targeted production levels making it possible to meet sales projections, upon which residual value is calculated. Current investments totaling '0.5 million euros should suffice to ensure that the plant remains operational and competitive.

The estimated residual value included a sustainable average flow and a growth rate of 1.5%. The sustainable average flow corresponds to cash flows during the most recently projected period.

Based on a sensitivity analysis;

- Variations of 10% in the discount rate do not imply the recognition of impairment.

- Sensitivity to reasonably-possible changes in turnover (in thousands of euros).

The consolidated carrying amount totaled 7,059 thousand euros (goodwill totaling 3,520 thousand, with PP&E items amounting to 3,539 thousand euros).

Therefore, taking the above into consideration, the Directors consider that at year-end 2016, there were no indications that any impairment losses should be recorded.

9. Inventories

Details of inventories at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	**2015**
Goods for resale	9,717	5,710
Raw materials and other supplies	62,859	52,525
Semi-finished products	62,654	50,219
Finished products	93,843	97,959
Prepayments to suppliers	505	2,224
Total Inventories	**229,578**	**208,637**

During 2016, “Raw materials and other consumables” include: greenhouse gas emission rights amounting to 2,821 thousand euros.

The expenses incurred during the year corresponding to impairment and obsolescence amounts to 2,600 thousand of euros (1,546 thousand of euros in 2015) and they are recognized under "Consumption of raw materials and other consumables" and “Changes in inventory of finished goods and work in progress” on the consolidated income statement and are recognized under "Consumption of raw materials and other consumables" and “Changes in inventory of finished goods and work in progress” on the consolidated income statement.

At December 31, 2016 and 2015, there were no inventories with a reimbursement period greater than 12 months recognized in the consolidated statement of financial position.

Group companies have contracted various insurance policies to cover the risk of damage to inventories. The coverage of these policies is considered sufficient.

10. Trade and other receivables

10.1. Trade and other receivables

The breakdown for "Trade and other receivables" at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Trade receivables	143,669	131,111
Other receivables	6,168	1,750
Advances to employees	316	269
Provisions for bad debts	(2,512)	(2,193)
Total trade and oher receivables	**147,641**	**130,937**

"Other non-trade receivables" include, among others, insurance amounts receivable by the Company arising from damage caused by the Weinheim plant fire (Notes 7 and 20.2) and expenses during the year, totaling 4.5 million euros, reduced by 3 million already collected in advance during the year. Also included accounts receivable totaling 1.8 million euros corresponding to the estimated compensations to receive from the insurance company arising form damage and loss of profits caused by a maintenance supplier in Naturin Viscofan GmbH (Note 21.2).

Management considers that the carrying amount of "Trade and other receivables" is similar to its fair value, as its items are recognized at their invoiced amounts, and therefore the effect of discounts is rendered totally immaterial.

At December 31, 2015 and 2015, the age of balances receivable related to sales based on their maturity, including balances which have not yet fallen due, those which have, and those which are totally impaired is the following:

	Thousands of euros					
	Total	**Not due**	**< 30 days**	**31-60 days**	**61-90 days**	**> 90 days**
2016	147,641	128,732	11,752	1,694	2,062	3,401
2015	130,937	112,997	12,114	1,810	250	3,766

The Group has credit insurance contracts which cover the collection of the greater portion of its customer balances.

The movement in provisions for irrecoverable debt from trade receivables and other receivables is as follows:

	Thousands of euros	
	2016	**2015**
Balance at January 1,	(2,193)	(2,083)
Translation differences	(11)	11
Amounts provisioned	(876)	(536)
Amounts applied	568	415
Balance at December 31,	**(2,512)**	**(2,193)**

Trade receivables do not carry interest, and generally payment conditions range from 45 to 90 days.

The breakdown by currency for "Trade and other receivables" is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	52,212	63,648	299	19,074	908	8,777	2,723	**147,641**
2015	42,518	62,134	426	14,711	383	7,595	3,170	**130,937**

10.2. Receivables from public administrations

At December 31, 2016 and 2015, balances receivable from public administrations are as follows:

	Thousands of euros	
	2016	**2015**
VAT receivable form the Treasury	23,765	24,050
Withholdings and peyments on account receivable from the T	2	65
Other public bodies	14	11
Balance at December 31,	**23,781**	**24,126**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	7,926	14	712	6,172	5,992	413	2,552	**23,781**
2015	4,874	65	681	9,725	5,929	220	2,632	**24,126**

11. Current and non-current financial assets

All financial instruments at December 31, 2016 and 2015 are included in level 2: assets and liabilities whose fair value has been determined with technical valuation techniques that use hypotheses observable in the market.

The breakdown at December 31, 2016 and 2015 of current and non-current financial assets is as follows:

	Thousands of euros				
Year 2016	**Loans and receivables**	**Available-for-sale**	**Hedges**	**Carrying amount**	**Fair value**
Financial investments	9,116	134	-	9,250	9,250
Cash flow hedges	-	-	2,798	2,798	2,798
Guarantees and deposits	745	-	-	745	745
Non-current financial assets	**9,861**	**134**	**2,798**	**12,793**	**12,793**
Guarantees and deposits	19	-	-	19	19
Cash flow hedges	-	-	1,441	1,441	1,441
Current financial assets	**19**	**-**	**1,441**	**1,460**	**1,460**
Total at December 31, 2016	**9,880**	**134**	**4,239**	**14,253**	**14,253**

	Thousands of euros				
Year 2015	**Loans and receivables**	**Available-for-sale**	**Hedges**	**Carrying amount**	**Fair value**
Financial investments	-	134	-	134	134
Cash flow hedges	-	-	16	16	16
Guarantees and deposits	1,161	-	-	1,161	1,161
Non-current financial assets	**1,161**	**134**	**16**	**1,311**	**1,311**
Guarantees and deposits	882	-	-	882	882
Cash flow hedges	-	-	332	332	332
Current financial assets	**882**	**-**	**332**	**1,214**	**1,214**
Total at December 31, 2015	**2,043**	**134**	**348**	**2,525**	**2,525**

At December 31, 2016, "Other non-current financial assets" includes a balance receivable by ICMS (the equivalent to VAT) of 7,199 thousand euros. In the state of Sao Paulo, the import ICMS increased 18%, while ICMS charged to sales ranges from 4% to 18%, depending upon the jurisdiction in question. This is the reason for the negative ICMS balance which, the Sao Paulo state's tax authorities only permits recovery through offsetting against other balances generated by the same tax. In this regard, during 2016, Viscofan do Brasil took steps to enable it to compensate and recover them within an estimated 3-4 years.

A breakdown of financial instruments by maturity is as follows:

	Thousands of euros						
Year 2016	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**More than 5 years**	**Total**
Cash flow hedges	1,441	2,424	374	-	-	-	4,239
Other financial assets	19	3,046	2,691	2,567	469	1,222	10,014
Total at December 31, 2016	**1,460**	**5,470**	**3,065**	**2,567**	**469**	**1,222**	**14,253**

	Thousands of euros						
Year 2015	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**More than 5 years**	**Total**
Cash flow hedges	332	16	-	-	-	-	348
Other financial assets	882	996	6	10		283	2,177
Total at December 31, 2015	**1,214**	**1,012**	**6**	**10**	**-**	**283**	**2,525**

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	6,059	440	-	7,597	8	144	5	**14,253**
2015	188	128	234	353	503	1,113	6	**2,525**

12. Cash and cash equivalents

"Cash and cash equivalents" at December, 31 2016 and 2015 correspond entirely to balances held by the Group in cash and credit accounts, and an account which earns interest at market rates. The Group had no banking overdrafts during the periods, with all its balances freely distributable.

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	24,743	9,153	1,612	898	253	4,224	4,171	**45,054**
2015	28,603	3,736	1,254	1,154	537	4,024	5,145	**44,453**

13. Equity

13.1. Share capital

At year end 2016 and 2015, the parent's share capital consisted of 46,603,682 registered ordinary shares with a par value of 0.70 euros each, fully subscribed and paid in. The total value of capital amounts to 32,623 thousand euros.

All shares bear the same voting and dividend rights and obligations, and are listed on the official Stock Exchanges of Madrid, Barcelona, and Bilbao under the automatic quotation system (continuous market). All shares are freely distributable.

At December 31, 2016 and 2015, the parent was aware of the following shareholders with a direct or indirect stake of over 3%:

	% of investment	
	2016	2015
Corporación Financiera Alba, S. A. (*)	11.02	6.86
Norges Bank	5.25	-
APG Asset Management N.V.	5.17	5.17
Ana María Bohórquez Escribano (**)	5.00	3.01
Marathon Asset Management, LLP.	4.98	4.93

(*) Indirect ownership interest held through Alba Participaciones SAU
(**) Indirect ownership interest held through Angustias y Sol, S.L.

Additionally, in accordance with Article 32 of Royal Decree 1362/2007, of October 19, on shareholders obliged to notify their residence in tax havens or in countries not requiring the payment of taxes, or with whom there is no effective exchange of tax information. No notification was received during 2016.During 2015, the shareholders Fidelity International Limited and Invesco Limited communicated that they owned respective percentages of 1.027% and 1.017%.

Capital management

The primary objective of the Viscofan Group's capital management is to safeguard its capital ratios to ensure the continuity of its business and maximize performance.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, increase capital or cancel treasury shares.

The Group monitors capital by analyzing trends in its leverage ratio, in line with common practice in Spain. This ratio is calculated as net financial debt divided by total equity. Net financial debt includes total borrowings in the consolidated financial statements less cash and cash equivalents, and excluding current financial assets.

The Viscofan Group's primary objective is to maintain a healthy capital position. The leverage ratios at December 31, 2016 and 2015 were as follows:

	Thousands of euros	
	2016	**2015**
Financial liabilities (Note 17)	84,986	67,453
Cash and cash equivalents	(45,054)	(44,453)
Other S.T. financial assets (Note 11)	(1,460)	(1,214)
Total net financial debt	**38,472**	**21,786**
Total equity	**708,081**	**632,909**
Leverage ratio	**5.4%**	**3.4%**

13.2. Share premium

The revised text of the Spanish Corporate Enterprises Act expressly permits companies to use the balance of the share premium account to increase capital and does not place any limit on the amount of the balance which may be used for this purpose.

13.3. Reserves

The breakdown and movements of reserves are as follow:

	Thousands of euros				
	Legal reserve	**Revaluation reserves**	**Merger reserve**	**Retained earnings and other reserves**	**Total**
Balance at January 1, 2015	**2,935**	**15,888**	**119**	**464,341**	**483,283**
Actuarial gain (losses)	-	-	-	1,011	1,011
Apropiation of prior year results	-	-	-	51,739	51,739
Transfers	-	-	-	245	245
Balance at December 31, 2015	**2,935**	**15,888**	**119**	**517,336**	**536,278**
Actuarial gain (losses)	-	-	-	(1,678)	(1,678)
Apropiation of prior year results	-	-	-	57,573	57,573
Balance at December 31, 2016	**2,935**	**15,888**	**119**	**573,231**	**592,173**

(a) Legal reserves

In accordance with the Spanish Corporate Enterprises Act, companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until it reaches an amount of at least an amount equivalent to 20% of share capital. This reserve cannot be distributed to shareholders.

(b) Revaluation reserve

The parent opted for the voluntary revaluation of PP&E items as established in the Navarre Regional Law 21/2012 of December 26, on modifying various taxes and other tax measures. The revaluation was carried out with respect to items recorded in the balance sheet for the year ended December 31, 2012, with the resulting reserve, net of 5% tax, amounting to 7,329 thousand euros. The effect of said revaluation was not recognized in the consolidated financial statements of the Group.

Once the inspection period had past, during 2016 the balance may be used to:

- Offset prior years' losses.
- Increase share capital.
- Increase freely distributable reserves once ten years have elapsed from the closing date of the balance sheet for the year in which the revaluation was recognized. However, said balance can only be distributed, directly or indirectly, when the revalued equity items have been fully depreciated, transferred, or derecognized.

Revaluation reserve in accordance with Navarra Regional Law 23/1996, is considered as distributable from December 31, 2006, on to the extent that gains have been realized, that is, when the related assets have been depreciated, disposed of or otherwise written off.

13.4. Unrealized gains/(losses) reserve

Movements in the years ended December 31, 2016 and 2015 were as follows:

	Thousands of euros			
	Interest rate swaps	Exchange rate insurance	Raw material derivatives	Total
Balance at January 1, 2015	**(69)**	**(1,147)**	**(3,697)**	**(4,913)**
Gains/(losses), net of tax effects	-	(502)	(2,336)	(2,838)
Reclassification of gains to the income statement, net of tax	46	1,147	3,697	4,890
Balance at December 31, 2015	**(23)**	**(502)**	**(2,336)**	**(2,861)**
Gains/(losses), net of tax effects	-	(806)	3,068	2,262
Reclassification of gains to the income statement, net of tax	19	502	2,318	2,839
Balance at December 31, 2016	**(4)**	**(806)**	**3,050**	**2,240**

13.5. Movement in treasury shares

No transactions were carried out with treasury shares in 2016 and 2015.

The shareholders at their ordinary general meeting on April 29, 2013 agreed to renew the authorization, for the maximum legal period, granted to the Board of Directors to buy and sell Company shares on the stock market at the price quoted on the transaction date, up to the legal maximum number of shares permitted by Article 146 of the revised text of the Corporation Tax Law, and at a minimum price of the nominal value and a maximum 15% greater than the quoted share price in the stock exchange system at the moment of acquisition.

13.6. Appropriation of profit and other remuneration paid to the shareholders

Parent profits for the year ended December 31, 2015 were distributed as approved by the shareholders at their annual general meeting held on May 7, 2016, as follows:

	Thousands of euros
Dividends	62,449
Voluntary reserves	41,554
Distributable profits attributable to the parent	**104,003**

Total shareholder remuneration amounted to 1.34 euros per share. Of the above, the distribution of profit represented a per-share dividend of 1.34 euros and 0.01 euros corresponding to the payment of attendance fees related to the 2016 General Shareholders Meeting. This premium was recognized as an expense for the year.

Details of the distribution of the parent's 2016 dividends proposed by the directors of the parent, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Dividends	67,109
Voluntary reserves	3,602
Distributable profits attributable to the parent	**70,711**

On November 24, 2016, based on projected profit for the year, the Board of Directors approved an interim dividend for 2016 of 26,564 thousand euros, equal to 0.57 euros per share. This dividend was paid on December 22, 2016. The amount of the dividend is less than the maximum limit permitted by prevailing legislation on distributable profit after the previous year end.

The statement required by current legislation and prepared by the parent's Board of Directors in respect of the distribution of the interim dividend for 2016 is as follows:

	Thousands of euros
I. Cash available at November 23, 2016	**1,900**
Trade and other receivables	186,493
Trade and other payables	(111,941)
Payments to employees	(44,391)
Interest expense	(998)
Other payments	(6,500)
II. Cash flow from operating activities	**22,663**
Dividends received	69,062
Purchases of property, plant and equipment	(33,300)
III. Cash flow from investment activities	**35,762**
Variations in bank borrowings	8,911
Dividends paid	(67,575)
V. Projected liquidity at November 23, 2017	**1,661**

14. Capital grants

The movements under this heading in 2016 and 2015 were as follows:

Thousands of euros	Capital grants
Balance at January 1, 2015	**2,280**
Translation differences	89
Additions	1,880
Taken to profit	(671)
Balance at December 31, 2015	**3,578**
Translation differences	17
Additions	78
Taken to profit	(672)
Balance at December 31, 2016	**3,001**

The breakdown of capital grants during 2016 and 2015, all related to PP&E items, is as follows:

	Thousands of euros	
	2016	**2015**
Navarra regional government	2,260	2,761
Ministry of Science and Technology	-	16
International organizations	741	801
Balance at December 31, 2016	**3,001**	**3,578**

15. Current and non-current provisions

Details at December 31, 2016 and 2015 are as follows:

		Thousands of euros	
	Note	2016	2015
Defined benefit	15.1	19,733	17,178
Other employee benefits	15.2	3,177	3,186
Provisions for other litigation	15.3	398	354
Total non-current provisions		**23,317**	**20,718**
Provisions for warranties/repayments	15.4	1,865	1,082
Provisions for safety in the workplace	15.5	2,276	1,983
Provisions for emission rights	15.6	1,754	1,731
Others		783	301
Total current provisions		**6,678**	**5,097**

15.1. Provisions for defined benefit plans

a) The Group makes contributions to various different defined benefit plans. The most relevant plans are located in Germany and the United States of America, and independent actuarial valuations are used for all of them.

This note discloses the most relevant plans.

- Pension plans in Germany

A contribution is made through the Naturin Viscofan GmbH subsidiary for a defined benefit plan consisting of a life pension plan for retired employees. At December 31, 2016, there were 415 employees, 450 retirees, and ex-employees. At December 31, 2015, there were 435 employees and 444 retirees and ex-employees.

The number of the above beneficiaries does not included retirees which, from 2010 and 2013 are paid by the insurance company. The agreement does not imply cutting back or canceling the policy, as the obligation ultimately lies with Naturin Viscofan GmbH. However, the characteristics of the plan make the value of the assets and liabilities constant for the duration of the contract, so that both the assets and the liabilities offset each other, resulting in a current value of zero for the obligation.

The net obligation corresponding to pension plans amounts to 17,577 thousand euros at December 31, 2016, and 15,027 thousand euros at December 31, 2015. There are no pension plan assets in Germany.

- Pension plans in the United States of America

After canceling its defined employee pension plan commitments in prior years, at December 31, 2016 and 2015, Viscofan USA, Inc. was left with just 3 different pension plans whose recipients are 8 ex-directors of the subsidiary, and receive a lifelong monthly stipend.

These pension plans do not have any related assets or expenses arising from unrecognized past service.

The net commitment of the US pension plans amounts to 1,844 thousand euros at year end (2015: 1,847 thousand euros).

During the year, the Hourly Employees and Salaried Employees pension plans was definitively canceled. Payments made to the insurance company 6,451 thousand euros.

The cancellation of these employee commitments led to a profit of 3,003 thousand euros in 2015, which were recognized as personnel expenses on the consolidated income statements for 2015.

b) The following table presents the status of funds and amounts recognized in the statement of financial position for the respective plans:

	Thousands of euros	
	2016	**2015**
Present value of the obligation	**(19,733)**	**(17,178)**
Plans in Germany	(17,577)	(15,027)
Plans in the USA	(1,844)	(1,847)
Plans in other countries	(312)	(304)
Net obligation recognized	**(19,733)**	**(17,178)**

c) Changes in the present value of the obligations are as follows:

	Thousands of euros					
	Germany		USA		Total	
	2016	2015	2016	2015	2016	2015
Obligations at january 1,	**15,027**	**16,390**	**1,847**	**49,345**	**16,874**	**65,735**
Service cost for the current period (Note 20)	284	319	-	-	284	319
Interest cost	356	323	60	229	416	552
Payments made	(466)	(478)	(198)	(3,064)	(664)	(3,542)
Curtailment of pensions plan	-	-	-	(41,263)	-	(41,263)
Actuarial gains/(losses)	2,376	(1,527)	79	56	2,455	(1,471)
Arising from changes in financial assumptions	*2,258*	*(1,239)*	-	-	*2,258*	*(1,239)*
Arising from experience	*118*	*(288)*	*79*	*56*	*197*	*(232)*
Net value of obligation conributed to the insurance company	-	-	-	*(5,915)*	-	(5,915)
Translations differences	-	-	56	2,459	56	2,459
Obligation at December 31,	**17,577**	**15,027**	**1,844**	**1,847**	**19,421**	**16,874**
Amount corresponding to active beneficiaries	*9,767*	*8,376*	-	-	*9,767*	*8,376*
Amount corresponding to exemployeebeneficiaries	*2,988*	*2,578*	-	-	*2,988*	*2,578*
Amount corresponding to retired beneficiaries	*4,822*	*4,073*	*1,844*	*1,847*	*6,666*	*5,920*

d) The changes in the fair value of plan assets in the USA during 2015 were as follows:

	Thousands of euros
	2015
Fair value of assets at january 1,	**38,907**
Returns on assets	138
Curtailment of pensions plan	(41,263)
Translation differences	2,218
Fair value of assets at December 31,	**-**

e) The following table provides information relating to the amounts recognized in the consolidated income statement. Current service costs for the period are included in employee benefits expenses.

	Thousands of euros	
	2016	**2015**
Current service cost	**321**	**352**
Plans in Germany	284	319
Plans in other countries	37	33
Termination cost Plans in the USA	**-**	**(2,869)**
Net financial cost	**431**	**428**
Interest expense for German plans	356	323
Interest expense for US plans	60	229
Interest expense for plans in other countries	15	14
Expected return on US plan assets	-	(138)
Expense (income) recognized for the year	**752**	**(2,089)**

f) The following table provides information relating to the amounts recognized in the consolidated statement of comprehensive income:

	Thousands of euros	
	2016	**2015**
Actuarial losses and gains of	**(2,490)**	**1,393**
Plans in Germany	(2,376)	1,527
Plans in the USA	(125)	(92)
Plans in other countries	11	(42)
Tax effect	**812**	**(382)**
Net results recognized in the consolidated statement of comprehensive income	**(1,678)**	**1,011**

g) The principal actuarial assumptions used are as follows:

	2016	2015
Germany		
Annual discount rate	1.7%	2.4%
Expected rate of salary increases	2.0%	2.0%
Expected age of retirement for employees	65-67	65-67
United States		
Annual discount rate	3.5%	3.5%

The following mortality tables were used to quantify the defined benefit obligation:

Germany: Heubeck RT 2005 G

US Year 2016: *RP 2000 Annuitant w/no projection*

Future payments expected for coming periods are shown in the following table:

	Thousands of euros		
	Germany	USA	Total
Payable within the next 12 months	466	204	670
Payable within 1 and 2 years	487	194	681
Payable within 2 and 3 years	497	184	681
Payable within 3 and4 years	521	173	694
Payable within 4 and 5 years	548	163	711
Payable within 5 and 10 years	3,294	663	3,957
Payable within more than 10 years	22,181	754	22,935

The following table shows the sensitivity analysis for each of the main hypotheses on how a possible reasonable change in each hypothesis would affect the obligation at year end:

	Thousands of euros		
	Germany	USA	Total
Discount rate			
Increase of 50 basic points	(1,658)	(58)	(1,716)
Decrease of 50 basic points	1,914	62	1,976
Increase in pensions			
Increase of 50 basic points	1,244	-	1,244
Decrease of 50 basic points	(1,128)	-	(1,128)
Life expectancy			
Increase of 1 additional year	892	117	1,009

The sensitivity analysis is based on a change in one hypothesis while considering the remaining hypotheses as unchanged.

15.2. Other employee benefits and long-term remuneration

The movement in this heading at December 31, 2016 and 2015, is as follows:

	Thousands of euros	
	2016	2015
Balance at January 1,	3,186	3,601
Translation differences	36	(41)
Allowances	359	218
Payments	(404)	(592)
Balance at December 31,	**3,177**	**3,186**

(a) Seniority bonus in Germany

The subsidiary Naturin Viscofan GmbH has established seniority bonuses for when its employees complete 10 years of service (1,000 euros), 25 and 40 years of service (both amounting to 1,000 euros plus the gross monthly salary multiplied by 1.6 and one day of holidays), and, if applicable, 50 years of service (one day of holidays), settled in one-off payments at the date the employees complete the respective periods. The hypotheses used for calculating the obligations were the same as those used for the pension plan of the same subsidiary as described in the previous point.

The number of beneficiaries amounts to 415 employees (435 in the previous period), while the obligation amounts to 2,711 and 2,777 thousand euros at December 31, 2016 and 2015, respectively. The beneficiaries received 235 thousand euros in payments during 2016 (2015: 254 thousand euros). The payable amount expected for 2016 totals 412 thousand euros.

Recognized service costs and financial expenses for the current period amounted to 148 thousand and 154 thousand euros, respectively (2015: 116 thousand and 33 thousand euros, respectively).

15.3. Provisions for other litigations

The movements at December 31, 2016 and 2015, are as follows:

	Thousands of euros	
	2016	**2015**
Balance at January 1,	353	212
Translation differences	80	(80)
Allowances	-	407
Payments	(35)	(185)
Balance at December 31,	**398**	**354**

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2016.

15.4. Provision for guarantees / refunds

This provision is mainly related to sales in Europe. Its estimate is based on the Group's historical information.

15.5. Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees, most of whom are based in the US, related to workplace accidents. These claims did not arise as a result of a specific incident, but are customary practice in many companies. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2016.

15.6. Emission rights provision

The amount of the provision for greenhouse gas emissions during the year was 1,754 thousand euros for 2016 (2015: 1,731 thousand euros).

15.7. Contingent assets and liabilities

(a) Contingent liabilities

At year end, there were a number of different legal claims filed against the Brazilian subsidiary totaling 4.4 million euros (2015: 3.6 million euros). As indicated in Note 15.3, at December 31, 2016, a 0.4 million euro provision was recognized (2015: 0.4 million euros). In the opinion of the Group's legal advisors in Brazil, all those which are not recognized under liabilities are considered to be potential risks, or that possible related amounts cannot be determined at the moment. Based on historic experience, the related amounts of all possible claims are under 5%.

Also, at year end, there were a number of ongoing lawsuits against Griffith Colombia, S.A. had held exclusive sales rights for Viscofan Group products in Colombia since 2006. As a result of the of the end of its business relationship, Griffith stopped paying invoices, which total approximately 1.2 million euros, to two Viscofan Group companies, arguing a right to retention because of the indemnity it considered due. Viscofan filed a number of lawsuits demanding payment of these invoices, as it won its lawsuits in Brazil and the Czech Republic. The ruling in Brazil was handed down in 2015, although the debt has yet to be collected there. The Czech Republic ruling was handed down in February of 2017, but Griffith may file an appeal before the Supreme Court. The claims process for terminating the sales relationship started by Griffith in Columbia is still open, with no relevant advances taking place in 2016. The Columbian Industry and Commerce Superintendency ruled in favor of Viscofan in its unfair trade practices proceedings brought by Griffith. At this time, there has been no indication that Griffith has filed an appeal.

Berkes Construcción y Montajes, S.A. and Viscofan Uruguay, S.A. filed reciprocal legal proceedings which are encompassed into a sole proceeding arising from the construction contract for building the plant. Viscofan Uruguay considers that there are deficiencies and areas of lack of compliance in the work done, and has retained amounts so as to force Berkes to rectify the problems; Berkes, on the other hand, considers that the deficiencies and lack of compliance are not relevant, and that the amounts retained by Viscofan Uruguay are excessive, claiming payment of these amounts. The process is still in the testing stage, and the possibility that material payments may be generated on the Viscofan Uruguay, S.A. balance sheet is remote.

(b) Contingent assets

At December 31, 2016, the extraordinary appeal admitted by the Supreme Court on September 22, 2014 rejected the initial appeal IAN S.A.U.'s lawsuit against Mivisa Envases, S.A.; the patent request had been declared null due to lack of originality and inventiveness. Thus, the ruling found that there was no breach on the part of Mivisa Envases, S.L., nor was any indemnity due. According to the sale contract of Industrias Alimentarias de Navarra, S.A.U. dated March 10, 2015, the appeal belongs to Viscofan S.A., and therefore, the indemnity corresponds to Viscofan S.A. The date for votation and court decision date has been set in March 2017. The outcome is uncertain, and therefore no assets were recognized.

Viscofan S.A. filed legal proceedings before the Mercantile Court against Sayer Technologies S.L. for revealing confidential information, once the Appellate Court rejected the legal claims filed. It was admitted by the Court and is currently being transferred to Sayer.

A fire seriously damaged the Weinheim parts warehouse, with an accounting value of 160,000 euros on the consolidated statements. The insurance company Allianz covered the claim. Thanks to prevention and containment measures, production was not affected by the fire, although a partial shutdown took place as a preventative measure; production started up two days later. Despite the fact that the claim is still being evaluated, advance payment in the amount of 3 million euros was received; the insurance inspection should conclude by April 2017. Therefore, results for 2016 will not be affected, with the warehouse construction planning expected for 2017.

Regarding regulation of the Spanish electricity sector, Viscofan S.A. filed an appeal before the Chamber of the Supreme Court against Royal Decree 413/2014 of June 6, and against Order IET/1045/2014, which regulates the activity and approved all the retribution parameters for the electricity generation facilities based on renewable energy sources. Voting and sentencing have been suspended to requested that the Ministry for Industry, Energy, and Tourism and Agenda Digital to rule on certain aspects upon which questions were asked by the company.

Viscofan S.A. also filed ratifications for the tax returns or self-assessments on the Electricity Production Value corresponding to 2013, 2014, and 2015, as it considered that it violates different European legal precepts and of the Spanish constitution.

Finally, Viscofan, S.A. maintained its appeal before the Chamber of the Supreme Court against Royal Decree 413/2014 of July 15, against the ruling of the Directorate General of Energy Policy and Mining on July 15, 2015, which determined the registration of the pre-assigned remuneration of 2,146 MW, requesting the specific remuneration scheme commence from the installation's startup date, or subsidiarily as of November 9, 2014, (the date upon which this should have been resolved). Currently the procedure is undergoing testing.

Currently, It is impossible to determine the amount of contingent assets which might arise from these rulings in favor of Viscofan S.A., and therefore no amounts recoverable were recognized on Viscofan S.A.'s balance sheet in this regard.

16. Trade and other payables

16.1. Trade and other payables

The breakdown of "Trade and other payables" is as follows:

	Thousands of euros	
	2016	**2015**
Suppliers	26,039	26,481
Amounts owed for services received	23,689	20,539
Customer advances	3,799	5,026
Remuneration pending payments	11,913	10,731
Balance at December 31,	**65,440**	**62,777**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	31,389	18,456	2,142	4,205	3,451	2,212	3,585	**65,440**
2015	29,844	20,152	2,217	721	3,446	2,233	4,163	**62,776**

16.2. Payable to public administrations

The breakdown of this heading is as follows:

	Thousands of euros	
	2016	**2015**
VAT payable to Treasury	2,250	1,781
Amounts payable to the Treasury for withholdings	5,416	5,897
Payable to social security agencies	1,781	2,003
Other public bodies	709	721
Balance at December 31,	**10,156**	**10,402**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	US dollars	Czeck crown	Brazilian real	Mexican peso	Chinese yuan	Others	Total carrying amount
2016	6,906	8	432	-	2,032	525	253	**10,156**
2015	6,743	31	478	-	1,968	870	312	**10,402**

16.3. Information on late payments to suppliers in Spain in commercial transactions

In accordance with the Third transitory provision "Disclosure requirements" of Law 15/2010 dated July 5, information the average payment period to Spanish Group suppliers to the Spanish entities included in the consolidated group follows:

	Days	
	2016	2015
Average supplier payment period	33.57	35.62
Ratio of transactions paid	38.15	37.13
Ratio of unpaid transactions	11.98	12.84

	Thousands of euros	
	2016	2015
Total payments made	129,987	115,286
Total unmade payments	15,430	7,675

17. Current and non-current financial liabilities

The breakdown of current and non-current financial liabilities, taking into account discounted contractual maturities at December 31, 2016 and 2015, is as follows:

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total fair value
Bank borrowings	1,468	9,866	34,287	7,700	53,321	53,321
Accrued interest payable	124	57	-	-	181	181
Finance lease payables	55	127	160	-	342	342
Derivative financial instruments	167	2,667	133	-	2,967	2,967
Other financial liabilities	11,570	4,017	9,918	2,669	28,174	28,174
Total at December 31, 2016	**13,384**	**16,734**	**44,498**	**10,369**	**84,985**	**84,985**

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total fair value
Bank borrowings	5,707	9,018	25,787	-	40,512	40,512
Accrued interest payable	76	60	-	-	136	136
Finance lease payables	52	164	343	-	559	559
Derivative financial instruments	2,811	2,921	471	-	6,203	6,203
Other financial liabilities	4,186	4,842	7,479	3,536	20,043	20,043
Total at December 31, 2015	**12,832**	**17,005**	**34,080**	**3,536**	**67,453**	**67,453**

All current and non-current financial instruments are included in level 2: assets and liabilities whose fair value has been determined with technical valuation techniques that use hypotheses observable in the market.

As can be seen in the previous table, the carrying amount of financial liabilities agrees with the fair value as the long-term debt corresponds to financing obtained in recent years under similar conditions to those currently obtainable in the market.

The classification was determined based on actual maturities of balances drawn down from credit lines. Thus, the balance drawn down from credit lines whose annual renewal has already been agreed upon subsequent to year end are included in the 3-month period.

The financial liabilities corresponding to bank borrowings that accrue interest at variable rates are linked to Euribor or Libor plus an average spread from 1.5%.

"Other financial liabilities" at December 31, 2016, both current and non-current, mainly includes:

- A loan from the parent amounting to 4,167 thousand euros. The nominal amount received from COFIDES (Compañía Española de Financiación del Desarrollo) totaled 5,000 thousand euros. It accrues interest at market rates.
- Loans with interest rates sponsored by entities such as the CTDI and the Ministry of Economy and Competitiveness amounting to 7,973 thousand euros.
- Non-current assets suppliers, amounting to 11,631 thousand euros.

December 31, 2015 mainly includes:

- Loan received by the parent amounting to 5,000 thousand euros from COFIDES (Compañía Española de Financiación del Desarrollo) accruing a market interest rate.
- Loans with interest rates subsidized by entities such as the Government of Navarre, CDTI (Center for Industrial Technological Development), and the Ministry of Science and Technology, amounting to 7,730 thousand euros.
- Non-current assets suppliers, amounting to 5,609 thousand euross.

The Group recognizes the implicit interest on these loans using market interest rates.

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	60,794	16,781	2,107	1,283	1,394	-	2,627	**84,986**
2014	51,652	6,824	1,488	4,043	1,750	15	1,681	**67,453**

The limits, the amount drawn down, and the drawable amount under credit and discount lines, as well as customer invoice advances at December 31 are as follows:

	Thousands of euros	
	2016	**2015**
Limit	118,915	127,147
Amount draw down	2,671	223
Drawable amount	116,244	126,924

The undiscounted value of financial liabilities classified by maturity at December 31, 2016 and 2015 is as follows:

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
Borrowings - debt principa	11,333	4,522	17,422	6,172	6,172	7,700	53,321
Interest	1,333	1,050	937	501	347	193	4,361
Financial liabilities - borrowings	**12,666**	**5,572**	**18,359**	**6,673**	**6,519**	**7,893**	**57,682**
Debt principal	15,770	3,043	3,070	1,907	2,058	2,670	28,518
Interest	713	319	243	166	118	67	1,626
Other financial liablities	**16,483**	**3,362**	**3,313**	**2,073**	**2,176**	**2,737**	**30,144**
At December 31, 2016	**29,149**	**8,934**	**21,672**	**8,746**	**8,695**	**10,630**	**87,826**

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
Borrowings - debt principa	14,942	7,470	4,397	14,263	-	-	41,072
Interest	1,027	653	467	357	-	-	2,504
Financial liabilities - borrowings	**15,969**	**8,123**	**4,864**	**14,620**	**-**	**-**	**43,576**
Debt principal	9,027	1,818	1,942	1,969	1,750	3,537	20,043
Interest	501	275	230	181	132	88	1,407
Other financial liablities	**9,528**	**2,093**	**2,172**	**2,150**	**1,882**	**3,625**	**21,450**
At December 31, 2015	**25,497**	**10,216**	**7,036**	**16,770**	**1,882**	**3,625**	**65,026**

During 2016 and 2015, the Group had reverse factoring facilities with a joint limit of 3,100 thousand euros, as well as multi-risk policies totaling 8,000 thousand euros.

18. Derivatives

The breakdown of balances which include the values of derivatives at December 31, 2016 and 2015 is as follows:

	Thousands of euros			
	2016		2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Exchange rate insurance	-	133	15	283
Interest rate hedges	-	-	-	11
Raw materials hedges	2,798	-	-	177
L.T. Derivatives	**2,798**	**133**	**15**	**471**
Exchange rate insurance	-	2,828	219	2,491
Interest rate hedges	2	7	5	21
Raw materials hedges	1,439	-	109	3,220
S.T. Derivatives	**1,441**	**2,835**	**333**	**5,732**
Total	**4,239**	**2,968**	**348**	**6,203**

18.1. Raw material hedges

A significant amount of the Group's production costs is linked to energy costs. Accordingly, to mitigate the adverse effect of varying energy prices, the parent contracts hedges for the gas price, which are netted out:

• During 2016, gas hedging contracts were signed for a total of 1,200,000 MWH covering gas purchases for the period ranging from February 2016 to January 2019. The contracted prices range from 1.65 to 2.00 euro cents per KWh. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption in its casings manufacturing plant in Spain.

• In 2015, gas hedging contracts were signed for a total of 360,000 MWH covering gas purchases for the period ranging from February 2016 to January 2017. The contracted prices range from 2.07 to 2.29 euro cents per KWh. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption in its casings manufacturing plant in Spain.

The valuation formula used included, among other variables, Brent forward prices.

There were no significant inefficiencies in any of the contracts signed at year end 2016 or 2015.

18.2. Exchange rate insurance

Part of the fair value of the exchange rate insurances at year end was recognized as income or expense on the consolidated income statements for 2016 and 2015. The amount recognized directly in the consolidated income statements relates to exchange rate insurances designated as hedges to cover amounts payable or receivable recognized in the consolidated statements of financial position at the exchange rate at year end. No significant inefficiencies were noted in 2016 and 2015 in any derivative financial instruments contracted.

The Viscofan Group uses derivatives to hedge exchange rates in order to mitigate the possible adverse effects that exchange rate fluctuations might have on transactions in currencies other than the functional currency of certain Group companies.

The nominal value of the main exchange rate insurances in effect at December 31, 2016 and 2015, is as follows:

	Thousands of euros	
	2016	**2015**
US dollar	71,200	85,900
Pounds sterling	7,450	6,615
Canadian dollar	400	2,900
Chinese yuan	-	20,201

18.3. Interest rate hedges

The Group has arranged several interest rate hedges, the details of which are given below:

	Thousands of euros				
	IRS (I)	**IRS (II)**	**IRS (III)**	**IRS (IV)**	**IRS (V)**
Notional contract amount	6,000	4,000	4,000	3,000	10,000
Notional pending amount (2016)	**-**	**-**	**600**	**600**	**2,000**
Notional pending amount (2015)	300	400	1,400	1,200	4,000
Effective start date	01.04.11	02.05.11	15.09.12	30.09.12	12.12.12
Expiry date	01.04.16	03.05.16	15.09.17	30.09.17	27.11.17
Fixed interest rate	3.07%	3.23%	1.56%	1.69%	2.40%

The expiry dates for the notional amounts corresponding to these financial instruments at year end is as follows:

Year	2016	2017
2016	-	3,200
2015	4,100	3,200

19. Income tax

The breakdown for deferred tax assets and liabilities, by type, is as follows:

	Thousands of euros					
	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Non-current assets	2,536	2,424	19,590	19,312	(17,054)	(16,888)
Current assets	7,228	6,987	1,635	113	5,593	6,874
Non-current liabilities	4,508	3,429	99	26	4,409	3,403
Current liabilities	2,057	1,679	1,487	1,177	570	502
Total at December 31,	**16,329**	**14,519**	**22,811**	**20,628**	**(6,482)**	**(6,109)**

The deferred tax assets on current assets are basically generated by provisions in respect of inventories which are not tax deductible in certain countries. The tax effect of eliminating the margin on inventory stock acquired between Group companies is likewise included. Deferred tax assets arising from current and non-current tax liabilities relate mainly to provisions at different Group companies that will be used for tax purposes when applied. A large number of the provisions described in Note 15 have led to adjustments in the tax assessment basis in the different countries.

Deferred tax liabilities arising from non-current assets for the years ended December 31, 2016 and 2015, mainly relate to the application of different amortization rates by certain Group subsidiaries (mostly in the USA) than those used for tax purposes. Also included is the tax effect of net unrealized gains on PP&E items acquired in different business combinations (Germany and Serbia).

The breakdown of changes during the year in recognized deferred tax assets and liabilities arising from temporary differences recognized as income tax expense/(income) on the consolidated statement of recognized income and expense and as “Other income and expenses” on the consolidated comprehensive income statement is as follows:

	Thousands of euros	
	2016	**2015**
Non-current assets	(1,673)	(1,325)
Current assets	529	(934)
Non-current liabilities	959	2,372
Current liabilities	(1,132)	882
Consolidated income statement	**(1,317)**	**995**
Non-current assets	1,839	911
Current assets	752	429
Non-current liabilities	(1,965)	298
Current liabilities	(750)	55
"Other comprehensive income" on the consolidated statements of comprehensive	**(124)**	**1,693**
Total changes in taxes and deferred tax liablities arising from temporaty diffeences	**(1,441)**	**2,688**

The breakdown of deferred taxes charged directly against “Other comprehensive income" on the consolidated income statement is as follows:

	Thousands of euros	
	2016	**2015**
Actuarial gains/(losses) on pension plans		
United States	(46)	(34)
Germany	(768)	429
Other countries	2	(13)
Unrealized gains/(losses) on cash flow hedges	2,063	532
Changes due to translation differences	(1,375)	779
Charged directly against "Other comprehensive income" on the consolidated income statement	**(124)**	**1,693**

The major components of income tax expense for the years ended December 31, 2016 and 2015, are as follows:

	Thousands of euros	
	2016	2015
Income tax expense for the year	31,573	30,591
Adjustment to income tax from prior years	(12)	297
Current income tax	**31,561**	**30,888**
Origination and reversal of temporaty differences	(1,317)	995
Deffered income tax	**(1,317)**	**995**
Deffered income tax from continued operations	**30,244**	**31,883**

A reconciliation between tax expense/(income) on continued operations and the product of profit before tax multiplied by the tax rate prevailing in Spain at December 31, is as follows:

	Thousands of euros	
	2016	2015
Profit before tax for the year	**155,255**	**151,507**
28% tax rate (25% in 2015)	43,471	37,877
Effect of application of tax rates in each country	(5,169)	(921)
Deductions generated	(6,399)	(4,820)
Adjustment to income tax from prior years	(12)	297
Impacto cambio tipo impositivo en España (*)	(28)	248
Impact of permanent differences	(1,619)	(798)
Tax on income expense	**30,244**	**31,883**

Corporation tax Law 23/2015, of December 28, amended the general tax rate from the current 25% to 28% in 2016 and subsequent years.

The parent adjusted the deferred tax assets and liabilities from prior years based on the prevailing rate at the estimated reversal date.

During 2016, the Chinese subsidiary Viscofan Technology (Suzhou) Co. Ltd.'s rating was again deemed as "High Tech," and therefore its tax rate dropped from 25% to 15%.

Viscofan CZ, s.r.o. obtained investment incentives from the Czech Republic's Ministry of Industry and Commerce which will materialize in deductions in upcoming years. The maximum amount of the deduction is 3.65 million Czech crowns corresponding to investments of up to 16.23 million Czech crowns over the next 9 years. The deduction to be applied each year may not cause the effective corporation tax expense to be less than that from the two preceding years. In 2016 the Company applied 0.73 million euros of tax credits (2015: 1.17 million euros). At December 31, incentives pending application in upcoming years amounted to 1.75 million euros.

Koteks Viscofan, d.o.o. may avail itself of a tax incentive which would reduce the corporate income tax quota 74.1% in tax returns presented until 2021 thanks to investments and the creation of jobs in the Serbian Republic.

Viscofan Uruguay S.A. has tax bonuses of up to 90% as a result of investments made.

Income tax payable from continued operations was calculated as follows:

	Thousands of euros	
	2016	**2015**
Current tax	31,573	30,591
Withholdings and payments on account	(28,498)	(26,753)
Total at December 31,	**3,075**	**3,838**

This amount is broken down in the consolidated statement of financial position as follows:

	Thousands of euros	
	2016	**2015**
Tax assets receivable	3,449	4,233
Tax liabilities payable	(6,524)	(8,071)
Total at December 31,	**(3,075)**	**(3,838)**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has elapsed. At December 31, the parent and subsidiaries in Spain are open to inspection of all applicable taxes to which they are liable and for which the corresponding inspection periods have yet to expire. The situation of foreign companies depends on the legislation prevailing in each country.

Due to the different possible interpretations of prevailing legislation, additional liabilities could be identified in the event of inspection. Nonetheless, parent management considers that any additional liabilities that might arise would not have a significant impact on these consolidated financial statements.

20. Operating income and operating expenses

20.1. Sales and rendered services:

The breakdown is as follow:

	Thousands of euros	
	2016	**2015**
Casings sales and services	691,208	694,738
Energie sales and services	39,625	46,032
Total sales and rendered services	**730,833**	**740,770**

20.2. Other income

The breakdown of this heading is as follows:

	Thousands of euros	
	2016	**2015**
Work performed by the Group on non-current assets	571	285
Capital Grants	2,622	1,312
Emission rights	612	1,323
Other income	9,976	4,631
Total other income	**13,781**	**7,551**

"Other income" includes, among others, 5.2 million euros corresponding to the recovery of costs covered by insurance companies detailed in Note 10.

The conditions or contingencies associated to grants received (Note 14).

20.3. Personnel expenses

The breakdown of "Personnel expenses" in 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Wages and salaries	127,787	124,216
Indemnity payments	981	300
Current service cost of defined benefits and other benefits. (Notes 14.1 and 14.2)	321	(2,617)
Company social security contributions	24,980	21,841
Other welfare benefits and taxes	14,507	14,805
Total personnel expenses	**168,576**	**158,545**

Group employees in continued operations during 2016 and 2015, by professional category and gender, were as follows:

	Total headcount at the end of year			Average number of employees
	Men	**Women**	**Total**	
Executives	62	10	72	71
Technecians and middle management	723	227	950	923
Administrative personnel	145	225	370	328
Specialized personnel	494	137	631	618
Unskilled workers	1,795	723	2,518	2,423
Year 2016	**3,219**	**1,322**	**4,541**	**4,363**

	Total headcount at the end of year			Average number of employees
	Men	**Women**	**Total**	
Executives	60	10	70	71
Technecians and middle management	707	221	928	858
Administrative personnel	113	190	303	299
Specialized personnel	515	139	654	556
Unskilled workers	1,673	714	2,387	2,449
Year 2015	**3,068**	**1,274**	**4,342**	**4,233**

Five parent employees have a recognized degree of disability equal to or higher than the legally-stipulated 33%, this information is given in accordance to Royal Decree 602/2016 of December 2. The breakdown by professional category are 3 technecians, 1 administrative and one tecnecian / middle management. Due to circumstances existing in its production process, Viscofan S.A. requested the legally-established declaration of exception for the disabled, and their social inclusion in exchange for signing up for special benefits with special employment centers, corresponding to 9 additional employees.

20.4. Other operating expenses

The breakdown of "Other operating expenses" is as follows:

	Thousands of euros	
	2016	**2015**
Research and development costs	2,183	1,658
Repair and maintenance	28,563	27,083
Environment	3,598	3,544
Power supplies	47,816	52,030
Plant expenses (surveillance, cleasing and others)	20,507	17,806
Leasing expenses	4,663	3,974
Insurance premium	3,943	4,085
Other taxes	4,643	5,177
Administrative and selling costs	46,857	46,229
Other expenses	10,639	10,776
Other operating expenses	**173,412**	**172,362**

R&D expenses are not susceptible to capitalization, and were recognized as expenses during the year they were incurred.

The increase in plant expenses is due to work performed at the Weinehim (Germany) plant as a result of the fire in November, 2016 (Notes 7 and 20.2).

“Other expenses” includes those corresponding to the acquisition of the Vector Group companies, amounting to 1,544 thousand euros.

20.5. Financial income and expense

The breakdown of "Financial income and expenses" is as follows:

	Thousands of euros	
	2016	2015
Financial income	**431**	**694**
Bank borrowings and other financial liabilities	(1,230)	(2,904)
Net finance cost of pension plans	(589)	(469)
Financial expense	**(1,819)**	**(3,373)**
Losses on non-trade receivables	**(721)**	**-**
Exchange gains	17,967	28,046
Exchange losses	(14,969)	(34,654)
Exchange gains (losses)	**2,998**	**(6,608)**
Financial incomer (expenses) total	**889**	**(9,287)**

21. Earnings per share

21.1. Basic

The calculation of basic earnings per share is based on the profit for the year attributable to the shareholders of the parent and a weighted average number of ordinary shares in circulation throughout the year, excluding treasury shares.

The breakdown of the calculation of basic earnings per share is as follows:

	Thousands of euros	
	2016	2015
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Profit from continued operations attributable to ordinary equity holders of the parent	125,084	119,611
Basic earnings per share (in euros) from continued operations	**2.6840**	**2.5666**
Profit from discontinued operations attributable to ordinary equity holders of the parent	-	411
Basic earnings per share (in euros) from discontinued operations	**-**	**0.0088**
Profit attributable to ordinary equity holders of the parent	125,084	120,022
Basic earnings per share (in euros)	**2.6840**	**2.5754**

21.2. Diluted

The weighted average number of ordinary shares in circulation coincides with the number of shares comprising the parent's share capital.

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. As there are no potential ordinary shares, diluted earnings per share does not differ from basic earnings per share.

22. Environmental information

The cost of items related to the Group's environmental projects acquired during 2016 was 34,837 thousand euros (2015: 30,927 thousand euros), with an accumulated amortization of 21,848 thousand euros (2015: 19,143 thousand euros).

In accordance with the 2013-2020 National Emission Allowance Assignment Plan, and after applying the inter-sectoral adjustment factors outlined in Appendix II to EU Decision 2013/448/EU to non-electricity generators, and the annual 1.74% annual reduction in electricity generators, in accordance with Articles 8 and 9 bis of EC Directive 2003/87/EC, the Group was assigned emission allowances equivalent to 356.915 tones.

The emission rights consumed by the Company during 2016 and 2015 amounted to 240,356 and 237,070 tons, respectively.

In 2016, the Group incurred in environmental protection and improvement costs amounting to 3,598 thousand euros. In 2015 this amount totaled 3,544 thousand euros.

The Group arranged civil liability insurance coverage for damages to third parties caused by accidental and unintentional contamination; the insurance coverage refers to any possible risk involved and to date no significant claims in environmental matters have been filed.

The parent's directors do not deem it necessary to make any provisions to cover environmental contingencies and expenses.

23. Risk management

Risk management is controlled by the Group, in keeping with policies approved by the Board of Directors. The risk control system is described in section E. Risk management and control systems of the Annual Corporate Governance Report from the parent company, listing those that might affect the achievement of objectives, their materiality in 2016, and response and supervision plans. We will now focus on the financial risks described below.

The Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and interest rate risk in cash flows. The Group's global risk management program focuses on the uncertainty of financial markets and aims to minimize the potential adverse effects on the Group's profitability. Certain risks are hedged by derivative instruments.

23.1. Exchange rate risk

As the Group operates internationally, it is exposed to variations in exchange rates, particularly the US Dollar. The exchange rate risk arises from future commercial transactions, recognized assets and liabilities and net investments abroad.

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency with the most net risk. Therefore, forward currency contracts were formalized at the time the yearly budget was prepared; EBITDA forecasts were used as the basis for the following year, the degree of exposure, and the degree of risk the Group is willing to assume.

The following table shows the sensitivity of a possible exchange rate variation on net results for the year arising from certain currencies in the countries in which the Group carries out its activities, while maintaining the other variables constant:

Thousands of euros

	US dollar		Czech Crown		Brazilian Real		Chinese Yuan Renmimbi	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 5%	3,331	3,708	(878)	(965)	808	820	1,761	1,398
- 5%	(3,013)	(3,355)	795	873	(730)	(742)	(1,592)	(1,265)

The following table shows the impact on consolidated equity of changes in the exchange rates of certain currencies of countries where the Group conducts business:

Thousands of euros

	US dollar		Czech Crown		Brazilian Real		Chinese Yuan Renmimbi	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 5%	6,453	6,695	2,117	2,198	5,455	4,097	5,033	5,100
- 5%	(5,838)	(6,058)	(1,915)	(1,988)	(4,935)	(3,706)	(4,553)	(4,615)

23.2. Credit risk

The Viscofan Group's main financial assets are cash balances, trade and other receivables, and investments, which represent the Group's maximum exposure to credit risk.

The Group's credit risk relates mainly to trade receivables. Amounts reflected on the consolidated balance sheet, net insolvency provisions, estimated based on experiences gleaned from prior years, age, and valuation in the current economic environment. This would be the maximum amount of exposure to this type of risk.

There is no significant concentration of credit risk within the Group; its exposure is spread among a large number of counterparties and customers. No clients or associated group companies represented sales and amounts receivable higher than 10% of total risk.

The Group has a credit policy, with exposure risk managed as part of its normal course of business. Credit evaluation of clients is performed in all cases where amounts exceed a set limit. It is habitual practice of Group companies to partially cover nonpayment risk through contracting loan guarantee and sureties covering approximately 90% of each client's debt. For countries at risk, coverage is reduced to 80%. In Countries without insurance coverage, guarantees such as advances and deposits on account are mandatory.

Credit risk arising from liquid funds and derivative financial instruments is limited due to the fact that counterparties are banking institutions with high credit ratings assigned by international agencies.

The Directors consider that during 2016, there were no significant assets which might be impaired as concerns their net realizable value.

23.3. Liquidity risk

The Group has a prudent policy to cover its liquidity risks which is focused on having sufficient cash and marketable securities as well as the ability to draw down sufficient financing through its existing borrowing facilities to settle the market positions of its short-term investments. Given the dynamic nature of its underlying business, the Group aims to be flexible with regard to financing through drawdowns on its contracted credit lines.

The Group adequately monitors each month expected collections and payments to be made in the coming months and analyses any deviations from expected cash flows in the previous month to identify any possible deviations which might affect liquidity.

The following ratios show the level of liquidity at December 31, 2016 and 2015:

	Thousands of euros	
	2016	**2015**
Current asstes	453,537	415,731
Current liabilities	(118,919)	(116,183)
Emission rights provision (Note 15.6)	1,754	1,731
Working capital	**336,372**	**301,279**
Current liabilities net emission rights provision	117,165	114,452
%working capital/current liabilities without emission rights provision	**287.09%**	**263.24%**
Cash and cash equivalents	45,054	44,453
Available borrowing facilities (Note 17)	116,244	126,924
Cash and available on credit and discount lines	**161,298**	**171,377**
%cash and cash equivalents+available on credit and discount lines/Current liabilities without emission rights	**137.67%**	**149.74%**

The amounts available on credit and discount lines do not include confirming lines or multi-risk policies which are described in Note 17.

A significant number of bank loans are hedged by financial derivatives to mitigate the volatility of interest rates paid by the Group.

Certain of the Group's non-current loans must meet a series of ratios calculated based on its consolidated financial statements. Lack of compliance represents an increase in finance costs and, depending on the case, represents the early termination of a contract. During 2016 and 2015, neither Viscofan S.A. nor any of its material subsidiaries were in breach of their financial commitments or any kinds of obligation that could trigger their early redemption.

In 2016 and 2015 there were no defaults or other noncompliance of the principal, interest, or repayments of debts with credit entities. No defaults are foreseen for 2016.

23.4. Interest rate risks in cash flows and fair value

The Group does not own significant remunerated assets.

The Company's exposure to interest rate risk is mainly due to the loans and credit facilities received from financial entities at variable interest rates. Note 18 provides a breakdown of the hedging contracts entered into for partial mitigation of the risk represented by a possible increase in interest rates. In any case, the Viscofan Group's degree of leverage is low and, therefore, the impact of a possible rise in interest rates would not be significant.

At December 31, 2016 and 2015 the structure of financial liabilities once hedges through the derivatives arranged have been taken into account is as follows:

	Thousands of euros	
	2016	**2015**
Bank borrowings	53,844	41,207
Other financiasl debt (*)	16,543	14,434
Financial debt total (*)	**70,387**	**55,641**
Fixed interest rate (**)	49,127	21,408
Variable interest rate	21,260	34,233

(*) Excludes hedge derivatives and asset suppliers
(**) Includes the notional amount for interest rate hedges and subsidized loans

In 2016 and 2015, the floating interest rates on loans are linked to Euribor and Libor dollar.

The Group is likewise exposed to changes in the interest rates used to calculate the pension plan obligations in US and Germany (Note 15.1).

The following table shows the sensitivity of profit (loss) for the year to a possible 1% variation in discount and/or interest rates:

	Thousands of euros							
	Pension plans commitments				Financial debt			
	USA		Germany		Euribor		Libor	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 1%	(19)	(101)	(166)	(164)	(277)	(613)	(34)	(28)
- 1%	18	93	160	150	278	615	25	28

23.5. Fuel price risk (gas and other oil derivatives)

The Viscofan Group is exposed to variations in Brent prices, which is the main indicator affecting the price of gas and other fuels used in processing its casings.

The Group policy is to set the prices for main fuels through the arrangement of year-long contracts with suppliers, or by using hedging policies (Note 18.1). It thus attempts to mitigate the impact of Brent variations on the consolidated income statement.

The following table reflects the sensitivity to a possible Brent price fluctuation on 10% of operating results.

	Thousands of euros	
	12.31.2016	12.31.2015
+ 10%	(1,689)	(2,002)
- 10%	1,690	2,002

24. Transactions and balances with related partied

Transactions with directors and senior management are disclosed in Note 25. The directors did not carry out any transactions with the Company or other group companies that were unrelated to the companies' normal course of business or were not carried out in normal market conditions

Financial debt includes a 3.75 million euro loan (2015: 5 million euros) granted in 2013 by a financial entity linked to Corporación Financiera Alba, S.A., which owns 11.02% of the Company's shares at year-end 2016 (2015: 6.86%). Payments made, including financial expenses, totaled 1,328 thousand euros (2015: 140 thousand euros). During the year, no additional services were provided by companies related to the shareholder (2015: 845 thousand euros). All transactions take place in normal market conditions.

25. Information on the Board of Directors of the Parent and Key Group Personnel

Directors compensation is outlined in Article 27 ter of the bylaws and remuneration policies approved by the shareholders during their general meeting.

The breakdown for Boardemuneration in 2016 and 2015 is as follows:

	Thousands of euros						
Ejercicio 2016	**Salaries**	**Fixed remuneration**	**Allowances**	**Variable short-term remuneration**	**Variable long-term remuneration**	**Remuneration: seniority and commission**	**Total**
Mr. José Domingo de Ampuero y Osma	354	350	-	104	-	-	808
Mr. José Antonio Canales García	342	-	-	205	-	-	547
Mr. Nestor Basterra Larroudé	-	330	33	-	-	100	463
Ms. Agatha Echevarría Canales	-	255	33	-	-	100	388
Mr. Alejandro Legarda Zaragüeta	-	80	33	-	-	35	148
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	33	-	-	63	176
Mr. José María Aldecoa Sagastasoloa	-	80	33	-	-	30	143
Mr. Jaime Real de Asúa y Arteche	-	80	33	-	-	27	140
Mr. Juan March de la Lastra	-	80	30	-	-	20	130
Mr. Santiago Domecq Bohórquez	-	51	21	-	-	20	92
Ms. Laura González Molero	-	29	12	-	-	-	41
Total 2016	**696**	**1,415**	**261**	**309**	**-**	**395**	**3,076**

Remuneration paid to Ms. Laura González Molero correspond till the month of April, when she stepped down as member of the parent's Board of Directors, in accordance with the decision made during the General Shareholders' Meeting held on April 21, 2016.

During the same meeting, Mr. Santiago Domecq Bohórquez was appointed Propriety Director in representation of Angustias y Sol, S.L.

	Thousands of euros							
Ejercicio 2015	**Salaries**	**Fixed remuneration**	**Allowances**	**Variable short-term remuneration**	**Variable long-term remuneration**	**Remuneration: seniority and commission**	**Consejos otras Compañías del Grupo**	**Total**
Mr. José Domingo de Ampuero y Osma	348	350	-	157	139	-	-	994
Mr. José Antonio Canales García	308	-	-	312	139	-	-	759
Mr. Nestor Basterra Larroudé	-	330	33	-	-	100	8	471
Ms. Agatha Echevarría Canales	-	255	33	-	-	100	-	388
Mr. Alejandro Legarda Zaragüeta	-	80	33	-	-	45	-	158
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	30	-	-	60	-	170
Mr. José María Aldecoa Sagastasoloa	-	80	33	-	-	30	-	143
Ms. Laura González Molero	-	80	24	-	-	8	-	112
Mr. Jaime Real de Asúa y Arteche	-	80	33	-	-	20	-	133
Mr. Juan March de la Lastra	-	51	21	-	-	12	-	84
Total 2015	**656**	**1,386**	**240**	**469**	**278**	**375**	**8**	**3,412**

During the General Shareholders Meeting held on May 7, 2015 Juan March de la Lastra was designated Propriety Director of Corporación Financiera Alba, S. A.

The two Executive directors, José Domingo de Ampuero y Osma and José Antonio Canales García earned a variable compensation totaling 309 thousand euros (2015: 747 thousand euros). This was calculated based on EBIDTA, net profit, sales, and share price values which were determined in accordance with the annual plan as well as personal performance.

At December 31, 2016 and 2015, no advances or loans had been granted to the Viscofan Group, nor did the Group have any pension commitments or other non-current savings plans. Likewise, no type of guarantee was granted on behalf of any present or former members of the Board of Directors, related individuals or entities. In addition, no remuneration was based on shares or share options.

During the year, amounts were paid for insurance premiums covering the civil liability of its directors for damage caused by acts or omissions in their position amounting to 51 thousand euros.

In 2016 and 2015 the members of the Board of Directors and related individuals or entities did not perform any transactions with the Company or with Group companies other than in the ordinary course of business or on terms other than on an arms' length basis.

Viscofan's directors have communicated that insofar as article 229 of the Capital Companies Law is concerned they do not have any conflicts of interest with the Company.

In 2016, all the Group companies had no legal person administrators in any companies

The Viscofan Group has contracts with its two executive directors which include golden parachute clauses. The cancellation of these contracts in certain objective terms not attributable to these board members will entitle them to an indemnification. The average total indemnity payable is two the annual salary, and includes a non-competition condition.

In 2016, remuneration received by key management personnel totaled 2,595 thousand euros, and does not include any additional payment for pluri-annual complements. During 2015, remuneration amounted to 3,064 thousand euros, including a triannual payment of 699 thousand euros. This amount does not include the abovementioned payments made to José Antonio Canales García and José Domingo de Ampuero y Osma, which is reflected further on.

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The breakdown of parties holding executive positions during 2016 follows:

Name	Position	Company
Mr. Gabriel Larrea	Chief Commercial Officer	Viscofan Group
Mr. César Arraiza	Chief Financial Officer	Viscofan Group
Mr. José Ignacio Recalde	R&D and Quality Chief Officer (till October) Chief Officer for New Businesses and Diversification (from November on)	Viscofan Group
Mr. José Angel Arrarás	R&D and Quality Chief Officer (from November on)	Viscofan Group
Mr. Andrés Díaz	Chief Operations Officer	Viscofan Group
Mr. Oscar Ponz	Chief Officer for Plastics Business	Viscofan Group
Mr. Ricardo Royo	Chief European Business Officer	Viscofan Group
Mr. Miloslav Kamis	General Manager	Gamex CB s.r.o, Viscofan CZ, s.r.o.
Mr. Iñigo Martinez	General Manager	Koteks Viscofan d.o.o.
Mr. Bertram Trauth	General Manager	Naturin Viscofan GmbH
Mr. Luis Bertoli	General Manager	Viscofan do Brasil, soc. com. e ind. Ltda.
Mr. Eduardo Aguiñaga	General Manager	Viscofan de México S.R.L. De C.V,
Mr. Juan Negri	General Manager	Viscofan Technology (Suzhou) Co. Ltd.
Mr. Angel Maestro	General Manager	Viscofan Uruguay, S.A.
Mr. Domingo González	General Manager	Viscofan USA Inc.

As of November 2016, Mr. José Ignacio Recalde will be the Diversification and New Business Director, while Mr. José Angel Arrarás will be the new Quality, Research, and Development Director.

Also during November 2016, Mr. Oscar Ponz will be the new Plastic Casings Director.

26. Audit fees

The auditors of the consolidated Financial Statements of the Group and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have accrued fees for professional services for the years ended 31 December 2016 and 2015 as follows:

	Thousands of euros		
	In the parent's Company	In other companies	Total
Audit services	107	609	716
Other related audit services	23	-	23
Other services	178	26	204
Total at December 31, 2016	**307**	**635**	**942**

	Thousands of euros		
	In the parent's Company	In other companies	Total
Audit services	105	594	698
Other related audit services	23	0	23
Other services	18	18	36
Total at December 31, 2015	**145**	**612**	**757**

Audit services detailed in the above table include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

27. EVENTS AFTER THE BALANCE SHEET DATE

In its meeting on February 28, 2017 the Board of Directors agreed to propose remuneration for shareholders totaling 1.45 euros per share. This included 0.57 euros per share interim dividend paid on December 22, 2016, and a complementary 0.87 euros per share dividend that will be paid on June 8, 2017, plus the attendance per diem amounting to 0.01 euros per share.

(Free translation from the original in Spanish, in event of discrepancy, the Spanish-language version prevails)

Management Report

Description of the Viscofan Group

The Viscofan Group is a global leader in casings for the meat sector. The Group was founded in 1975 in Caseda (Spain) and is devoted to meeting the world's food industry needs through the ad-hoc production and sale of casings which add value to our stakeholders.

The Group is present in 15 countries with sales offices and production plants, and distributes its products across 100 countries worldwide.

Viscofan S.A. and subsidiaries form the Viscofan Group Viscofan S.A. is the direct or indirect owner of the majority of the voting rights in the subsidiaries comprising its consolidation scope. The breakdown of companies comprising the Viscofan Group may be found in Section 2 of the consolidated financial statements.

Corporate Social Responsibility and Governance

Viscofan is clear on the fact that Corporate Responsibility is the basis for relating with its stakeholders: shareholders, the market (from suppliers to customers), employees, and the Company. This commitment stems from the Company's mission to "meet the world's food industry needs through the ad-hoc production and sale of casings which add value to our stakeholders."

Its corporate responsibility policies endeavor to maximize the creation of sustainable value, and is shared with its interest groups, and identifies, prevents, and corrects any possible effects.

This commitment is reflected in Viscofan's role as a partner in the United Nations Global Compact network, which was renewed for 2017.

To this end, Viscofan considers that good corporate governance is a key factor for generating value, improving economic efficiency, and bolstering its investors' trust thanks to the appropriate segregation of functions, duties, and responsibilities among all the Company's governing and administrative bodies.

Good corporate governance is crucial to the Viscofan Group, and is understood as the ethics code of tall the administrative and managing bodies of its listed companies, whose end purpose is to coordinate the Company's current structure and align it with its business goals.

Viscofan closely follows updates in matters related to good corporate governance in Spain and worldwide, and carries out an intense dialogue and communicates any aspects contributing to awareness about the Company, its performance, and plans for the future as regards Corporate Governance.

Viscofan's diverse internal bodies ensure that everything functions in line with good governance recommendations.

General Shareholders' Meeting

The Company's maximum overseeing body is the forum in which its shareholders make majority decisions. Viscofan has established a principle of "one share, one vote," which favors equality for all shareholders.

The General Shareholders Meeting is noteworthy due to its strong participation, which is especially significant when contemplating the Company's free-float. During the 2016 general shareholders meeting, it owned 80.08% of share capital vs. 73.06% the previous year.

Board of Directors

This is the body in charge of representing and administering the Company. Its chief function is the general supervision of Viscofan S.A., and where applicable, its companies comprising the Group.

At year-end 2016, the Viscofan Board of Directors was comprised of 10 members, 2 executive directors (President and CEO), 2 external directors (both non-executive Vice Presidents), 4 independent board members, and 2 proprietary directors. A secretary who is not a member of the Board assists the Board of Directors.

To ensure its optimal functioning, the Board has three committees:

i) Delegated Committee

The Viscofan Group's technological and geographic diversification within the dynamic and competitive casings market makes close supervision necessary to ensure that all the measures adopted by the Board of Directors are implemented locally. This increased degree of supervision also makes it possible to gain a closer understanding of production, operations, finance, and sales in the different regions in which the Group operates, to provide the Board complete information in advance of Group administration debates. The Delegated Committee provides copy of the minutes to the Board for improved coordination.

The Viscofan Board of Directors' Delegated Committee is comprised of three members, of which just one is executive; the remainder are external. Mr. José Domingo de Ampuero y Osma (CEO), Mr. Néstor Basterra Larroudé, and Ms. Ágatha Echevarría Canales are members of this Committee (non-executive directors).

The Delegated Committee's labor involves greater dedication arising from a more direct supervisory contact with Management at its different manufacturing locations and the market environment. During 2016, the Delegated Committee met 12 times.

Its areas of responsibility have increased in matters handled by the Board: it has overseen the implementation of strategies in the different Group subsidiaries approved by the Board, and based on the criteria of maximum transparency, has shared any proposals affecting it so that the Board may adopt any agreements it considers appropriate. The minutes of its meetings are also shared with the members of the Board of Directors.

The Delegated Committee carried out strategic analyses to study potential organic/non-organic growth areas, as well as a number of different investment options. During 2016, the Board purchased 100% of the Vector company's US and European share capital, and made the necessary investments to install plastics and fibrous productive capacity in Caseda (Spain), as well as the increase in the collagen capacity in Pando (Uruguay), thanks to support from studies carried out by the Delegated Committee. Its studies have delved into the different products or families (collagen, fibrous, and plastics), the development of products, and energy optimization.

Studies were conducted on the monthly progress in production, sales, and consolidated results of the Group in each of its subsidiaries.

ii) Audit Committee

The Audit Committee is composed of three independent directors: Mr. Ignacio Marco-Gardoqui Ibáñez (Committee President), Mr. Alejandro Legarda Zaragüeta, and Mr. José María Aldecoa Sagastosoloa (members), as well as one proprietary director: Mr. Santiago Domecq Bohórquez (member).

The Audit Committee's tasks include supervising the preparation and integrity of the financial information of the Company and its subsidiaries, including the SCIIF review, independence of the external auditor, ensuring sufficient internal cooperation with the auditor, supervising the periodic financial disclosure provided by the Board to the markets and its supervisory bodies, supervising the internal audit process, reviewing the internal control and risk-management systems, verifying that Management contemplates its recommendations, proposes external auditors, oversees independence, reviews the audit plan, results of its execution, supervising compliance with internal codes of conduct and good governance guidelines, and where possible, respond to initiatives, suggestions, or complaints from shareholders Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

The Audit Committee met ten times during 2016, three of which with the EY external auditors. It has performed its regulatory tasks as well as those set forth in the Company Bylaws and Board of Directors Regulations. It informed the General Shareholders Meeting on Committee activities, proposing the audit firm to the Board, which was approved during the meeting held on April 21, 2016.

During the year, the audit firms were assessed to select the auditor for the Viscofan S.A. and consolidated Group's financial statements for 2017, 2018, and 2019 Among the candidates, the Audit Committee proposed PwC to the Board of Directors.

It supervised, analyzed, and commented on the activities performed by internal audit, process for preparing financial information, interim financial statements, provisional treasury statement for the distribution of dividends, as well as the internal financial information control system.

Throughout its relationship with its external auditor, and as one of its obligations, it ensured that the financial statements are presented without reservations or qualifications, and with total independence.

Finally, all its activities have been reported to the Board of Directors, with all minutes from its meeting shared with its members, including information related to risk maps and tax matters.

iii) Appointments and Remuneration Committee

The Appointments and Remuneration Committee is comprised by two independent directors: Mr. Jaime Real de Asúa y Arteche (Committee president) and Mr. Ignacio Marco-Gardoqui Ibáñez (member), as well as a proprietary director, Mr. Juan March de la Lastra (member).

The Committee proposes the appointment of independent directors, reports on other board members and appointments/removals of senior directors, informs the Board on questions related to diversity, and proposes remuneration policies for Board members and management, as well as remuneration policies covering shares and options, where applicable, and long-term policies for remunerating board members and top executives. The Appointments and Remuneration Committee met a total of seven times during 2016.

Viscofan Group performance in the casings market during 2016

During the year, the casings market performance was under its average historic growth rhythm. Sales volumes dropped in the market overall due to the harsh decrease in Latin America, led by Brazil, as well as the weakened North American market; these aspects stood out in contrast against the hearty Asian market.

The above market context suffered a highly volatile currency environment, especially in emerging economies; this exerted an indirect effect on consumers' purchasing power for imported products, as well as production-related costs in companies in our sector.

In such a demanding environment, the Viscofan Group bolstered its position of leadership in the sector while continuing to develop the activities included in its MORE TO BE 2020 strategic plan, focused on leading in all the main casings market in terms of service, cost, and technology.

These initiatives include the acquisition of the Vector firms in the US and Europe, startup of a new plastics plant in San Luis Potosí (Mexico) and Nanopack plastics technology in Cáseda (Spain). At year-end 2016, the Viscofan Group was positioned as one of the top five producers of plastic casings worldwide.

In Cáseda (Spain), progress continues in the construction of the new plant; the production of fibrous casings should begin during the second half of 2017.

We are committed to greater development in the Latin American region, and with this in mind have commenced a new collagen casing extrusion facility at the Pando (Uruguay) plant at the end of 2016, thereby consolidating our position as the only local collagen producer in Latin America.

This investment activity was accompanied by a new historic net result record of 125.0 million euros, which is 4.1% higher than the year before.

The solid balance sheet, with net bank borrowings totaling 8.8 million euros at year end, and results obtained are making it possible to continue increasing shareholder remuneration: the proposed amount of 1.45 euros/share is 7.4% higher than the 1.35 euros the prior year.

This has been a demanding year, although this did not hinder the Viscofan Group from growing in results, shareholder remuneration, and investments, which all help solidify our leading market position.

From this angle, we can confidently face 2017, during which we expect to keep seeing growth in our key financial indicators while also moving forward with our projects defined for the MORE TO BE 2020 strategic period.

Changes in the scope of consolidation

In October of 2016, the Viscofan Group signed a purchase-sale agreement with a group of private investors for the cash purchase of 100% of the shares in Vector USA Inc. and Vector Europe NV, encompassing their subsidiaries in Europe (Vector Packaging Europe NV. and Vector UK Ltd.).

The subsidiaries were included in the Viscofan Group consolidation scope as of November 1, 2016,

The Viscofan interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination. The difference was recognized under results for the year once the acquisition cost and the valuation of the net assets acquired were reevaluated, generating a positive result of 4.5 million euros.

The most relevant factors contributing to the combination cost leading to the recognition of the excess net assets acquired vs. the acquisition cost were independent expert appraisals of PP&E and intangible assets of the acquired group of companies.

Consolidated Group results achieved during the period from January-December 2016

Viscofan Group 2016 income statement ('000 €)

	Twelve months			
	Jan-Dec' 16	Jan-Dec' 15	Change	Like-for-like (1)
Revenue	730,833	740,770	-1.3%	0.0%
Recurring EBITDA (2)	201,134	210,840	-4.6%	-0.8%
Recurring EBITDA Margin (2)	*27.5%*	*28.5%*	-1.0 p.p.	-0.2 p.p.
Non-recurring result (2)	2,931	3,003	-2.4%	
EBITDA	204,065	213,843	-4.6%	
EBITDA Margin	*27.9%*	*28.9%*	-1.0 p.p.	
EBIT	154,366	160,794	-4.0%	
Net profit	125,011	120,035	4.1%	

(1) Like-for-like: In comparative terms, organic growth excludes the impact of exchange rate variations, their effect on the consolidation scope, and non-recurring business results.
(2) Recurrent: Adjusted to 2016 results associated to the purchase of Vector companies in US and Europe, and during 2015 due to the outsourced pension plans in the USA.

Revenue

The year was characterized by a casings market performance lower than its historic growth rate, due to the decrease in the Latin American and American markets.

However, during the second half of the year, the conditions in Latin America (chiefly Brazil) improved, translating into higher sales for the Viscofan Group in the area.

The acquisition of the US and European Vector companies represented additional sales totaling 5.4 million euros generated during November and December of 2016.

Accumulated net turnover amounted to 730.8 million euros, a 1.3% drop vs. the same period last year; this was chiefly the result of weak commercial currencies which eroded income for the year in over 2 percentage points, followed by a decrease in cogeneration income caused by the downturn in energy prices, especially during the second half of the year. The higher sales figure for casings in North America, Europe, and Asia offset the decline in Latin American sales.

By nature of income, casings sales contributed 691.2 million euros (-0.5% vs. 2015), while income from cogeneration energy sales contributed 39.6 million euros (-13.9% vs. 2015).

In organic terms[1], accumulated 2016 income remained stable with regard to 2015.

[1] Organic: In comparative terms, organic growth excludes the impact of exchange rate variations, their effect on the consolidation scope, and non-recurring business results.

The geographic breakdown of accumulated data during [2] December of 2016 is:

- Income in Europe and Asia reached 411.1 million euros, 0.2% under 2015 due to the negative impact of the impairment of commercial currencies vs. the euro, mainly CNY/€ (5.8%) and GBP/€ (12.8%), as well as the double digit drop in cogeneration energy sales in Spain. In organic terms, income in the region grew 0.7% thanks to an increase in casing volumes.

- Income in the US was around 217.3 million euros, representing a 0.7% growth vs. 2015, and 2.5% in organic terms.

- Latin America reported income totaling 102.4 million euros, with is a drop of 9.4% vs. 2015 due to weak volumes in Brazil and the depreciation of its currency vs. the euro (4.6%). In organic terms, accumulated income during December 2016 in Latin America dropped 7.0% vs. the preceding year.

Operating expenses

This year was characterized by an environment of moderate decline in the costs of the main productive inputs for both raw materials and energy costs, which linked with the Viscofan Group's improved operations has made it possible to control operating expense with regard to the previous year. However, the volatility of currencies, increase in expenses due to the fire in a spare parts warehouse in Germany in November of 2016, and expenses incurred during the acquisition of Vector represented higher operating costs during the last quarter of the year.

Despite increased operating expenses related to the fire in Germany, the Viscofan Group's risk management system includes insurance policies designed to cover any costs incurred, as well as other contingencies.

Consumption costs

Accumulated consumption costs[3] totaled 202.9 million euros, or 0.3% less than during 2015. In this manner[4] the gross margin over accumulated income was 72.2% vs. 72.5% in 2015.

Personnel expenses

Average headcount at year 2016 totalling 4.363 employees, a 3.1% increase regarding average headcount in 2015. Some reasons for this include boosting the staff to rollout the plastics production in Mexico and Spain, the new fibrous plant in Spain, and the inclusion of the Vector personnel.

Personnel expenses grew 6.3% during the year with regard to 2015 to 168.6 million euros.

In recurrent terms, that is to say excluding accounting savings from outsourcing the US pension plans in 2015, accumulated personnel expenses grew 4,4% vs. 2015.

[2] Income by origin of sale-

[3] Consumption costs = Consumables +/- Changes in inventory of finished goods and work in progress.

[4] Gross margin = (Revenue - Consumption costs) / Revenue

Other operating expenses

"Other operating expenses" during the year were 173.4 million euros, growing 0.6% vs. 2015, while energy supply costs dropped 8.1% vs. the same period last year. This increase in operating expenses is mainly the result of higher plant costs arising from the startup of the new collagen casings production plan in Uruguay, cleaning works in Germany, and management costs arising from the acquisition of the European and US Vector companies (1.5 million euros).

Profit from the business combination

Subsequent to the successful acquisition of the Vector companies in the US and Europe, according to accounting standards on business combinations, independent experts must assign a purchase price to the net fair value of the acquired assets and liabilities.

The Viscofan interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination. This difference was recognized under results for the year after the acquisition cost and valuation of net assets acquired were reevaluated, generating a positive 4.5 million euros on the Viscofan Group consolidated financial statements, due to the higher independent expert appraisals of all the tangible and intangible assets of the companies acquired.

Operating profit

Accumulated EBITDA[5] amounted to 204.1 million euros, a drop of 4.6% with regard to 2015.

In organic terms, accumulated EBIDTA was approximately 0.8% under 2015 levels, within the context of volume losses in Latin America and decreased cogeneration income, which were partially offset by growth in other reporting areas, as well as cost-containment measures.

In this manner, the Viscofan Group attained an EBITDA margin of 27.9% during 2016 (-1.0% vs 2015).

Accumulated amortization expense during the year was 49.7 million euros (-6.3% vs 2015).

The Viscofan Group obtained an accumulated EBIT of 154.4 million euros, 40% lower than during 2015.

Non-recurring impacts

A comparison of the information on non-recurring business impacts during 2016 and 2015 follows, which contributed 2.9 million and 3.0 million euros, respectively in operating profits.

Positive results amounting to 4.5 million euros were recognized for negative goodwill arising from lower the cost of the business combination with regard to the corresponding value of the identifiable assets acquired, less the liabilities assumed in the acquisition of Vector USA and Europe.

Expenses associated to the acquisition of the Vector US and Europe companies amounted to 1.5 million euros in operating income and 1.1 million euros in net results.

During 2015, a non-recurring impact of 3.0 million euros were recorded, and 1.9 million euros in net results arising from the outsourcing of the *Hourly Employees* and *Salaried Employees* pension plans in the US.

Financial position

The lower average indebtedness throughout the year made it possible to squeeze finance costs a total of 1.8 million euros during the year (2015: 3.4 million euros). During 2016, the Group also recognized positive differences during the year of 3.0 million euros, vs. losses arising from negative exchange

[5] EBITDA = Operating profit (EBIT) + depreciation of PP&E items.

differences amounting to -6.6 million euros in 2015, due to currency fluctuations on the balance sheet expressed in foreign currencies. Overall, during the accumulated year, the Group's net positive financial profit was 0.9 million euros vs losses of 9.3 million euros during 2015.

Net impairment result and taxes

Accumulated pre-tax profits during December 2016 totaled 155.3 million euros, with corporation tax amounting to 30.2 million euros, equivalent to an effective tax rate of 19.5% (2015: 21.0%).

The difference between the theoretical tax rate (28%) and the effective tax rate (19.5%) basically corresponds to the difference between the different tax rates for non-resident subsidiaries in Navarre (tax address for Viscofan S.A.) that pay taxes in each of the countries they operate in, applying the prevailing corporate income tax rate (or equivalent tax) for the period and the consideration of tax deductions for investments in some Group companies.

The Viscofan Group recognized a new historic maximum in net results during the year in both reported and organic terms. Net results were 125.0 million euros vs. the 120.0 million euros during 2015, representing a 4.1% growth vs. the previous period.

Investment

To gain the competitive edge, the Viscofan Group is rolling out its MORE TO BE 2016-2020 strategic plan, which contemplates a multitude of initiatives across all the available casings technologies within the Group, with special focus on improving Viscofan's positioning in the plastics and fibrous sector.

Throughout 2016, the Cáseda plastics plant was built, which began production during the third quarter of the year. New production capacity was satisfactorily installed at the Uruguay collagen plant, operative during the third quarter of the year and focused on improving our service in Latin America.

The most significant investment carried out during the year is in relation to the work performed to build the new Cáseda (Spain) plant, permitting the installation of the machinery to produce fibrous skin casings during the second half of 2017.

Investments made during the year totaled 86.7 million euros (2015: 57.3 million euros), broken down as follows:

- 51% of the investment was devoted to investments in capacity and machinery.
- 22% of the investment was devoted to improving processes.
- 8% of the investment was made on energy equipment and the optimization of the installations in terms of security, hygiene, and related to protecting the environment.
- The remaining 19% was spent on ordinary investments.

Equity and dividends

The Group's equity at year-end 2016 totaled 708.1 million euros, which is 11.8% higher than during 2015, thanks to the recognition of the net positive results amounting to 125.0 million euros (+4.1% vs. 2015), from which 26. 6 million euros are deducted as dividends on account during 2016 (+9.6% vs. 2015).

During its general shareholders meeting, the Viscofan Group Board of Directors agreed to propose a distribution of dividends including a complementary dividend of 0.87 euro per share, totaling 40.5 million euros for payment on June 8, 2017.

In this manner, the total shareholder remuneration amounted to 1.45 per share, comprised of:

- an interim dividend of 0.57 euros per share paid on December 22, 2016.
- a proposed complementary dividend of 0.87per share to be approved by the shareholders,
- and an attendance bonus at the General Meetingof 0.01 euros per share.

This proposal is 7.4% higher than the total remuneration of 1.35 euros per share approved during 2015, and represents the distribution of 67.6 million euros, which is equivalent to 54% of the Viscofan Group's net profit.

Financial liabilities

The Viscofan Group had a solid balance sheet at year-end 2016. Growth projects reflected in increased investments and the strategic acquisition of companies accompany a solid generation of cash flow from transactions making it possible to finance projects while also maintaining growing shareholder remuneration through the payment of cash dividends.

The Viscofan Group closed the year with net bank borrowings[6] of 8.8 million euros vs. a net cash position of 3.2 million euros during 2015. Net bank borrowings during the year increased during the second quarter due to the distribution of interim dividends, and the acquisition of the Vector companies in Europe and the US.

The Viscofan Group's financial situation is sufficiently robust to meet its payment commitments in the upcoming year.

Financial commitments

Based on the expected growth, the Group has investments planned to consolidate its leading spot in the casings business and continue improving services provided and current industrial equipment/operations. The forecast includes commitments including: the construction of the new fibrous casings plant in Cáseda (Spain), updating technologies, optimizing processes, and increasing production capacity. Thus, at year-end 2016, investment commitments totaled 7.5 million euros (at year end 2015: 12.4 million euros).

At December 31, 2016, the Group had construction and other items contracted under finance leases the minimum payments and current value of which amounted to 0.4 million euros (At Decemeber 2015: 0.6 million euros).

The Group also leased other different properties and items of property, plant, and equipment. Future minimum lease payments at December 31, 2016 represented 6.4 million euros (At December 31, 2015: 5.4 million euros).

[6]Net Bank borrowings = Non-current bank borrowings + Current bank borrowings - Cash and cash equivalents

Expected performance of the Group

The casings market is global, so in general terms growth perspectives remain intact for the medium and long term, fundamentally based on a growing population, globalizing eating habits supported by FAO studies projecting a growing consumption of meat worldwide, and increasing automation and productivity of meat processors.

These sollid pillars exist in an environment of macroeconomic and geopolitical uncertainty which reflects the volatility and dispersion of growth projections for the global economy, which might affect the performance if certain markets in the short term, as was the case in 2016.

Strategy and perspectives

The Viscofan Group is immersed in its new MORE TO BE 2016-2020 strategic plan, with the clear objective of following along in the same strategic direction as preceding plans, while incorporating MORE (Market, Optimization, Return; and Excellence) initiatives within the Viscofan Group culture, framing its initiatives around a goal which is threefold: Lead in service, technology, and costs.

Results obtained by the Viscofan Group during the year are not entirely satisfactory, but represent a notable advance in our leadership position, with a higher quota of income and returns which are higher than those of the main sector companies; the Vector acquisition helped solidify our positioning in the plastic casings segment.

To accompany the expected growth of the casings market, and continue improving its value and competitive positioning in its three key strategic lines, 2017 will be a year with intense investing and operational activity for the Viscofan Group. The following projects stand out, among others: Termination of the construction and startup of the new plant permitting installation of the fibrous machinery in Cáseda (Spain), integration of the Vector operations, assist clients in developing products on the other end of the spectrum from processed animal gut, and increased capacity in the China collagen casings plant to optimize service in the country.

Within this expected environment, if the currencies situation remains stable during 2017 the Viscofan Group expects income and EBIDTA growths and net results.

Environmental issues

Viscofan considers that business management should adopt criteria focused on the compatibility of production and economic activity with criteria contributing to sustainable growth.

The Company and its employees are committed to developing its business activity, based on sustainable principles and criteria which are at the same time economically viable, while also respecting prevailing environmental legislation and voluntarily-acquired commitments, so as to optimize available resources, promote the implementation of cutting-edge technologies, while also minimizing the environmental impact of its activity.

This commitment represent a challenge, considering that the Viscofan Group has production facilities located in 10 countries on different continents, with commercial offices in 15 countries: this involves many different cultures and regulatory frameworks. To ensure optimal coordination, and to improve the Group's efforts regarding environmental, health, and safety matters, Viscofan Group has EHS corporate policies which guides improvement plans, as well as to support environmental, safety, and hygiene measures which are a priority for the Viscofan Group.

The Viscofan Group's basic tenets are two-fold, covering and guiding all of its environmental projects:

- The sustainable use of resources.
- Contribute to avoiding climate change.

Key activities during 2016:

In 2016, a detailed review of the initiatives, goals, and water use controls in the different Group plants will be carried out.

As part of the Viscofan Group's commitment to sustainable use of its resources, during 2016 the Viscofan S.A. plant in Caseda (Spain) passed the certification audit of ISO 14.001 regulation quite satisfactorily, without non-conformities. This benchmark has paved the way for other Group companies expecting to obtain this certification during 2017.

Based on ISO 14.001 certification, Viscofan sets environmental objectives and goals, procedures designed to achieve them, responsibilities, personnel training activities, documentation, and control system. They also reduce the impact on the environment while generating internal profits thanks to improved use of resources.

The growing commitment to sustainability is revealed in its financial scope, with numerous environmental, safety, and health-related projects. Investments and expenses during 2016 and 2015 related to the environment are detailed in Note 22 of the notes of the consolidated financial statements.

Employees

A key differentiating aspect of the Viscofan Group's leadership is its know-how and commitment to all its employees. It employed a total of 4,541 individuals at year end, which is a team comprised of a competitive, multicultural, growing, trained, qualified professionals, and despite their cultural differences, share solid common values and ethical principles.

During the year, the Group continued to increase the size of its average headcount, mainly due to the inclusion of the European and US Vector companies, expansion into new plastics and fibrous implementation, and hiring of backup staff to beef up service to improve its global leadership position: the total number grew 3.1% vs. the prior year to 4,363.

The Viscofan Group employees are characterized by their international flavor, distributed across all 15 countries in which it is present. During 2016, 16% of the average headcount was based in Spain, 48% in the rest of Europe and Asia, 23% in North America, and the remaining 13% in Latin America.

168.6 million euros were devoted to personnel costs during 2016, which is 6.3% higher than 2015, representing 23.1% of income for the year.

The Group also considers the development of people as crucial. Its Human Resources departments in its different subsidiaries create and foster many different initiatives making it possible to manage knowledge while take advantage of its employees' talents for meeting objectives. Training is a primordial goal within the Group for its personnel, which is continuous, thereby boosting personal and professional development.

The Viscofan Group is committed to defending human rights, and is adhered to international commitments such as the United Nations Global Compact network or the International Human Rights Letter. This code of conduct states that the Viscofan Group employees must contribute to respecting and protecting human rights, especially child exploitation, and must avoid any conduct detected on the job which is contrary to their tenets.

Workplace health and safety

Corporate policies on workplace safety are designed by the EHS (Environment, Health, and Safety) Department, in close collaboration with the corporate Human Resources Departments. The Viscofan Group considers that accidents may be prevented, and makes huge efforts to standardize its procedures while also communicating its policies throughout the companies using courses and informational materials.

It carefully protects its assets to safeguard its employees as well as the sustainability of the business. In 2016, a goal was set to reduce lost working hours due to workplace accidents. This year's accident ratio shrank 20.8% vs. 2015.

Equality and work-life balance policies

The Group is currently executing its 2016-2019 II Equality Plan, stressing the company's strong points while also proposing improvements and establishing equality and work-life balance objectives. The Company Gender Equality CGE) procedures are focused on studying four large areas: leadership, policies and strategies, people, process management, and the relationship with the environment; all have specific action plans defined until 2019.

Some of the identified improvements in equality include hiring more women for technical positions, more indefinite contracts for women, and increased access to work-life balance initiatives for men.

The Appointments and Remuneration Committee created an Equality Committee which analyzes the Group's situation in this regard.

During 2016, there were 29.1% women on staff (2015: 29.3%).

Research and development activities

Viscofan has a proactive R&D policy, supported by technological and research centers in various countries:

The Group's efforts are focused on both the product (development of new products, enhancement of available products to increase market share in the principal meat casing families, etc.) and the process (innovation and improvement of production processes for their industrial optimization, introduction of technological improvements and development of advanced engineering solutions to maximize productive output, etc.).

Furthermore, Viscofan's research activity has likewise been aimed at diversification in areas where its present knowledge will enable it to obtain future profits. Research efforts continue while the Group collaborates with centers specialized in the use of collagen derivatives as a matrix for growing cells "in vitro" for both research and tissue regeneration purposes and their possible use in the biomedical field.

Viscofan BioEngineering, the Viscofan Group biomedical unit based in Weinheim (Germany) has made strides with its Cardiomesh project, and to support it, the Spanish Ministry for the Economy and Competitiveness granted 1.3 million euros in financing.

Cardiomesh has been in the works for 8 years, with very promising results during testing on animals. The purpose is to develop a treatment for patients with heart failure through tissue regeneration. Its technical name is VB-C01, and it is a therapeutic cell generator consisting in a collagen membrane produced by Viscofan, upon which allogeneic stem cells from fatty tissue has been implanted. It is currently in the key Phase 1 of clinical trials to test its safety in humans.

Viscofan stock market performance

In 2016, financial markets were still affected by different monetary policies carried out by central banks, the US rise in rates by the Federal Reserve, and the expected rebound of inflation, most notably for oil products; these issues affected long-term interest rates. The ECB continued its expansive monetary policies in Europe.

The unexpected Brexit victory caused nearly all stock markets to drop.

The above variables during the year were reflected in growth deceleration. However, during the final phase of the year, stock markets recovered lost territory due to the slight improvement in worldwide economic forecasts, or US government plans to invest in new infrastructures, with a special impulse provided by the US stock exchange, which beat historic records. Apart from certain economic and geopolitical risks, the above has penalized the markets during the year, and have not disappeared.

Stock exchanges reflected this behavior: the US S&P500 index closed out the year with an appreciation of 9.5%, while the European Euro Stoxx 600 dropped -1.2%, the IBEX 35 -2.0%, the German DAX rose 6.9%, and the French CAC 4.9%.

Viscofan shares ended the year at 46.85 euros/share, an annual drop of 15.8% and 13.3% including dividend payments. Viscofan’s market capitalization amounted to 2,183 million euros at 2016 year end.

During the year, overall over 54.7 million shares of Viscofan were traded, which is 117% of the total amount of shares in circulation, with a trading volume of 2,707 million euros, which is equivalent to a daily average of 10.5 million euros.

Acquisition of treasury shares

At December 31, 2016, the Company had no treasury shares.

Average supplier payment period

In 2015, Law 31/2014 of December 3 entered into effect, which modifies Capital Companies Law with regards to corporate governance. It establishes that companies unable to present condensed income statements must mention their average payment periods to suppliers; these calculations must be based on criteria approved by the Ministry of Finance and Public Administrations, in accordance with guidelines established in the third section of the Second Final Provision of Organic Law 2/2012, dated April 27, on budget stability and sustainability.

In compliance with this information requirement, the payment period for the Viscofan Group during 2016 was 34 days (2015: 36 days), which is lower than the maximum established by payment arrears regulations.

The average payment period calculations were performed as indicated in the Resolution of January 29, 2016 was published, passed by the Institute of Spanish Accounting and Auditors of Accounts ("Instituto de Contabilidad y Auditoría de Cuentas" - ICAC, in Spanish), is applicable to the information concerning late payment to suppliers in commercial transactions.

Note 16.3 of the notes to the consolidated financial statements reflects information on the average payment period to suppliers during the year.

Description of risks and uncertainties

The main risks and uncertainties faced by the Viscofan Group and its management, control, and monitoring systems are outlined in Section E) of the parent's Annual Report on Corporate Governance.

Events after the balance sheet date

In their meeting held on February 28, 2017, the Board of Directors agreed to propose a final dividend payment amounting to 0.87 euros per share on June 8, 2017. Thus, total remuneration for shareholders amounts to 1.45 euros per share, including the interim dividend of 0.57 euros per share paid on December 22, 2016, the abovementioned complementary dividend of 0.87 euros per share, and the per diem payment for attendance at the General Shareholders' Meeting of 0.01 euros per share. This proposal increases total remuneration by 7.4% as compared to the total of 1.35 euros approved for the previous year.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT: The Secretary of the Board of Directors, Mr. Juan María Zuza Lanz hereby certifies that the Board of Directors, at its meeting on February 28, 2017, approved the consolidated financial statements and the consolidated management report for the year ended December 31, 2016, and duly signs all the pages thereof for identification purposes. The consolidated financial statements comprise the attached documents preceding this certificate.

Mr. José Domingo de Ampuero y Osma Chairman	Mr. Nestor Basterra Larroudé First Deputy Chairman
Ms. Agatha Echevarría Canales Second Deputy Chairman	Mr. José Antonio Canales García Member
Mr. Alejandro Legarda Zaragüeta Member	Mr. Ignacio Marco-Gardoqui Ibáñez Member
Mr. José María Aldecoa Sagastasoloa Member	Mr. Jaime Real de Asúa Arteche Member
Mr. Juan March de la Lastra Member	Mr. Santiago Domecq Bohórquez Member

Secretary to the Board
Mr. Juan María Zuza Lanz





ANNUAL CORPORATE GOVERNANCE REPORT 2016

Viscofan S.A

Year end: 31/12/2016

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

A,- OWNERSHIP STRUCTURE OF THE COMPANY

A.1- Fill in the following table on the company's share capital:

Date of last change	Share capital (euros)	Number of shares	Number of voting rights
14/04/2011	32,622,577.40	46,603,682	46,603,682

S Indicate if there are different classes of shares with different rights associated with them

NO

A.2- Detail the direct and indirect owners of significant holdings in your company at year-end, excluding directors:

Name or company name of the Shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MARATHON ASSET MANAGEMENT, LLP	0	2,321,393	4.98
APG Algemene Pensioen Groep NV,	2,408,875	0	5.17
DOÑA ANA MARIA BOHORQUEZ ESCRIBANO .		2,332,021	5.00
CORPORACION FINANCIERA ALBA SA	0	5,136,037	11.02
NORGES BANK	2,446,379	0	5.25

Name or company name of the indirect shareholder	Through: name or company name of the direct shareholder	Number of total voting rights
MARATHON ASSET MANAGEMENT, LLP	Other shareholders of the Company	2,321,393
MRS. ANA MARIA BOHORQUEZ ESCRIBANO	Angustias y Sol S.L.	3,332,021
CORPORACIÓN FINANICERA ALBA SA	ALBA PARTICIPACIONES SAU	5,136,037

Indicate the most significant movements in the shareholding structure during the year.

Name or company name of the shareholder	Date of transaction	Description of the transaction
NORGES BANK	21/01/2016	Exceeded 3% of the share capital
NORGES BANK	07/03/2016	Exceeded 5% of the share capital
MARATHON ASSET MANAGEMENT, LLP	04/05/2016	Exceeded 5% of the share capital
DOÑA ANA MARIA BOHORQUEZ ESCRIBANO	20/05/2016	Exceeded 5% of the share capital
FIDELITY INTERNATIONAL LIMITED	28/06/2016	Down from 1% of the share capital
INVESCO LIMITED	11/07/2016	Down from 1% of the share capital
CORPORACIÓN FINANCIERA ALBA S.A.	28/10/2016	Exceeded 10% of the share capital
MARATHON ASSET MANAGEMENT, LLP	30/11/2016	Down from 5% of the share capital

A.3- Fill in the following tables about members of the Board of Directors of the Company with voting rights on company shares:

Name or company name of the Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR JOSÉ ANTONIO CANALES GARCÍA	10,670	6,299	0.04%
MR IGNACIO MARCO-GARDOQUI IBAÑEZ	30,276	5,000	0.08%
MR. JOSÉ DOMINGO DE AMPUERO Y OSMA	60,769	0	0.13%
MR. ALEJANDRO LEGARDA ZARAGüETA	8,250	0	0.02%
MRS. AGATHA ECHEVARRIA CANALES	46,869	0	0.09%
MR. NESTOR BASTERRA LARROUDÉ	212,452	0	0.46%
MR. JUAN MARCH DE LA LASTRA	0	18,307	0.04%

Name or company name of the indirect shareholder	Through: name or company name of the direct shareholder	Number of total voting rights
MR. JOSÉ ANTONIO CANALES GARCIA	Other shareholders of the Company	6,299
MR. JUAN MARCH DE LA LASTRA	ATACAMPA S.A..	18,307
MR. IGNACIO MARCO-GARDOQUI IBAÑEZ	PROMOCIONES GARDAL XXI, S.L.	5,000

Total % of voting rights of the Board of Directors:	0.86%

Fill in the following tables with the members of the company's Board of Directors with voting rights on company shares

Name of director (person or company)	Number of direct voting rights	indirect rights		Number of equivalent shares	% of total voting rights
		Direct owner	Number voting rights		

A.4- Where applicable, indicate any family, commercial, contractual or corporate relationships between holders of significant shareholdings, insofar as the company is aware of them, unless they are of little relevance or due to ordinary trading or exchange activities:

Related name (person or company)	Type of relationship	Brief description

No applicable

A.5- Where applicable, indicate any commercial, contractual or corporate relationships between holders of significant shareholdings, and the company and/or its group, unless they are of little relevance or due to ordinary trading or exchange activities:

Related name (person or company)	Type of relationship	Brief description
CORPORACIÓN FINANCIERA ALBA S.A MR. JOSÉ DOMINGO DE AMPUERO Y OSMA.	CORPORATE	MR.JOSE DOMINGO DE AMPUERO Y OSMA IS MEMBER OF ITS BOARD OF DIRECTOR

CORPORACIÓN FINANCIERA ALBA S.A MR. JUAN MARCH DE LA LASTRA	CORPORATE	MR. JUAN MARCH DE LA LASTRA IS VICECHAIRMAN OF THE BOARD OF DIRECTOR
ANGUSTIAS Y SOL SL MR. SANTIAGO DOMECQ BOHÓRQUEZ	CORPORATE	MR. SANTIAGO DOMECQ BOHORQUEZ (sole administrator of Angustias y Sol S.L.)

A.6- Indicate whether the company has been informed of any shareholder agreements that may affect it as set out under articles 530 and 531 of the Corporate Enterprises Act. Where applicable, briefly describe them and list the shareholders bound by such agreement:

Participants in shareholders agreements	% of share capital affected	Brief description of agreement

NO

Indicate whether the company is aware of the existence of concerted actions amongst its shareholders. If so, describe them briefly.

Participants in concerted action	% of share capital affected	Brief description of concerted action

NO

A.7- Indicate whether any person or organisation exercises or may exercise control over the company pursuant to article 5 of the Securities Exchange Act. If so, identify names:

NO

A.8- Fill in the following tables about the Company's treasury stock

At year-end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
0	0	0%

(*) Through:

Name of direct owner of shareholding (person or company)	Number of direct shares
Total:	0

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Explain the significant changes

A.9- Describe the conditions and term of the prevailing mandate from the general meeting to the Board of Directors to issue, buy back and transfer treasury stock :

Extract of the Minutes of the General Shareholders Meeting held on 30 April 2013 on second call, the following resolution was adopted by majority:

"The proposal is to cancel the authorization for acquiring own shares that was given to the Board of Directors at the Company's General Shareholders Meeting of 23rd May 2012.

The proposal is to authorise the Board of Directors to buy and sell on the market, through the person, Company or institution that it deems advisable, shares in the Company at the market price on the transaction date, for the maximum number of shares permitted by the Corporate Enterprises Act (CEA) (Ley de Sociedades de Capital) and related provisions, with the minimum price not being below the nominal value or more than 15% higher than the share price listed on the Spanish Automated Quotation System at the time of the acquisition.

The proposed authorisation is for the maximum term envisaged by law, 5 years, and will run from the date of the resolution. It is conferred upon the Board subject to existing legal restrictions on the purchase of treasury shares and, more specifically, those restrictions prescribed by Articles 146 and 509 of Corporate Enterprises Act (CEA) (Ley de Sociedades de Capital).

In the event the Board of Directors should need to exercise the authorisation conferred upon it by the General Shareholders Meeting, the Company's treasury shares would be subject to the treasury shares regime set forth in Article 148 of the Corporate Enterprises Act (CEA).

A.9 bis- Estimated floating capital:

	%
Estimated floating capital	67.72

A.10 Indicate whether there is any restriction on the transferability of securities and/or any restriction on voting rights. In particular, report the existence of any restrictions that might hinder the take-over of control of the company by purchasing its shares on the market

NO

A.11- Indicate whether the General Meeting has agreed to adopt measures to neutralise a public takeover bid, pursuant to Act 6/2007.

NO

If so, explain the measures approved and the terms and conditions under which the restrictions would become inefficient:

A.12- Indicate whether the company has issued securities that are not traded on a regulated market in the EU.

NO

Where applicable, indicate the different classes of shares, and what rights and obligations each share class confers.

B.- GENERAL SHAREHOLDER'S MEETING

B.1- Indicate and, if applicable, explain whether there are differences with the minimum requirements set out in the Corporate Enterprises Act ("CEA") in connection with the quorum needed to hold a valid General Shareholders' Meeting.

NO

	% Quorum differing from that set forth in art 193 of Corporate Enterprises Act (CEA) for general circumstances	% Quorum differing from that set forth in art 194 of Corporatie Enterprises Act for the special circumstances set forth in art 194
Quorum required on first summons		
Quorum required on second summons		

Describe de differences:

B.2- Indicate, and where applicable give details, whether there are any differences from the minimum standards established under the Corporate Enterprises Act (CEA) for the adoption of corporate resolutions

NO

Describe any differences from the minimum standards established under the CEA.

	Reinforced majority different to that set forth by Article 201.2 of CEA (Corporate Enterprises Act) for the purposes of Article 194.1 of CEA	**Other instances of reinforced majority**
% set forth by the Company for adoption of resolutions		
	Describe the differences	

B.3-Indicate the rules applicable to amendments to the company bylaws. In particular, report the majorities established to amend the bylaws, and the rules, if any, to safeguard shareholders' rights when amending the bylaws..

There is no specific regulation for amending the articles of association other than that provided for by applicable regulations concerning the requirements established by art. 194 of the Corporate Enterprise Act for a reinforced quorum and by the remaining provisions of section VIII of the aforementioned act.

The requirements for passing resolutions set forth in Article 21 of the Bylaws and Article 18 of the Regulations of the General Shareholders Meeting match those stated above.

B.4- Indicate the data on attendance at the general shareholders' meetings held the year to which this report refers and the previous year:

Attendance information					
General Shareholders Meeting Date	% shareholders present	% Attending by proxy	% voting remotely		Total
			Electronic vote	Other	
07/05/2015	1.52%	29.75%	0,000%	41.79%	73.06%
21/04/2016	13.90%	18.08%	0,000%	48.10%	80.08%

B.5- Indicate the number of shares, if any, that are required to be able to attend the General Meeting and whether there are any restrictions on such attendance in the bylaws:

YES

Number of shares necessary to attend the General Shareholders' meeting:	1,000

B.6- Section repealed

B.7- Indicate the address and means of access through the company website to the information on corporate governance and other information on the general meetings that must be made available to shareholders on the company's website.

This content is available via the company's website (www.viscofan.com)

The information relating to Corporate Governance is available on the Corporate Responsibility tab, which can be found at the top of the website homepage. Once inside the tab, the information can be accessed by clicking on Corporate Governance to be found in the menu on the left.

The information relating to the General Shareholders Meetings is permanently available on the Investor Relations tab, located at the top of the website homepage. Once inside the tab, the information can be accessed by selecting the General Shareholders' Meeting section. Moreover, as of the date of publication of the notice to hold a new General Meeting, a direct link is enabled on the company's Home Page to the notice of meeting. In accordance with the shareholders' right to information, there is also access to legally-required documentation and other documentation for information purposes.


Viscofan
The casing company

C.- CORPORATE GOVERNANCE STRUCTURE

C.1- Board of Directors

C.1.1- Maximum and minimum number of directors established in the bylaws:

Maximum number of Directors	10
Minimum number of Directors	3

C.1.2 Fill in the following table on the Board members:

Name of director (person or company)	Representative	Type of directorship	Position on the board	Date first appointed	Date last appointed	Election procedure
MR JOSE DOMINGO DE AMPUERO Y OSMA		Executive	CHAIRMAN	27/02/2009	07/05/2015	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR NESTOR BASTERRA LARROUDE		Other External	1st VICE-CHAIRMAN	29/07/1997	11/04/2014	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MS AGATHA ECHEVARRÍA CANALES	-	Other External	2nd VICE CHAIRWOMAN	24/06/1998	11/04/2014	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR ALEJANDRO LEGARDA ZARAGÜETA	-	Independent	DIRECTOR	22/05/2006	23/05/2012	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR IGNACIO MARCO - GARDOQUI IBAÑEZ	-	Independent	DIRECTOR	01/01/2010	21/04/2016	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR JOSÉ MARÍA ALDECOA SAGASTASOLOA	-	Independent	DIRECTOR	23/05/2012	23/05/2012	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR. JAIME REAL DE ASUA Y ARTECHE		Independent	DIRECTOR	11/04/2014	11/04/2014	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR. JOSE ANTONIO CANALES GARCÍA		Executive	DIRECTOR	11/04/2014	11/04/2014	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR. JUAN MARCH DE LA LASTRA		Nominee	DIRECTOR	21/04/2016	21/04/2016	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
DON SANTIAGO DOMECQ BOHÓRQUEZ		Nominee	DIRECTOR	21/04/2016	21/04/2016	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING

Total number of Directors	10

Indicate the severances that have occurred on the Board of Directors during the reporting period:

Name of director (person or company)	Condition of director at time of severance	Date of leaving
MRS. LAURA GONZALEZ MOLERO	Independent	21/04/2016

C.1.3- Fill in the following tables on the Board members and their different kinds of directorship:

EXECUTIVE DIRECTORS

Name of director (person or company)	Position within company organisation
MR JOSE DOMINGO DE AMPUERO Y OSMA	Chairman
MR. JOSE ANTONIO CANALES GARCÍA	Managing Director/CEO

Total number of Executive Directors	2
% of total directors	20.00%

EXTERNAL NOMINEE DIRECTORS

Name of director (person or company)	Name or business name of the significant shareholder represented or proposing nomination.
MR. JUAN MARCH DE LA LASTRA	CORPORACION FINANCIERA ALBA SA
MR. SANTIAGO DOMECQ BOHORQUEZ	ANGUSTIAS Y SOL S.L.

Total number of nominee directors	2
% of total directors	20.00%

EXTERNAL INDEPENDENT DIRECTORS

Name of director (person or company)

MR ALEJANDRO LEGARDA ZARAGÜETA

Profile

Industrial engineering graduate from the Escuela Superior de Ingenieros Industriales in San Sebastian and holds a Masters in Economics and Business Administration from IESE (Barcelona). Doctor in innovation economics from the Universidad Politécnica de Madrid.

With broad experience in industry, in 1989 he was appointed Financial and Administrative Director of

Construcciones Auxiliares de Ferrocarriles, S.A. (CAF) where he subsequently became General Managing Director in 1992 until 2014, and board member from then onwards. In 2013 he was appointed Independent Director of Pescanova, S.A.

He joined the Board of Directors of Viscofan,S.A. as an Independent Director in 2006, and in 2007 became a member of the Audit Committee.

Name of director (person or company)

MR IGNACIO MARCO-GARDOQUI IBAÑEZ

Profile

Economics degree from Deusto University.

Mr. Marco-Gardoqui has a long professional career, he has worked for financial institutions, and his activities have covered teaching, consulting, and the press world, where he has a strong reputation for his active contribution as economic expert and columnist; he belongs to the Publishing Committee of Vocento Group.

He also has developed wide experience in several industrial companies, belonging to several Board of Directors; currently he is Director of, Progénika Biopharma, Minerales y Productos Derivados, Tubacex SA and Iberdrola Ingeniería y construcción (Iberinco) SA. Previously, he has belonged, amongst others, to the Board of Directors of Técnicas Reunidas, Banco de Comercio, IBV, and Banco de Crédito Local, Schneider Electric España, and was Chairman of Naturgás.

He is member of the Board of Directors of Viscofan, S.A, chairman of its Audit Committee and member of the Appointments and Remuneration Committee.

Name of director (person or company)

MR JOSÉMARÍA ALDECOA SAGASTASOLOA

Profile

Graduate in Technical Electronic Engineering from the Polytechnic School of Mondragón. PADE Graduate from the Executive Management Programme at IESE

Throughout his long professional career, he has held various posts at COPRECI (1971-1982). He was Managing Director of FAGOR ELECTRÓNICA and member of the Board of Directors of Fagor, S. Coop. (1982-1991). Between 1984 and 1991, he was Vice-Chairman of ANIEL (National Association of Electronic Industries) and Chairman of the Components Board. He was also member of the Board of Directors of the European Electronic Components Association (EECA) between 1986 and 1991. Between 1992 and 2012, he held various positions at MONDRAGÓN CORPORACION and, in 2007, he was appointed Chairman of the General Board, a position he held until July 2012. He has a wealth of experience in the international industrial world, especially in Asia, including the creation of Fagor Electrónica in Hong Kong, the integration of the production plants of Orkli, Orbea, Mondragón Automoción in the industrial park of Kunshan, China and the opening of the (industrial Park) of Pune in

India. He has sat on the Board of Directors of various automotive and components companies (Copreci-Czech Republic, Copreci-Mexico, Vitorio Luzuriaga, Fagor Ederlan-Brazil, ParanoaCicautxo-Brazil, FPK, Fagor Ederlan-Slovakia), and director (1992-2006) and Chairman (2007-2012) of MONDRAGÓN INVERSIONES.

He was also Chairman of the Engineering Faculty of the University of Mondragón (1998-2002).

He is currently an independent director and member of the Delegate Committee of Gamesa Corporación Tecnológica, S.A.

He is member of the Board of Directors of Viscofan SA and member of its Audit Committee. In 2014 he was appointed a Lead Independent Director

Name of director (person or company)

MR JAIME REAL DE ASUA Y ARTECHE

Profile

Industrial engineer, specialising in industrial organisation from the ETSII (Bilbao).

He is currently Non Executive Chairman of the Board of Directors of Elecnor S.A., and Chairman of its Delegated Committee and member and secretary of the Appointments and Remuneration Committee. Moreover, he is Chairman of Elecnor Infraestructuras Committee and member of the Board of Directors of Enerfín Enervento, S.A, part of Elecnor Group.

He has been President and Director of Adhorna Prefabricación S.A. until 2015 when it was owner by Elecnor S.A. He is member of the Board of Directors and Secretary of Cantiles XXI S.L. From 1987 until 2012 he served as a member of the Board of Directors of Internacional de Desarrollo Energético, S.A. (IDDE).

At the same time, from 1981 until 2011 he was linked to Grupo Cementos Portland Valderrivas, where he held different management positions and was a member of the Board of Directors of various companies of this Group.

He is member of the Board of Directors of Viscofan, S.A, and chairman of its Appointments and Remuneration Committee

Total number of Independent Directors	4
% of total directors	40.00%

Indicate whether any director considered an independent director is receiving from the company or from its group any amount or benefit under any item that is not the remuneration for his/her directorship, or maintains or has maintained over the last year a business relationship with the company or any company in its group, whether in his/her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

NO

Where applicable, include a reasoned statement from the Board with the reasons why it deems that this director can perform his/her duties as an independent director.

Name of director (person or company)	Description of the relationship	Reasons

OTHER EXTERNAL DIRECTORS

Identify all other external Directors and explain why these cannot be considered nominee or independent Directors and detail their relationships with the company, its executives or its shareholders.

Name of director (person or company)	Reasons
MRS . AGATHA ECHEVARRIA CANALES	More than 12 years on the Board of Directors.
MR. NESTOR BASTERRA LARROUDE	More than 12 years on the Board of Directors.

Total number of other external directors	2
% of total directors	20.00%

Indicate any changes that may have occurred during the period in the type of directorship of each director:

Name of director (person or company)	Date of change	Previous category	Current category

C.1.4- Fill in the following table with information regarding the number of female directors over the last 4 years, and the category of their directorships:

	Number of females directors				% of total female directors of each category			
	Period 2016	Period 2015	Period 2014	Period 2013	Period 2016	Period 2015	Period 2014	Period 2013
Executive	0	0	0	0	0	0	0	0

Nominee	0	0	0	0	0	0	0	0
Independent	0	1	1	2	0	20.00	20.00	25.00
Other external	1	1	1	0	50.00	50.00	50.00	0.00
TOTAL	1	2	2	2	10.00	20.00	22.22	22.22

C.1.5- Explain the measures, if any, that have been adopted to try to include a number of female directors on the Board that would mean a balanced presence of men and women.

Explanation of measures:

The duties of the Appointment and Remuneration Committee include establishing a representation target for the least represented gender on the board or directors, and preparing guidelines on how to achieve this objective. The Appointment and Remuneration Committee complies with the Board Member selection policy in which it is specifically established that the Committee must take account of the representation target established for the least represented gender and must include persons of the said gender amongst potential candidates.

The Appointments and Remuneration Committee has taken account of the gender diversity in the analysis prior to proposing candidates to cover the vacancies created on the Board of Directors, as one of the key factors to be taken into account, although weighting these factors with the diversity of competencies, knowledge and experience, all in accordance with the principles of equality, transparency and legality.

C.1.6- Explain the measures, if any, agreed by the Appointments Committee to ensure that selection procedures do not suffer from implicit biases that may hinder the selection of female directors, and that the company deliberately seeks and includes potential female candidates that meet the professional profile sought:

Explanation of measures

The Committee has worked on ensuring the presence of women candidates in the selection processes to cover any board vacancies that may arise, including amongst the requirements to be taken into account, the demand that the total number of candidates to be assessed should equally consider men and women candidates, in order to guarantee gender diversity.

Furthermore, in view of current legislations, of the Board of Directors regulation and of the Director selection policy, the Board of Directors has assessed the competency, experience and merits of the candidates, and has taken into consideration the report created by the Appointments and Remuneration Committee in accordance with that stipulated in Article 529.i.6 of the Spanish Enterprise Law, in view of the Board's requirements, assessing the diversity of its composition and structure, and the conditions that should be met by the Directors to carry out their duties, and dedication – the dedication that is needed to suitably perform their roles.

When, despite any measures that might have been adopted, the number of female directors is low or zero, explain the reasons:

Explanation of reasons

See C.1.6 bis

C.1.6.bis- Explain the conclusions of the Appointments Committee regarding verification of compliance with the board member selection policy. And, in particular, explain how this policy is fostering the goal for 2020 to have the number of female board members represent at least 30% of the total number of members of the board of directors.

Explain the conclusions

The Appointments and Remuneration Committee considers that the board member selection policy has been properly complied with, for a number of reasons: all the proposals made to the General Shareholders' Meeting were supported by a prior analysis of the needs of the Board, taking account of the competencies, knowledge and experience of the board members and candidates, valuing diversity, promoting the search for different alternatives for candidates that suit the profile, and performing the selection process in accordance with the principles set out in the said policy.

The Committee considers that there is a need to analyse the implementation of the policy on a yearly basis, and also in the longer term, taking account of any projected vacancies, based on the board member term of appointment, in order to guarantee at all times the quality of the Board's decisions and its ability to effectively promote corporate interest. In this regard, the Committee is working towards the 2020 target.

C.1.7- Explain the form of representation on the Board of shareholders with significant holdings.

The company maintains an on-going dialogue with institutional shareholders and investors, in accordance with its communication policy. As a result of these contacts, the company considers the representation on the Board of those shareholders with significant holdings whose interests are in line with those of the company in long-term value creation for all stakeholders, and analyses the different factors that may contribute to proposing the said representation, taking account of the internal policies of the said shareholders, the shareholding structure and the composition of the Board at any given time.

C.1.8 - Explain, where applicable, the reasons why nominee directors have been appointed at the behest of a shareholder whose holding is less than 3% of the capital:

Name or company name of the Shareholder	Justification

Indicate whether formal petitions have been ignored for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose behest nominee directors were appointed. Where applicable, explain why these petitions have been ignored.

NO

C.1.9- Indicate if any director has stood down before the end of his/her term of office, if the director has explained his/her reasons to the Board and through which channels, and if reasons were given in writing to the entire Board, explain below, at least the reasons that were given:

Name of the Director	Reason for leaving

C.1.10 - Describe any powers delegated to the Chief Executive Officer(s), if any:

Name of director (person or company)	Brief description
MR JOSE DOMINGO DE AMPUERO Y OSMA	In his position as Chairman of the Board, he has been granted powers of representation, powers relating to purchase or disposal, powers relating to personnel, collections, payments, contracts, tenders and transactions, Current accounts, credit and savings accounts, bills of exchange and promissory notes, securities and shares, bonds and guarantees, and complementary powers to the above.
MR. JOSÉ ANTONIO CANALES GARCÍA	In his position as managing director, he has been granted powers of representation, powers relating to purchase or disposal, powers relating to personnel, collections, payments, contracts, tenders and transactions, Current accounts, credit and savings accounts, bills of exchange and promissory notes, securities and shares, bonds and guarantees, and complementary powers to the above.

C.1.11- Identify any members of the Board holding positions as directors or managers in other companies belonging to the listed company's group

Name of director (person or company)	Name of the Group Company	Position	Does the director hold executive functions?
MR JOSE DOMINGO DE AMPUERO Y OSMA	GAMEX CB S.R.O.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN URUGUAY	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	KOTEKS VISCOFAN D.O.O.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	NATURIN VISCOFAN GMBH	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CANADA. INC	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CENTROAMÉRICA COMERCIAL SA	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CZ S.R.O.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN DE MÉXICO S. DE R.L. DE C.V.	CHAIRMAN	NO

MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL. LTDA	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN TECHNOLOGY SUZHOU CO. LTD.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN UK LIMITED	DIRECTOR	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN USA INC.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	ZACAPU POWER S.DE R.L DE C.V.	CHAIRMAN	NO
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN DE MEXICO SERVICIOS S DE RL DE CV.	CHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	KOTEKS VISCOFAN D.O.O.	VICECHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	NATURIN VISCOFAN GMBH	VICECHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN CZ S.R.O.	VICECHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL. LTDA	MEMBER OF THE ADVISORY BOARD	NO
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN TECHNOLOGY SUZHOU CO. LTD.	DIRECTOR	NO
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN URUGUAY S.A.	VICECHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN USA INC.	VICECHAIRMAN	NO
MR NESTOR BASTERRA LARROUDÉ	GAMEX CB S.R.O.	VICECHAIRMAN	NO
MR JOSE ANTONIO CANALES GARCIA	GAMEX CB S.R.O.	DIRECTOR	YES
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN DE MEXICO SERVICIOS S. DE R.L. DE C.V.	VICECHAIRMAN	NO
MR JOSE ANTONIO CANALES GARCIA	KOTEKS VISCOFAN D.O.O.	DIRECTOR	NO
MR JOSE ANTONIO CANALES GARCIA	NATURIN VISCOFAN GMBH	DIRECTOR	YES
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN CZ S.R.O.	DIRECTOR	YES
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL. LTDA	MEMBER OF THE ADVISORY BOARD	NO
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN TECHNOLOGY SUZHOU CO. LTD.	DIRECTOR	NO
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN URUGUAY S.A.	DIRECTOR	
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN USA INC.	DIRECTOR	NO
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN UK LIMITED	DIRECTOR	NO
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN CANADA	SECRETARY	NO
MR JOSE ANTONIO CANALES GARCIA	VISCOFAN DE MEXICO S. DE RL. DE CV .	VICECHAIRMAN	NO
MR JOSE ANTONIO CANALES GARCIA	ZACAPU POWERS DE RL DE CV	VICECHAIRMAN	NO
MR. JOSE ANTONIO CANALES GARCIA	VISCOFAN CENTROAMERICA COMERCIAL SOCIEDAD ANONIMA	SECRETARY	NO
MR. JOSE ANTONIO CANALES GARCIA	NANOPACK TECHNOLOGY & PACKAGING S.L	CHAIRMAN	NO
MR. JOSÉ ANTONIO CANALES GARCÍA	VECTOR EUROPE NV	VICECHAIRMAN	NO
MR. JOSÉ DOMINGO DE AMPUERO Y OSMA	VECTOR EUROPE NV	CHAIRMAN	NO

MR. NÉSTOR BASTERRA LARROUDÉ	VECTOR EUROPE NV	DIRECTOR	NO
MR. JOSÉ DOMINGO DE AMPUERO Y OSMA	VECTOR USA INC	CHAIRMAN	NO
MR. JOSÉ ANTONIO CANALES GARCÍA	VECTOR USA INC	VICECHAIRMAN	NO
MR. NÉSTOR BASTERRA LARROUDÉ	VECTOR USA INC	DIRECTOR	NO
MR. JOSÉ DOMINGO DE AMPUERO Y OSMA	VECTOR PACKAGING EUROPE NV	CHAIRMAN	NO
MR. JOSÉ ANTONIO CANALES GARCÍA	VECTOR PACKAGING EUROPE NV	VICECHAIRMAN	NO
MR. NÉSTOR BASTERRA LARROUDÉ	VECTOR PACKAGING EUROPE NV	DIRECTOR	NO
MR. JOSÉ DOMINGO DE AMPUERO Y OSMA	VECTOR UK LIMITED	DIRECTOR	NO
MR. JOSÉ ANTONIO CANALES GARCÍA	VECTOR UK LIMITED	DIRECTOR	NO
MR. NÉSTOR BASTERRA LARROUDÉ	VECTOR UK LIMITED	DIRECTOR	NO

C.1.12- Detail, where applicable, any company directors that sit on Boards of other companies publicly traded on regulated securities markets outside the company's own group, of which the company has been informed:

Name of director (person or company)	Name of the listed company	Position
MR JOSE DOMINGO DE AMPUERO Y OSMA	CORPORACION ALBA SA	DIRECTOR
MR JOSE DOMINGO DE AMPUERO Y OSMA	TUBACEX S.A.	DIRECTOR
MR NESTOR BASTERRA LARROUDÉ	IBERPAPEL GESTIÓN SA	DIRECTOR
MR ALEJANDRO LEGARDA ZARAGÜETA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES SA	DIRECTOR
MR ALEJANDRO LEGARDA ZARAGÜETA	PESCANOVA SA	DIRECTOR
MR IGNACIO MARCO-GARDOQUI IBAÑEZ	TUBACEX. S.A.	DIRECTOR
MR IGNACIO MARCO-GARDOQUI IBAÑEZ	MINERALES Y PRODUCTOS DERIVADOS, S.A.	DIRECTOR
MR JOSÉ MARÍA ALDECOA SAGASTASOLOA	GAMESA CORPORACIÓN TECNOLÓGICA. S.A.	DIRECTOR
MR. JAIME REAL DE ASUA Y ARTECHE	ELECNOR S.A.	DIRECTOR
MR. JUAN MARCH DE LA LASTRA	INDRA SISTEMAS SA	DIRECTOR
MR. JUAN MARCH DE LA LASTRA	CORPORACIÓN FINANCIERA ALBA SA	VICECHAIRMAN

C.1.13- Indicate and, where applicable, if board regulations have established rules on the maximum number of company boards on which its directors may sit:

YES

Explanation of rules:

Company directors may not sit on more than three Boards of Directors of listed companies, in addition to the Board of Viscofan, S.A.

C.1.14- Section repealed.

C.1.15- Indicate the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (Thousand Euros)	3.076
Cumulative amount of rights of current Directors in pension scheme (thousands of euros	0
Cumulative amount of rights of former Directors in pension scheme (thousands of euros)	0 0

The overall remuneration of the Board includes the triennial variable remuneration of the executive directors.

C.1.16- Identify members of senior management that are not in turn executive directors, and indicate the total remuneration accruing to them during the year:

Name (person or company)	Position(s)
MR GABRIEL LARREA LALAGUNA	HEAD OF SALES VISCOFAN GROUP
MR CÉSAR ARRAIZA ARMENDÁRIZ	CHIEF FINANCIAL OFFICER VISCOFAN GROUP
MR JOSE IGNACIO RECALDE IRURZUN	HEAD OF RESEARCH , DEVELOPMENT AND QUALITY VISCOFAN GROUP (Until October 2016)
MR ANDRES DÍAZ ECHEVARRÍA	HEAD OF OPERATIONS VISCOFAN GROUP
MR MILOSLAV KAMIS	MANAGING DIRECTOR GAMEX CB SRO., MANAGING DIRECTOR VISCOFAN CZ SRO
MR BERTRAM TRAUTH	MANAGING DIRECTOR NATURIN VISCOFAN GMBH
MR EDUARDO AGUIÑAGA	MANAGING DIRECTOR VISCOFAN DE MEXICO SRL DE CV
MR LUIS BERTOLI	MANAGING DIRECTOR VISCOFAN DO BRASIL S.COM E IND. LTDA
MR DOMINGO GONZÁLEZ	MANAGING DIRECTOR VISCOFAN USA INC. & CEO VECTOR USA
MR JUAN NEGRI SAMPER	MANAGING DIRECTOR VISCOFAN TECHNOLOGY SUZHOU INC
MR IÑIGO MARTINEZ IRIARTE	MANAGING DIRECTOR KOTEKS VISCOFAN DO.O.
MR ANGEL MAESTRO ACOSTA	MANAGING DIRECTOR URUGUAY S.A.
MR. JOSÉ ÁNGEL ARRARÁS ILUNDAIN	HEAD OF RESEARCH , DEVELOPMENT AND QUALITY VISCOFAN GROUP (FROM NOVEMBER 2016)
MR. ÓSCAR PONZ TORRECILLAS	PLASTICS GENERAL MANAGER (From November)
MR. RICARDO ROYO RUIZ	EUROPE AREA GENERAL MANAGER

Total senior management remuneration (thousand Euros)	2,595

The overall remuneration of senior management includes the triennial variable remuneration.

C.1.17. Indicate the identity of the Board members, if any, who are in turn members of the Board of Directors in companies of significant shareholders and/or in entities of their group:

Name or company name of the Director	Company name of the major shareholder	Position
MR JOSE DOMINGO DE AMPUERO Y OSMA	CORPORACION FINANCIERA ALBA SA	DIRECTOR
MR. JUAN MARCH DE LA LASTRA	CORPORACION FINANCIERA ALBA SA	VICECHAIRMAN
MR. SANTIAGO DOMECQ BOHORQUEZ	ANGUSTIAS Y SOL	SOLE ADMINISTRADOR

Detail the relevant affiliations, other than those considered in the above paragraph, that link Board members to significant shareholders and/or companies in their group:

Name or company name of the related Board member	Name or company name of the major related shareholder	Description of the relationship

C.1.18- Indicate whether there has been any change in the Board regulations during the year:

no

C.1.19- Indicate procedures for selection, appointment, re-election, assessment and removal of directors. List the competent bodies, the procedures to be followed and the criteria to be employed in each procedure:

The selection, appointment, re-election, assessment and removal processes of the Directors are regulated in the articles of association, the Board Regulation and the Director´s Selection Policy. In their respective competencies, the General Shareholder´s Meeting, the Board of Directors and the Appointments and Remunerations Committee intervene in the different procedures.

The Board of Directors Selection Policy establishes that the Appointments and Remunerations Committee will be responsible for analysing the composition and structural needs of the Company's Board of Directors at all times, and for regulating the procedure to follow whenever there is a vacancy within the Board of Directors to ensure a search for candidates that is based on the principles of equality, transparency and legality, in order to provide the Board of Directors with candidates that can offer the competencies, knowledge and experience required for the Board at all times, taking account of the vacancies to be covered and the structure and composition of the Board, avoiding any implicit bias that may involve some type of discrimination and taking account of diversity, particularly the measures to be applied in order to meet the representation target for the least-represented gender on the Board of Directors and to facilitate the inclusion of female directors on the board.

Pursuant to Article 26 of the Articles of Association:

Their appointment will correspond to the General Shareholders meeting in accordance with article 243 of the Capital Companies Act.

And Article 27 sets forth that:

To be appointed to the position of director, the status of shareholder is not a requirement. The term of office for Directors is four years from the date they are appointed.

The appointment of Directors will cease when their term of office has ended and the next General Shareholders Meeting has been held or the period stipulated by law for holding the Shareholders

Meeting to resolve on the approval of the prior year's accounts has passed.

Article 27 bis establishes limits on the re-election of Independent Directors:

Independent Directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years counted from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years described in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office.

In this respect, Article 8 of the Board Rules sets forth:

Article 8. Appointment of Directors

The shareholders at the General Shareholders Meeting or the Board of Directors itself will elect the Directors in the circumstances provided in law.

The Board of Directors must ensure that the procedures to select its members favours the diversity of gender, experiences, knowledge and that there is no implicit bias that may involve some type of discrimination, and, in particular, they should facilitate the selection of women directors.

The proposals relating to the appointment or re-election of directors, within the limits set out in the articles of incorporation, shall be made by the Appointment and Remuneration Committee in the case of independent directors and by the Board itself, subject to a report by the Committee, in the case of the other directors.

Any proposals must be accompanied, in any case, by an explanatory report from the Board, assessing the competence, experience and merits of the candidate proposed, and shall include the presence on the Board of a reasonable number of independent directors and shall tend to maintain a majority of directors who are external to management.

The Directors will hold their posts for the term provided in the company bylaws, and may be elected either once or several times.

Independent directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years as from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years provided in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office.

Furthermore, Article 14 of the Board of Directors' Rules includes the Nominating and Compensation Committee and sets forth:

The mission of the Appointments and Remunerations Committee, amongst others, will be as follows:

a) Evaluate the qualifications, knowledge and experience required by the Board and, as a result, define the functions and skills required from the candidates due to cover each vacant position and evaluate the amount of time and dedication required for the effective performance of their mandate.

b) Provide the Board of Directors with proposals for the appointment of independent Directors for appointment by co-optation or submission for voting at the General Shareholders Meeting. Submit proposals for the re-election or removal of such Directors.

c) Provide information on proposals for the appointment of all other Directors for appointment by co-optation or submission for voting at the General Shareholders Meeting, as well as proposals for their re-election or removal by the General Shareholders Meeting.

Pursuant to Article 16 of the Board Regulations, relating to the Appraisal of the Board of Directors and the Committees:

Each year the Board of Directors will evaluate:

a-)the quality and efficiency of the operation of the Board itself;

b-) the performance of their functions by the Chairman of the Board and the company's chief executive, based on the report raised by the Appointments and Remunerations Committee; should the Chairman have the capacity of executive director, then the coordinating director shall direct the periodical evaluation of the Chairman of the Board of Directors.

c-) the operation of the Board's Committees, based on the report raised by each committee.

The Board must propose, based on the results of the said evaluation, an action plan to correct any shortcomings detected.

In accordance with this article of its Regulations, led by the Appointments and Remunerations Committee or by the coordinating director in the case of the Chairman, and coordinated by the Secretary of the Board, the Board assesses the Board itself and all its Committees on an annual basis, analysing various formal and material issues of the activities carried out by each one, together with the content of the meetings, access to business knowledge, information about issues that are necessary for the development of their functions, the presence of executives at Board meetings and the various Committees, the quality of the discussions and the taking of decisions, the performance of the directors and Chairmen of each committee and the Board itself, the qualification of the directors and the Secretary of the Board, the quality applied to achieve targets, among others. Suggestions are also requested, together with the inclusion of any comment that may help improve the performance of each one.

Each Director and the members of the Committees make their own individual analysis in accordance with guidelines and provide the results to the Secretary of the Board anonymously. After consolidating the results that are obtained, the Secretary gives them to the Board or to each of the Committees, where applicable, for internal debate and to resolve, where applicable, on the actions that help improve the operation and fulfilment of the functions of the Board and each Committee.

Additionally, the Board of Directors will perform the evaluation of the Chairman based on the report submitted by the Appointments and Remuneration Committee and headed by the coordinating director.

In the 2016 tax year, in accordance with the recommendations of Good Governance of listed companies, the Board of Directors commissioned an external consultant to provide services as a facilitator and leader of the self-assessment process regarding the effectiveness of the Board operation. To perform the self-assessment process, an interview outline was established, taking into account the particular situation and best practices of Corporative Management.

The external consultant held individual interviews with all members of the Board of Directors, in which the quality and efficiency of the Board operation were analysed, as well as the operation and

composition of its committees, the diversity of its composition, and the competencies of the Board, the performance of the Board Chairman and of the company's top executive.

In particular, a detailed analysis in the following areas was performed in the self-assessment process:

- Organisation of the Board
- Organisation of the Committees
- Composition of the Board
- Involvement of the Board
- Communication with Shareholders and Regulators
- Talent Management and Succession Plans
- Risk Management
- Future Issues
- Suggestions

The self-assessment report includes the conclusions drawn and has been presented to the Appointments and Remuneration Committee and to the Board of Directors.

The removal of directors is governed by the following articles of the Regulations of the Board of Directors:

Article 28. Separation of Directors.

Directors will serve at the pleasure of the Board of Directors and if the Board considers it appropriate, they will tender their resignation in the following cases:

a) When they become subject to any of the disqualifications or prohibitions set down in law.

b) When their remaining on the Board could undermine the Company's interests or when the reasons for which they were elected no longer apply.

c) Directors representing a controlling shareholder will tender their resignations when the shareholder they represent sells a substantial part of its stake.

The Board of Directors may not propose the removal of independent directors before the end of their term of office, unless the Board considers there is due cause following a report to such effect from the Appointments and Remuneration Committee.

When a director steps down before the end of his/her term of office, whether by resigning or for any other reason, he/she must explain the reasons for his/her departure in a letter to be sent to all other members of the company's Board of Directors.

The departure will be reported to the CNMV (National Securities Market Commission) as a material event, and the reason for the departure will be reported in the Annual Corporate Governance Report.

Article 29. Directors' Duties after Separation.

After separation upon completion of the period for which they were elected or for any other reason, the Directors may not serve at any entity competing with the Company and its corporate group for a period of two years unless the Board of Directors grants dispensation from this requirement or shortens its term.

C.1.20- Explain to what degree the self- assessment has led to significant changes in its internal organization and the procedures applicable to its activities

Description of amendments:

As a result of the assessments made in the course of the last few years, the Board of Directors prepares an annual schedule of meetings of the Board and the various committees, so that the directors can better plan their time and to encourage commitment to, and attendance of meetings. Furthermore, the annual plan includes visits to some of the Group's centres in order to thoroughly examine specific aspects of their particular activity and environment and where applicable to promote on-going training in the knowledge of the activities of the Group of Companies of which this Company is the parent.

There has also been an increase in the involvement of management in some meetings of the Board, in order to gain an insight into their fields of competence and to better monitor the Group strategy and that of each of its companies.

C.1.20bis- Describe the assessment process and the assessed areas conducted by the board of directors assisted, as the case may be, by an external consultant, regarding the diversity in its composition and capacities, duties and composition of its committees, the performance of the chair of the board of directors and the fist executive of the company, and the performance and contribution of each board member.

In compliance with this article of its Rules, headed by the Appointments and Remuneration Committee or by the Coordinating Director, in the case of the Chairman, and coordinated by the Secretary of the Board, the Board makes an annual assessment of the Board itself and all its Committees, analysing, amongst other factors, a number of formal and material aspects of the activity of each one, in addition to the content of the meetings, access to business knowledge, information on factors that are required in order to carry out their duties, the presence of directors at the meetings of the Board and the various Committees, the quality of the debates and decision making, the performance of the directors and Chairmen of each of the committes and the Board itself, the qualification of the Board members and Secretary, the quality in the achievement of objectives.

Likewise, any suggestions and comments are requested that may help to improve the performance of each one.

Each Board and Committee member individually makes his/her own analysis, following the guidelines provided, and anonymously sends the results to the Board Secretary who, after unifying the results obtained, either presents them to the Board or sends them to each of the Committees, where applicable, for internal debate and, if appropriate, to agree on any actions that will help to improve the functioning and compliance with the duties of the Board and each of its Committees.

Furthermore, subject to a report by the Appointments and Retribution Committee, and headed by the coordinating director, the Board makes an assessment of the Chairman.

In the 2016 tax year, in accordance with the recommendations of Good Governance of listed companies, the Board of Directors commissioned an external consultant to provide services as a facilitator and leader of the self-assessment process regarding the effectiveness of the Board operation. To perform the self-assessment process, an interview outline was established, taking into account the particular situation and best practices of Corporative Management.

The external consultant held individual interviews with all members of the Board of Directors, in which the quality and efficiency of the Board operation were analysed, as well as the operation and composition of its committees, the diversity of its composition, and the competencies of the Board, the performance of the Board Chairman and of the company's top executive.

In particular, a detailed analysis in the following areas was performed in the self-assessment process:

- Organisation of the Board
- Organisation of the Committees
- Composition of the Board
- Involvement of the Board
- Communication with Shareholders and Regulators
- Talent Management and Succession Plans
- Risk Management
- Future Issues
- Suggestions

The self-assessment report includes the conclusions drawn and has been presented to the Appointments and Remuneration Committee and to the Board of Directors.

C.1.20.ter Break down, where pertinent, the business relationship that the consultant or any company of its group maintains with the company or any company of its group.

Currently with the company, the external consultant – Spencer Stuart – only maintains in force the contract of the Board of Directors to perform the self-assessment.

C.1.21- Indicate the circumstances under which Directors are obliged to resign.

In accordance with the provisions of art. 24 of the Regulations of the Board, with regard to the duty to avoid conflicts of interest, the directors shall inform the company and, where appropriate, shall resign, in cases in which the credit and reputation of the Company may be damaged and, in particular, in criminal proceedings in which they may appear as defendants, informing of the progress of any such prosecution. In this event, the Board shall study the case. The progress of the case shall be monitored and, in view of the same, a decision shall be taken as to whether of not the Director should continue in office.

Furthermore, according to art 28 of the Board of Director Regulations, Directors will serve at the pleasure of the Board of Directors and if the Board considers it appropriate, they will tender their resignation in the following cases:

a) If they become subject to any of the disqualifications or prohibitions set down in law.

b) If their remaining on the Board could undermine the Company's interests or if the reasons for which they were elected no longer apply.

c) Directors representing a controlling shareholder will tender their resignations when the shareholder they represent sells a substantial part of his/her stake.

C.1.22- Section repealed.

C.1.23 Are reinforced qualified majorities required, other than the legal majorities, for some type of resolution?

NO

C.1.24 Explain whether there are specific requirements, other than those regarding directors, to be appointed Chairman of the Board of Directors.

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NO

C.1.25- Indicate whether the Chairman has a casting vote.

YES

Matters on which a casting vote may be made
Pursuant to Article 28 of the Articles of Association:

Resolutions shall be adopted by absolute majority vote of the Directors attending the meeting and the Chairman shall have the casting vote.
Article 7 of the Board Rules sets forth the same thing.

C.1.26- Indicate whether the bylaws or the Board Regulations establish an age limit for directors:
NO

Age limit for Chairman	Age limit for Chief Executive Officer	Age limit for directors
No age	No age	No Age

C.1.27- Indicate whether the bylaws or the Board Regulations establish a limited term of office for independent directors, other than that established by law

NO

C.1.28- Indicate whether the bylaws or the Board Regulations establish specific rules for proxy voting in the Board of Directors, the way this is done and, in particular, the maximum number of proxies a director may have, and whether it has established any limit regarding the categories that may be delegated beyond the limits stipulated by legislation. If so, briefly give details on such standards

The Board Regulations cover proxy voting at the Board of Directors or delegation in any of its members:

Article 34. Use of Delegated Voting:
If the Board of Directors or any of its members request representation for himself/herself or for another individual and, in general, when the request is made in public, the document describing the empowerment must contain or have attached the agenda, as well as the applications for instructions to exercise the right to vote and the indication of how the representative is to vote if no precise instructions are given.

The delegations of votes received by the Board of Directors or any of its members will be executed in full accordance with the instructions received accordingly and the minutes will record the exercise and identification of the voting instructions received when they include a vote against the Board's proposals in order to protect the rights that may correspond to the delegating shareholder, where applicable.

Directors who have made public requests for representation may not exercise their voting rights pertaining to the represented shares in relation to the business on the agenda in which they have a conflict of interests and, in all cases, in relation to:
a) His/her appointment, ratification, removal or resignation as a Director.
b) The bringing of an action for liability against him/her.
c) The approval or ratification of transactions with the company in relation to which the director has a conflict of interests.

C.1.29- Indicate the number of meetings the Board of Directors has held during the year. Where applicable, indicate how many times the Board has met without the Chairman in attendance. In calculating this number, proxies given with specific instructions will be counted as attendances.

Number of Board Meetings	12
Number of Board Meetings not attended by the Chairman	0

If the Chairman is an executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the Lead Director:

Number Meetings	0

Indicate the number of meetings of the Board's different committees have held during the year

Number of Delegated Committee Meetings	12
Number of Audit Committee Meetings	10
Number of Appointments and Remuneration Committee Meetings	7

C.1.30- Indicate the number of meetings held by the Board of Directors during the year attended by all its members. In calculating this number, proxies given with specific instructions will be counted as attendances

Number of meetings attended by all directors	12
% of attendances to total votes during the year	100.00%

C.1.31- Indicate whether the individual and consolidated financial statements presented for Board approval are certified beforehand:

YES

Where applicable, identify the person(s) who has(have) certified the Company's individual and consolidated financial statements to be filed by the Board:

Name	Position
MR JOSÉ ANTONIO CANALES GARCÍA	GENERAL MANAGER
MR CÉSAR ARRAIZA ARMENDÁRIZ	CHIEF FINANCIAL OFFICER VISCOFAN GRO
MRS MARÍA DEL CARMEN PEÑA RUIZ	CHIEF FINANCIAL OFFICER VISCOFAN S.A.

C.1.32- Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements that it files from being presented to the General Meeting with a qualified auditors report.

To avoid any qualifications in the audit report on the financial statements prepared by the Board of Directors and submitted to the General Shareholders' Meeting, the Board has delegated this task to the Audit Committee, other functions, as provided in article 13 of the Board Regulations:

'D) With respect to the external auditor:

Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report

For practical purposes, the Audit Committee will ensure compliance with the necessary mechanisms established to perform continuous control over the preparation of financial information at every level, from its start to its consolidation in the Viscofan Group companies.

Both the corporate financial department and the internal audit department have collaborated closely with the Audit Committee to establish, put in place and monitor the most appropriate controls for guaranteeing the truthfulness of the financial information to ensure that it gives a true and fair view of the Group's financial situation.

The internal audit department has also included the continuous review of said controls in its annual plan for various subsidiaries, where said review will apply to the financial departments and areas that also take part in preparing the information: operations, human resources, purchasing and commercial, etc.

Both the internal audit department and the corporate financial department have collaborated actively with the Audit Committee to coordinate and monitor the evolution of the control system, proposing corrective measures where necessary and verifying their effectiveness.

The Audit Committee, internal audit and corporate financial departments have also held informative and follow-up meetings with external auditors to give them the characteristics of the internal control system and its implantation in all the Group's companies and to involve them in their fulfilment and maintain bidirectional communication to allow better monitoring of the improvements that have been put in place. All with the aim of continuing to guarantee the operation of the Group's financial information with greater control at all levels.

Furthermore, the company has maintained a policy of pre-closing the year on 31 October in order to anticipate and correct any incidents that may have arisen during the year.

C.1.33- Is the company Secretary a director?

NO

Complete if the Secretary is not also a Director:

Name or corporate name of Secretary	Representative
Juan Maria Zuza Lanz	

C.1.34- Section repealed.

C.1.35- Indicate what mechanisms the company has established, if any, to preserve the independence of the external auditors, the financial analysts, the investment banks and the rating agencies.

Article 13 of the Regulations of the Board of Directors, according to the version approved by the Board, at its meeting held on the 26th February 2015 confers upon the Audit Committee the following duties relating to the external auditor:

D) With respect to the internal auditor
(4) Safeguarding the independence of the financial auditor, paying particular attention to any circumstances or questions that could jeopardise such independence, or any others relating to the process of auditing the accounts:
(i) The Audit Committee shall ensure that the company publicly discloses any changeover of the financial auditor and includes a simultaneous statement and details of any possible disagreement with the outgoing auditor. If the financial auditor resigns, the committee shall explore the underlying causes.
(ii) Likewise, it shall be ensured that the company and auditor observe the applicable rules to ensure the independence of the auditors and, specifically, the rules on the provision of non-audit services and any restrictions on the limits on the concentration of the auditor's business.
(iii) It shall establish the appropriate relations with the accounts auditor in order to receive information on matters that could put its independence at risk, and any matters related to the progress of the audit.

(iv) It shall annually receive from the auditors their statement of independence in relation to the related party or parties, in addition to a statement relating to additional services provided and the fees received by the external auditor or by the persons and entities related thereto, in accordance with the audit provisions set out in the regulations.

(v) It shall annually issue, prior to the report on the auditing of the accounts, a report expressing its opinion on the independence of the auditor, containing the valuation of any additional services provided, considered on an individual basis and as a whole, in relation to the status of independence or to the rules governing the audit.

Article 5 of the Regulations of the Board of Directors includes the following powers among those reserved exclusively for the Board of Directors sitting in full session, in addition to those reserved for the Board by law:
d) Definition of the information policy relating to shareholders, markets and public opinion.

With regard to analysts and investment banks, the mechanisms envisaged under Article 35 of the

Regulations of the Board of Directors, coupled with the company's commitment to monitoring applicable law, ensure that independence is upheld and that the information is made available to everyone at the same time and under the same conditions, thus ensuring equal access to such information.

Article 35 - Communications with shareholders and with the Securities Markets.

The Board shall ensure that accurate, reliable information is offered to the Company's shareholders and to the market with respect to any piece of information on the Company's activities, its earnings, shareholders with significant stakes, related-party transactions, shareholder agreements, treasury shares and any other information that must be disclosed pursuant to the law or the company's Articles of Association, as well as any information deemed by the Board to be in the interest of the public.

The periodic financial information shall be homogeneous and reliable and, as appropriate, shall be submitted to the relevant Committee.

The Board shall also immediately provide information to the public on:
a) Relevant facts that could materially influence the formation of stock market prices.
b) Substantial amendments to the Company governance rules.
c) Treasury share policies that Company may propose to carry out exercising the authorizations conferred by the shareholders at the General Shareholders Meeting.

To such end the Board of Directors shall use all means at its disposal to keep the information on the Company's web page up to date and to coordinate its content with the documents filed with and recorded at public registries.

The communication policy with shareholders, institutional investors and their representatives or assessors establishes that communication and dialogue with the shareholders and institutional investors and their representatives and assessors, and with the financial market in general, is based on the principles of equality, transparency and legality, to facilitate the information needed to ensure the exercising of their rights and immediate, truthful and non-discriminatory decision-making, ensuring accessibility to this information for all shareholders.

C.1.36- Indicate whether the company has changed its external auditor during the year. If so, identify the incoming and outgoing auditors:

NO

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, describe the content thereof:

Explanation of disagreements

C.1.37- Indicate whether the audit firm does other work for the company and/or its group other than

the audit. If so, declare the amount of fees received for such work and the percentage of such fees on the total fees charged to the company and/or its group:

YES

	Company	Group	Total
Amount of non-audit work (thousands euros)	178	26	204
Amount of non-audit work / total amount billed by the audit firm (%)	57.80%	4.10%	21.60%

C.1.38- Indicate whether the audit report on the annual financial statements for the previous year contained reservations or qualifications. If so, indicate the reasons given by the chair of the audit committee to explain the content and scope of such reservations or qualifications.

NO

C.1.39- Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements for the company and/or its group. Indicate the percentage of the number of years audited by the current audit firm to the total number of years in which the annual financial statements have been audited:

	Company	**Group**
Number of consecutive years	10	10
Number of years audited by current audit firm / number of years the company has been audited (%)	38.46%	43.48%

C.1.40- Indicate and, where applicable, give details on the existence of a procedure for directors to engage external advisory services:

YES

Description of procedure:

According to article 18 of the Board Regulations,
´Through the Chairman, Directors may request the hiring of such external advisors as they deem necessary for the proper performance of their work as Directors. The full Board is empowered to adopt any relevant resolutions as to whether or not such external advisory services shall be performed, what person or entity shall provide such services, the limitations on access to the Company's proprietary information that such advisor shall have and the approval, as appropriate, of the relevant expense item´.

C.1.41- Indicate and, where applicable, give details on the existence of a procedure for directors to obtain the information they need to prepare the meetings of the governing bodies with sufficient time:

YES

Description of procedure

Article 17 of the Board of Directors' Rules sets forth the following:
The Board members will receive the information required to carry out their work in due time and detail with respect to the matters in question. They may obtain additional information should they see fit; such information shall be channelled through the Secretary of the Board of Directors., unless there are urgent reasons for calling a meeting or under exceptional circumstances.

The directors may gather additional information when considered advisable. The request shall be channelled through the Secretary of the Board

C.1.42- Indicate and, where applicable give details, whether the company has established rules requiring directors to inform and, where applicable, resign under circumstances that may undermine the company's credit and reputation:

YES

Description of rules:

This was dealt with in point C.1.21 above.

C.1.43- Indicate whether any member of the Board of Directors has informed the company of any legal suit or court proceedings against him or her for any of the offences listed in article 213 of the Corporate Enterprises Act

NO

Indicate whether the Board of Directors has analysed the case. If so, explain the grounds for the decision taken as to whether or not the director should retain his/her directorship or, where applicable, describe the actions taken or planned to be taken by the Board of Directors on the date of this report.

Decision adopted/action taken	Reasoned explanation

C.1.44- Detail significant agreements reached by the Company that come into force, are amended or concluded in the event of a change in the control of the company stemming from a public takeover bid, and its effects.

No significant agreements have been made with these characteristics.

C.1.45- Identify in aggregate terms and indicate in detail any agreements between the company and its directors, managers or employees that have guarantee or ring-fencing severance clauses for when such persons resign or are wrongfully dismissed or if the contractual relationship comes to an end due to a public takeover bid or other kinds of transactions.

Number of beneficiaries: 2

Beneficiary type

Executive Director and General Manager Director

Description of the agreement

In both cases: Indemnity of two years' salary in the event of irregular termination, with two years of non-competition.

Indicate whether these contracts must be disclosed to and/or approved by the company or group

governance bodies:

Body authorising the clauses Board of directors (yes) General shareholders meeting (no)

	YES	NO
Is the General Meeting informed of the clauses?	X	

C.2 - **Board of Directors Committees**

C.2.1- Detail all the Board Committees, their members and the proportion of executive, nominee, independent and other external directors sitting on them

DELEGATE COMMITTEE

Name	Position	Category
MR JOSE DOMINGO DE AMPUERO Y OSMA	CHAIRMAN	EXECUTIVE
MS AGATHA ECHEVARRÍA CANALES	DIRECTOR	OTHER EXTERNAL
MR NESTOR BASTERRA LARROUDÉ	DIRECTOR	OTHER EXTERNAL

% Executive Directors	33.00%
% Nominee Directors	0.00%
% Independent Directors	0.00%
% Other External Directors	66.67%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarize the main actions taken during the year.

The Executive Committee is regulated in article 30.1 of the Articles of Incorporation of the Company and in article 12 of the Board Regulations

The Executive Committee or Delegate Committee will comprise a minimum of three and a maximum of five members. The following will be members of the Executive Committee: the Chairman, the First Vice-Chairman, and one to three Directors appointed by the Board itself pursuant to legal requirements.

The Executive Committee will adopt its resolutions by majority vote and the Chairman will have the casting vote. The Chairman of the Board will chair the Committee. As a permanent delegation of the Board of Directors, the Executive Committee will exercise all the powers of the Board, except for the following: sale, swap and encumbrance of property, industrial or commercial premises and all manner of businesses; creation and modification of real rights over said property, premises and businesses; conveyance, disposal, ownership and encumbrance of property; creation and modification of property mortgages; submission of disputes to private arbitration; and those powers that may not be delegated in accordance with applicable law.

Board of directors regulations. Article 12,- Executive Commitee

The Executive Committee will comprise the number and type of members set down in the company bylaws. The Secretary of the Board of Directors will also serve as secretary of the Executive Committee.

The Board of Directors is empowered to appoint and remove its members based on a report by the Appointments and Remunerations Committee. The agreement must be approved by the favourable vote of two thirds of the members of the Board. The members of the Executive Committee will automatically cease to sit on the Committee when they cease to serve as directors of the Company.

The Executive Committee will possess such authority and powers as are awarded by the company bylaws and, as appropriate, by the pertinent resolutions of the Board of Directors or the shareholders at the General Shareholders Meeting.

The Executive Committee will perform its duties with the utmost transparency before the Board, informing the latter of all business discussed and all resolutions adopted, and furnishing all Board members with the minutes of its meetings.

Summary of its most important actions in 2016

The Executive Committee or Delegate Committee has met on 12 occasions

In the exercising of their competencies the Committee has expanded upon the issues to be dealt with by the Board of Directors and has supervised the implementation of the strategy in the different Group subsidiaries, approved by the Board, and with maximum transparency criteria, has transferred the proposals that emanate from it to the Board so that it can adopt the agreements that it considers timely. Likewise, it has delivered the minutes of its sessions to all Board Members.

The Delegate Committee has carried out strategic analyses to study potential growths – both organic and inorganic – as well as different investment possibilities. By means of an example, in the 2016 the Board of Directors proceeded to purchase 100% of the Share Capital of the Vector companies in the United States and in Europe, to invest in the installation of productive capacity in plastics and fibrous in Cáseda (Spain) and to expand the collagen capacity in Pando (Uruguay), with the support of the analyses performed by the Delegate Committee.

It has examined the different products and families (collagen, cellulose, fibrous and plastics), product development and energy optimisation.

It has examined the progress of the corporate financial year, month by month, with regard to production and also with regard to the consolidated sales and results for the Group and each investee company,

Not only the members of the Committee and Secretary took part in the meetings, but also the Director General Manager and at his request, various Senior Managers.

Indicate whether the composition of the Delegated Committee/Executive Committee reflects the distribution of different classes of directorship on the Board

NO

Otherwise, explain the composition of the Executive or Delegated Committee
The Delegated Committee comprises an executive director and two other external consultants, due to their knowledge of the business and the industry in which the Company operates. The Delegated Committee performs extensive work as the permanent representative of the Board, primarily focussed on examining in detail all those matters requiring greater analysis, monitoring and preparation, and contributing to establishing targets, strategies, control and monitoring of the same. The Delegated Committee also has ongoing direct contact with senior management at the different production locations around the world and different corporate areas. This allows the Board to gain more detailed knowledge of the day-to-day reality of the Viscofan Group's activity and to better focus the meetings on Group strategy.

AUDIT COMMITTEE

Name	Position	Category
MR. IGNACIO MARCO-GARDOQUI IBAÑEZ	CHAIRMAN	INDEPENDENT
MR. AEJANDDRO LEGARDA ZARAGüETA	DIRECTOR	INDEPENDENT
MR JOSÉ MARÍA ALDECOA SAGASTOSOLOA	DIRECTOR	INDEPENDENT
MR. SANTIAGO DOMECQ BOHORQUEZ	DIRECTOR	NOMINEE

% Nominee Directors	25%
% Independent Directors	75%
% Other External Directors	0%

Explain the committee's duties, describe the procedure and organizational and operational rules and summarize the main actions taken during the year.

The Audit Committee is regulated in article 30, section 2, of the Articles of Incorporation of the Company and in article 13 of the Board Regulations, regulating its composition, the appointment and cessation of its members and their principal duties.

Rules of the Board of Directors Article 13,- Audit Committee

There will be an Audit Committee of the Board of Directors which will be formed by a minimum of three and a maximum of five members

The Audit Committee shall be exclusively comprised of non-executive Directors appointed by the Board of Directors. At least two must be independent Directors and one appointed taking into account his/her knowledge and experience in accounting, auditing or both.

The members of the Audit Committee will be appointed by the Board of Directors pursuant to legal requirements based on a report by the Appointments and Remunerations Committee, bearing in mind the accounting, auditing and risk management knowledge, skills and experience of the directors, and they will automatically cease to serve on the Committee when they cease to serve as directors of the Company or by decision of the Board of Directors.

Committee members will be automatically dismissed when they no longer hold a Director post in the Company or in accordance with a resolution by the Board of Directors.

Audit Committee members will appoint a Chairman selected from the independent Directors that form the Committee, who will be replaced every four years; the Chairman may be re-elected one year after he/she ceases to serve as Chairman.

The Audit Committee will be entitled to request the presence of any member of the management team or any company employee at its meetings, including the presence of the company's independent auditors or any company advisor whose presence is deemed desirable. All the aforementioned persons will be bound to cooperate and provide access to any information they may have.

The Audit Committee will report to the Board on the business it addresses and on all resolutions adopted at the Board meetings convened for such purpose, and will furnish all Board members with the minutes of its meetings.

Notwithstanding the foregoing and if the Chairman of the committee deems it necessary based on the urgency and importance of the business in question, the information will be passed to the Board at the first meeting to be held after the committee meeting.

Notwithstanding other functions set out in governing legislation, company bylaws or assigned to it by the Board of Directors, the Audit Committee's mission will include the following:

A)To report to the General Shareholders' Meeting on any issues or concerns raised by shareholders and falling within its remit.

B)Proposing the appointment of the financial auditor to the Board of Directors, which will then pass the matter on to the General Shareholders Meeting in addition to the conditions of recruitment.

C) With respect to internal control and reporting systems:

(a) Overseeing the process of preparing and ensuring the integrity of the financial information relating to the company and its group, ensuring that the financial information internal control system (FIICS) is correctly designed and that all legal requirements have been met, and defining an appropriate consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, special purpose vehicles, and the correct application of accounting standards.

(b) Overseeing the process devised by the senior management for instituting lawsuits, making assessments and reaching significant estimates, and the impact thereof on the financial statements.

(c) Reviewing, analysing and discussing the financial statements and other relevant financial information with the senior management team and the internal and external auditors so as to ensure that the information is reliable, understandable and relevant, and that the accounting standards used for the preceding year have been duly followed.

(d) Monitoring the suitability of the control policies and procedures in place. Reviewing the internal control and risk-management systems, including tax risks, so that the main risks can be correctly identified, managed and reported.

(e) Discussing with the auditor any significant shortcomings in the internal control system, detected during the audit.

(f) Overseeing the internal auditing services, including, in particular:

(i) proposing the selection, appointment, re-election and separation of the head of internal auditing;

(ii) approving the annual internal audit work plan relating to the evaluation of the FIICS, and receiving regular information on the results of the work performed, including any incidents that may arise.
The Audit Committee will likewise receive an annual activities report and action plan to correct any deficiencies detected;

(iii) ensuring the independence and efficiency of the internal audit function;

(iv) proposing the budget for this same internal function;

(v) receiving periodic information on its activities, and;

(vi) verifying that the senior management takes into account the conclusions and recommendations set down in its reports.

D) With respect to the external auditor:

(1) Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report.

(2) Overseeing compliance with the audit agreement, collecting information on the audit plan and its execution and ensuring that the opinion on the annual accounts and the main contents of the audit report are drawn up clearly and accurately.

(3) Monitoring the decisions of the senior management team regarding any adjustments recommended by the external auditor, and to hear and, where applicable, mediate any disagreements between both parties.

(4) Safeguarding the independence of the financial auditor, paying particular attention to any circumstances or questions that could jeopardise such independence, or any others relating to the process of auditing the accounts:

(i) the Audit Committee will ensure that the company publicly discloses any changeover of the financial auditor and includes a simultaneous statement and details of any possible disagreement with the outgoing auditor. If the financial auditor walks away, the committee will explore the underlying causes;

(ii) the Audit Committee will likewise ensure that the company and the auditor adhere to current regulations safeguarding the independence of the auditors, and those governing the provision of non-audit services and the limits on the concentration of the auditor's business.

(iii) Maintaining the necessary contact with the auditor in order to receive information on all matters that could jeopardize the independence thereof, and any other matters related to the audit procedure.

(iv) Annually receiving from the auditors their statement of independence in relation to the related party or parties, in addition to a statement relating to additional services provided and the fees received by the external auditor or by the persons and entities related thereto, in accordance with the audit provisions set out in the regulations.

(v) Annually issuing, prior to the report on the auditing of the accounts, a report expressing its opinion on the independence of the auditor, containing the valuation of any additional services provided, considered on an individual basis and as a whole, in relation to the independence or with the rules governing the audit.

(5) Attempting to ensure that the group's auditor also audits each component group company.

E) Reporting to the Board of Directors on the following issues, before the latter adopts the corresponding resolutions:

(a) The regular financial information the company has to publish, ensuring that it is prepared in accordance with the same standards and practices as those used for the annual accounts and, for such purpose, weighing up the merits of conducting a limited audit of the external auditor.

(b) The creation or acquisition of interests in special purpose vehicles or those domiciled in countries or territories considered tax havens, plus any other similar transactions or operations which, owing to their complexity, might diminish the group's transparency.

(c) Related transactions.

F) Address and, where appropriate, respond to any initiatives, suggestions or complaints raised by shareholders in relation to the Committee's remit, as referred to the Committee by the Company's General Secretary.

G) Set up and supervise a mechanism enabling employees to communicate confidentially and, if deemed necessary, anonymously, their concerns regarding possible irregular and potentially significant practices within the company, particularly those relating to accounting, finances and auditing.

H) Supervision of compliance with internal codes of conduct and rules on corporate governance.

Likewise, Article 30.2 of the Articles of Association, as well as that already established in Article 13 of the Board Regulation, adds the following:

"The Audit Committee will meet every time the Chairman calls a meeting, through decision of the Board

of Directors or following the request of the majority of its members.

The Audit Committee shall have a valid quorum whenever the majority of its members are present at the meeting, in person or represented.

Agreements shall be adopted through absolute majority of the members that attend the meeting and the casting vote will be that of the President in the event of a tie.

The agreements shall figure in the minutes book of the Audit Committee, and should be signed by the Chairman of this body, as should the certifications that emerge from the resolutions adopted.

Summary of its most important actions.

The Audit Committee met on ten occasions in 2016, three of which with external auditors. Whenever considered necessary, the attendance of the directive board members, the Compliance Committee, the internal audit and the external auditors was required, which appeared before the Committee on three occasions in order to notify them of the most significant findings from the External Audit process, in its preliminary phase, during its execution, and in the definitive annual closure.

On 21st April, as a result of the expiry of the four-year mandate of Mr Alejandro Legarda Zaragüeta as the Chairman of the Committee, Mr Ignacio Marco-Gardoqui was unanimously appointed the new Chairman of the Audit Committee.

He has been fulfilling the duties pertaining to the position, in accordance with the regulations as well as those included in the Articles of Association and the Board of Directors' Regulations.

With regard to the external audit, in the preliminary phase the review from pre-closure to 31st October was carried out, enabling EY and the Committee to identify and anticipate the tasks of the external audit as well as the issues that given their uniqueness or accounting impact, require a special mention, such as that included in the Management Report that accompanies the Consolidated Report.

The auditor independence has been ensured, and because the annual accounts are presented without exception.

In accordance with the current legal provisions in Spain, Act 22/2015 of 20th June and Regulation (EU)-537/2014, in 2016 the Committee supervised and coordinated a selection for professional auditing services for the 2017-2019 period, as a result of which the Audit Committee put forward to the Board of Directors the designation of PricewaterhouseCoopers Auditores S.L. as the new Accounts Auditor for its subsequent submission to the General Shareholders Meeting to be held in 2017.

Each quarter the Committee has supervised the SCIIF and the financial information to transfer to the CNMV and market, requesting the presence of the Management and the members of the Group Financial Department to contrast the evolution of the business and the most significant targets and operations and its accounting, as well as the Consolidation activities along with the Group's Financial Director and the Internal Audit. For the third year the EY was requested to assess the evolution of the implementation of SCIIF in the Group during 2016, taking the CNMV-issued Guide as a reference.

Throughout 2016 the Committee focussed its efforts on a continuous improvement of the control environment. It carried out a close follow up of the Financial Information Internal Control System (SCIIF), of the Group Regulatory Compliance System and of the Internal Audit activities.

The Audit Committee supervised the follow-up of the Internal Audit Plan, the update of the Compliance System, the review of the criminal risks map, and the formalisation of the Ethics and Regulatory Compliance Manual. It also supervised the Group Risk Map, and its adaptation to the new Strategic Plan MORE TO BE 2016-2010, for its later transfer to the Board of Directors, the Group's Tax Strategy, later approved by the Board of Directors, and formalised the regular follow-up of the Group's taxation.

In terms of the 2014/95/EU Directive, the Committee analysed the situation of the Corporate Social Responsibility (CSR).

Likewise, it also carried out a self-assessment of all of its members in terms of its activity throughout 2016, with the help of the External Consultant, SpencerStuart. The result of this was satisfactory in content and performance.

Finally, it informed the Board of Directors of all of its activities, also delivering all the minutes of its sessions to the Board Members, as well as the information related to the risk map and the tax issues.

Identify the Director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been Chairman:

Name of Director	Mr. IGNACIO MARCO-GARDOQUI IBAÑEZ
Number of years as Chairman	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Title	Category
MR JAIME REAL DE ASUA Y ARTECHE	CHAIRMAN	INDEPENDENT
MR IGNACIO MARCO-GARDOQUI IBAÑEZ	DIRECTOR	INDEPENDENT
MR. JUAN MARCH DE LA LASTRA	DIRECTOR	NOMINEE

%Nominee Directors	33.33%
% Independent Directors	66.67%%
% Other External Directors	0.00%

Explain the committee's duties, describe the procedure and organizational and operational rules and summarize the main actions taken during the year.

The Appointments and Remuneration Committee is regulated in article 30, section 3, of the Articles of Incorporation of the Company and in article 14 of the Board Rules, governing its composition, the appointment and cessation of its members, and their principal duties.

Below we include the contents regarding the Regulation of the Board as a more expanded and complete draft regarding the duties, organisation procedural rules and functioning of the Appointments and Remuneration Committee. Article 14 establishes the following:

Regulation of the Board of Directors Article 14,- Appointments and Remuneration Committee

The Appointments and Remuneration Committee will be formed by a minimum of three and a maximum of five members and will be exclusively comprised of non-executive Directors appointed by the Board of Directors. At least two must be independent Directors.

Committee members will be automatically dismissed when they no longer hold a Director post in the Company or in accordance with a resolution by the Board of Directors.

Committee members will appoint a Chairman selected from the independent Directors that form part of the Committee.

The purpose of the Appointments and Remuneration Committee will be as follows:

a) Evaluate the qualifications, knowledge and experience required by the Board and, as a result, define the functions and skills required from candidates who will cover each vacant position and evaluate the amount of time and dedication required for the effective performance of their duties.
b) Set a representation target for the least represented sex on the Board of Directors and prepare guidelines on how to achieve this target.
c) Provide the Board of Directors with proposals for appointing independent Directors for appointment by co-optation or submission for voting at the General Shareholders Meeting. Submit proposals for the re-election or removal of these Directors.
d) Provide information about proposals for appointing all other Directors for appointment by co-optation or submission for voting at the General Shareholders Meeting, as well as proposals for re-election or removal by the General Shareholders Meeting.
e) Provide information about proposals for appointing and dismissing senior management and the principal conditions of their contracts.
f) Review and organise the succession procedure for the Chairman of the Board of Directors and the Chief Executive Officer and, as the case may be, submit proposals to the Board of Directors to ensure that such succession is handled in an ordered and planned manner.
g) Provide the Board of Directors with a proposal for the remuneration of directors and senior management, as well as individual remuneration and other contractual conditions corresponding to executive Directors, and oversee adherence to this policy and shall provide all directors with the minutes of its meetings.

The Appointments and Remuneration Committee will report to the Board of Directors on the business it addresses and all resolutions it adopts.

Summary of its most important actions.

The Appointments and Remuneration Committee met on 7 occasions and, whenever considered appropriate, the presence of senior management members was requested.

It fulfilled its normal duties, as established in the regulations and those set out in the Company's articles of association and the rules of the Board of Directors.

It reviewed the qualification of directors, it prepared reports for the assessment of executive directors and the assessment of the Committee itself and it headed the assessment of the Board and its committees regarding its activities in 2016.

Likewise it has selected and proposed an external expert, Spencer Stuart, to perform the assessment of the Board and its Committees regarding its activities during 2016. The result of this assessment was highly satisfactory.

It analysed the competencies knowledge and experience required to be a Board member, it prepared a board member selection policy for approval by the Board, it requested the presence of the Coordinator Director in order to learn about the concerns of non-executive directors, it submitted to the Board of Directors the proposals and reports for the re-election or appointment of Directors whose appointments were approved at the Company's General Shareholders Meeting.

It organised the succession plan of the Chairman, the Chief Executive and Senior Management and the talent management policy

It has promoted the creation of a committee for work-like balance, which reports directly to the Committee.

In terms of remunerations, it has applied the remunerations policy approved by the General Board for the years 2015 to 2017, and has created the remunerations table for the application of this policy, including the annual variable retribution, it has proposed annual and triennial variable retribution for

the following years, both for Board Members and Top Management, as well as the salary policy for Top Management.

It has also selected and proposed the hiring of expert external assessors to review the Board Members and Top Management remuneration policy, with the aim of continuing to align with best practices in remuneration, the attraction and capturing of talent needed to contribute to strengthening the leadership of Viscofan within a competitive setting.

C.2.2- Fill in the following table with information on the number of female directors sitting on Board Committees over the last four years

	Number of female directors							
	Year 2016		Year 2015		Year 2014		Year 2013	
	Number%	%	Number %	%	Number %	%	Number %	%
Delegated Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Audit Committee	0	0	0	0	0	0%	1	25.00%
Appointments and Remunerations Committee	0	0	0	0%	1	33.33%	1	33.33%

C.2.3- Section repealed

C.2.4- Section repealed.

C.2.5 Indicate, where applicable, the existence of regulations for the Board Committees, where they can be consulted and any amendments made to them during the year. Indicate whether an annual report on the activities of each committee has been drawn up voluntarily.

Committee name

APPOINTMENTS AND REMUNERATION COMMITTEE

Short description:

This is addressed in article 30 of the Company's Articles of Association, registered in the Companies Register and posted on the corporate website as a consolidated text comprising all applicable provisions.

It is governed also by the Regulations of the Board of Directors, which are available on the company's website and have been duly filed with the Spanish CNMV and with the Commercial Registry.

The current wording is provided in section C.2.1. above.

The Committee prepares an annual activity report, which is summarised in point C.2.1. and an annual activity report is submitted by its Chairman to the company's General Shareholders' Meeting.

Committee name

DELEGATE COMMITTEE

Short description:

The Delegate Committee is governed by Article 30 of the company's Articles of Association, as filed with the pertinent Commercial Registry and published on the company's website as a consolidated text encompassing all current provisions.

It is similarly governed by Article 12 of the Regulations of the Board of Directors, which are available from the company's website and have been duly filed with the Spanish CNMV and with the Companies Registry.

The text in force was transcribed in point C.2.1 above.

The Delegate committee regularly reports to the Board of Directors on all the matters discussed at its meetings and provides the minutes thereof.

Committee name

AUDIT COMMITTEE

Short description:

The Audit Committee is governed by Article 30 of the company's Articles of Association, as posted on the company's website, and by Article 13 of the Regulations of the Board of Directors, which is similarly available from the company's website and has likewise been duly filed with the Spanish CNMV and with the Companies Registry.

This report is submitted to the General Shareholders Meeting on an annual basis for information purposes.

C.2.6- Section repealed.

D.- RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 - Explain the procedure, if any, for approving related-party and intra-group transactions

Procedures for approving related party transactions

Approval corresponds to the Board of Directors as one of the matters reserved exclusively for the Board by virtue of Article 5 of the Board Regulations:

e) Transactions made by the company with directors, major shareholders or shareholders with Board representation, or with other persons related thereto ("associate transactions").

However, the Board's authorisation shall not be required for associate transactions that simultaneously meet the following three conditions:

1. They are governed by standard agreements applied across the board to a large number of clients;

2. They are arranged at prices or rates set on a general basis by the party acting as supplier of the goods or services in question;

3. The amount thereof is no more than 1% of the Company's annual revenue.

The Board will approve associate transactions following a favourable report from the Audit Committee, according to article 13.E. (c) of the Board of Director Regulations.

D.2. Detail any significant transactions, entailing a transfer of a significant amount or obligations between the company or its group companies, and the company's significant shareholders:

Name of significant shareholder (person or company)	Name of the company or group entity	Type of transaction	Type of transaction	Amount (in thousands of Euros)
Corporación Financiera Alba S.A.	Viscofan S.A.	Contractual	Financing agreement: Loans	1,250
Corporación Financiera Alba S.A.	Viscofan S.A.	Contractual	Interest paid	78

D.3- Detail any significant transactions entailing a transfer of a significant amount or obligations between the company or its group companies, and the directors and/or senior managers:

Name of the directors and/or senior managers (person or company)	Name of the related party (person or company)	Nature of relationship	Nature of transaction	Amount (in thousands of Euros)
NONE				

D.4 - Detail the significant transactions in which the company has engaged with other companies belonging to the same group, except those that are eliminated in the process of drawing up the consolidated financial statements and that do not form part of the company's usual trade with respect to its object and conditions.

In any event, provide information on any intragroup transaction with companies established in countries or territories considered tax havens.

Name of the Group Company	Brief description of the transaction	Amount (in thousands of Euros)
NONE		0

D.5- State the amount of the transactions carried out with other related parties.

NONE

D.6- Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its directors, managers and/or significant shareholders.

Article 22 of the Board Regulations, relating to the duty of loyalty establishes the obligation of the Company directors to perform their duties under the principle of personal responsibility with freedom of opinion or judgement and independently with regard to third party relations and instructions.

The duty to avoid conflicts of interest is governed by article 24 of the Board of Directors Regulation.s

Article 24.- Duty to avoid conflicts of interest

The directors shall adopt the measures required to avoid situations of conflict with the company interest and with their duties towards the company and its group of companies, and they shall be obliged to inform the Board, prior to occurrence or as soon as they are aware of the existence thereof, with the obligation to immediately resign should the said conflict persist or should their presence on the board be contrary to the company's interests.

Directors shall refrain from discussing and voting on matters in which they have either a direct or indirect interest, even through related parties, except in the agreements or decisions affecting their capacity as member of the board, such as their appointment or removal from positions within the Board.

Likewise, the directors shall refrain from conducting transactions with the company, except for ordinary transactions, of little importance, made in standard conditions for customers.

Any situations of conflict of interest in which the Directors are involved, shall be included in the annual corporate governance report.

The directors shall inform the company and, where appropriate, shall resign, in cases in which the credit and reputation of the Company may be damaged and, in particular, in criminal proceedings in which they may appear as defendants, informing of the progress of any such prosecution. In this event, the Board shall study the case. The progress of the case shall be monitored and, in view of the same, a decision shall be taken as to whether or not the Director continues to hold the position.

Directors cannot, either personally or through an intermediary, carry out activities or hold positions of

any nature in businesses or companies that are currently or potentially competitors of Viscofan and its group of companies, neither may directors act as a representative or consultant to such businesses or companies or perform any other activity that puts them in a situation of conflict of interests with the Company.

Moreover, the duty of loyalty and the duty to avoid conflicts of interest is extended to related parties, according to the definition included in the Board Regulations, in the version approved by the Board at its meeting held on the 26th February 2015:

Article 26,- Related parties

The director's duty of loyalty, of avoiding conflicts of interest and of abstention in its various facets, also covers those activities performed by related parties, based on the definition contemplated in this regulation.

For the purpose of this regulation, the following shall be considered to be related parties:
1) The Director's spouse or spousal equivalent.
2) The ascendants, descendants and siblings of the Director or spouse.
3) The spouses of the ascendants, descendants and siblings of the Director.
4) The companies in which the administrator, either personally or through an intermediary, directly or indirectly, holds or has the power to hold control, holds an executive position or has a significant shareholding.

If the administrator is a legal person, then the following shall be understood to be related parties:
1) The partners who, in relation to the legal person administrator, hold or may hold, directly or indirectly, the control, hold an executive post or who have a significant shareholding.
2) De jure or de facto administrators, official receivers, and those attorney-in-fact with general powers of legal person administrator.
3) Companies forming part of the same group, that constitute a decision making unit due to the fact that one of them holds or has the power to hold, directly or indirectly, the control of the rest, or because the said control corresponds to one or several natural persons acting together as one.
4). Those persons that, in accordance with the paragraph above, are related to the directors of the legal person administrator.

With regard to the duties in relation to significant shareholders, article 32 puts the responsibility on the directors acting on their behalf, for extending to the shareholders the duties of the directors, in addition to those legally stipulated or set out in the Articles of Incorporation.

Likewise, the regulation stipulates that any transactions performed with the said significant shareholders must be approved by a plenary meeting of the Board and must be included in the company's annual report and in the corporate governance annual report.

Finally,, Article 34 of the Regulations of the Board of Directors, regulating the use of voting by proxy, reads as follows:
Directors who have made public requests for representation may not exercise their voting rights pertaining to the represented shares in relation to the business on the agenda in which they have a conflict of interests and, in all cases, in relation to:
a)His/her appointment, ratification, removal or resignation as a Director.
b)The bringing of an action for liability against him/her.
c)The approval or ratification of transactions with the company in relation to which the director has a conflict of interests.

Furthermore, the Viscofan Group Code of Conduct includes among its general ethical principles loyalty,

in accordance with which directors, managers and employees of the Viscofan Group, as well as any person that develops his/her professional activity within the Viscofan Group, should act with loyalty in the permanent defence of the Group's interests and shall refrain in particular from carrying out any actions and operations, of whatever nature, that could mean a conflict between their personal interests and those of the Group, and even more so when those actions could be in the interest of competing companies. Likewise, among the action recommendations, the Code includes information regarding conflicts of interest:

"Viscofan Group employees shall notify the Regulatory Compliance Committee, or, where applicable, the Viscofan S.A. Board of Directors, regarding any economic, family or any other link that could give way to conflicts of interest because it could compromise their impartial action.

In the event of a conflict of interests, employees shall be governed by the principles of independence and abstention, and, by virtue of these, shall refrain from performing operations in which conflicts of interest exist, unless under the strict authorisation of the Viscofan S.A. Board of Directors.

D.7- Are more than one of the Group's companies listed in Spain as publicly traded companies

NO

Identify the subsidiaries listed in Spain:

Subsidiaries listed

Indicate whether the respective areas of business and any potential relations between them and any potential business relations between the holding company and the listed subsidiary and other group companies have been publicly defined

Define any potential business relations between the holding company and the listed subsidiary company and between the listed subsidiaries and other group companies

Identify the mechanisms established to resolve any potential conflicts of interest between the listed subsidiary and other companies of the group:

Mechanisms to resolve possible conflicts of interest

E. - RISK CONTROL SYSTEMS

E.1 - Explain the scope of the company's Risk Management System, including risks of a tax-related nature

The Company's Risk Management System is based on a code of conduct that indicates the ethical principles and behaviour guidelines, supplemented by the internal operational policies, divided into: general policies; specific policies; and local policies. This risk management system and its policies come within the limits provided for in the rules and regulations applicable to the activity of the Viscofan Group.

These policies are applicable to all the companies over which the company has effective control, and encompass the employees, including senior management, and the actual Company Board of Directors.

The monitoring of the company's Risk Management System is performed through a number of risk management committees, as set out in point E.2. In this same point the duties regulated specifically by the Company are developed, and that are attributed in each case to the different bodies involved in the risk management, which includes participation in the personnel risk control and forecasting system for both participating companies (local level) and on a corporate level

The Global Risk Committee meets at least twice a year with the aim of reviewing and identifying all the risks inherent to the business. Though it is possible that there are additional risks that are not identified and that could also negatively affect the achievement of Viscofan Group objectives.

In the course of 2016 fiscal year, a review has been made of the map of existing risks, defined by the Overall Risk Committee, in compliance with the code of ethics, the internal regulations and the MORE TO BE Strategic Plan for the 2016-2020 period. Within this review, the decision was taken to adopt the COSO methodology, reclassifying the risks identified into four categories:

1. Strategy,
2. Operations,
3. Information,
4. Compliance.

There are a number of objectives:

- ✓ A)Update the assessment of the risks already identified on the inherent risk map.
- ✓ B)Update the assessment of the risks on the residual risk map, taking account of the mitigating measures implemented.
- ✓ C)Link the risks to the 3 key objectives of the "MORE TO BE" Strategic Plan in force.
- ✓ D)Add new risks.

On the other hand, throughout the 2016 tax year, the Compliance Committee has carried out a review of the criminal risks map.

The Viscofan Group considers relevant risks to be those that could compromise the achievement of its objectives in the MORE TO BE initiatives, materialized in the search for triple

leadership in service, technology and costs.

Knowing the location of each risk on the inherent and residual map and its tolerance to the risk requires an on-going dialogue between the interest groups through the channels established by the company. This system enables the Organisation to measure how mitigating the measures adopted have been and to focus on the risks that are still outside of the comfort zone, adding corrective and preventive measures that allow the impact and/or probability of the risk occurring to be lowered.

Managing corporate risks is not a serial process, in which each component only affects the next; rather it is a multi-directional and iterative process in which one component can influence any other.

The collection of these measures is reflected in the internal regulation, in the financial information internal control system, and in the code of conduct that is implemented across the entire Group.

E.2- Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System, including tax-related risks

Name of the committee or body
BOARD OF DIRECTORS
Description of functions
In powers", the risk control and management policy and the periodic monitoring of internal information accordance with Art. 5 of the Regulations of the Board of Directors of the Company, relating to Exclusive and control systems constitute one of the matters that may only be heard and addressed by the Board of Directors when in full session.

Name of the committee or body
AUDIT COMMITTEE
Description of functions
The Audit Committee, through its duties in relation to the internal control and reporting systems, is responsible for overseeing the preparation and control of the financial information in general and, specifically, all the procedures implemented for this purpose.

Furthermore, a specific duty of the Audit Commission is to oversee the suitability of the control procedures and policies implemented and to review the internal control systems and risk management, in order to ensure that the main risks are identified, managed and effectively disseminated.

Name of the committee or body
INTERNAL AUDIT
Description of functions
For its part, the objectives of the Internal Audit Department include the insurance and control of risks of any nature, faced by the Organisation. For this purpose it has the power to inspect and assess the control and mitigation systems and procedures for all risks, as well as the methodologies used. To facilitate these duties, Internal Audit is present on all Committees in

which senior management is present: Committee for Corporate Responsibility and Regulatory Compliance, Ethics Committee, Overall Risk Committee, Credit Risks Committee and Investment Committee.

Name of the committee or body
REGULATORY COMPLIANCE COMMITTEE
Description of functions
The Regulatory Compliance Committee includes among its duties that of overseeing risks specific to the Company in relation to criminal liability or any other breach of Company regulations.

Name of the committee or body
ETHICS COMMITTEE
Description of functions
The Ethics Committee is responsible for opening, on its own account or at the request of a third party, the investigation of any situation that may give rise to a situation of risk for the Viscofan Group as a result of a breach of the Viscofan Group's internal regulations or any other circumstance.

Name of the committee or body
GLOBAL RISK COMMITTEE
Description of functions
The Global Risk Committee is a collegial body established for the purpose of making an in-depth analysis of the exposure to risks affecting the organisation, assessing this exposure, and making recommendations for the actions required to manage the risks within reasonable margins.

The Global Risk Committee is therefore a body set up to analyse, rate and coordinate risk issues and management.

Name of the committee or body
CREDIT RISK COMMITTEE
Description of functions
The Credit Risk Committee is established as a supervisory and control body for those risks related to customer payment management. The purpose of this Committee is to thoroughly study the prevention, monitoring and solution of the said risks, through the creation and implementation of those instruments considered to be the most suitable at any given time, including taking out insurance policies. In this way, the supervision of the financial risk incurred during business with the Group's customers is conducted not only at a local level but also at a corporate level.

Name of the committee or body
INVESTMENTS COMMITTEE
Description of functions
The main purpose of the Investment Committee is to control and supervise compliance with the Investment Plan approved by the Board of Directors. To achieve this, it meets on a quarterly

basis for the purposes of performing periodic follow-up checks on the correct application of approved investments and controlling the efficient use of Group resources and investments.

Name of the committee or body
SENIOR MANAGEMENT
Description of functions
Senior management is responsible for identifying and assessing the risks to which the Group is exposed in the course of its business and for taking appropriate measures to prevent the appearance of these risks or, if they do appear, to reduce or eliminate their impact. Therefore, it plays a fundamental role in designing and implementing control mechanisms and ensuring their fulfilment across the organisation.

Name of the committee or body
EMPLOYEES
Description of functions
Finally, the remaining Viscofan Group employees shall comply with the measures in place in the risk control and prevention systems and, where applicable, report any behaviour they consider may be a possible risk to the Viscofan Group.

In order to facilitate coordination tasks, better identify risks and risk prevention and control actions, certain individuals were identified at local levels who will coordinate their actions with the competent bodies at the corporate level.

E.3- Indicate the principal risks, including tax-related risks that could prevent business targets from being met

The risks were identified following the COSO methodology, and are shown on the Viscofan Group's risk map under qualitative and quantitative parameters. The main risks that could affect sustainability and the achievement of the Viscofan Group's business objectives within current strategic plan MORE TO BE 2016-2020 are detailed below:

1.- Strategic risks: Those risks affecting the objectives at a high level, aligned with the company's mission. The company has identified the following specific risks within this category:
Natural disasters, Country risk, Risks associated with the competitive environment and the sector market (competitors, customers and substitute products), Reputation risk, Company property risk, Obsolescence and innovation risk, Cibersecurity risk.

2.-Information risks Those risks affecting the reliability of the information provided and the objectives with regard to the availability of sufficient capital and resources to conduct business and achieve the company's financial objectives. The company has identified the following specific risks within this category:
Computing contingencies
Integrity of the preparation of financial information
Financing and lack of liquidity
Exchange rate
Interest rate

Budgetary control
Pension plans

3.- Operational risks: Those risks affecting the objectives related to the efficient use of resources and long term business continuity. The company has identified the following specific risks within this category:
Property damage
Business continuity
Energy market
Customer satisfaction
Transport risk
Shortage of raw materials
Public liability
Knowledge and the development of know-how
Human capital
Group cohesion
Food risk
Sabotage

4.- Compliance risks: Those risks affecting the objectives relating to compliance with applicable laws and rules and regulations, including internal rules, in addition to the protection of employees and the company.
Environment
Accidents at work
Occupational safety and hygiene
Evolution of the regulatory framework
Compliance with multinational food legislation
Compliance with obligations derived from business transactions
Corporate risk
Criminal liability of corporate bodies
Personal data protection legislation risk
Taxation

E.4- Identify whether the entity has a risk tolerance level, including tax-related risks

The company has a risk map in which the risks are quantitatively and qualitatively rated, making it possible to define a tolerance level for the risk identified. The appetite accepted for the risk is supported by the strategy defined and is reviewed by the various risk committees.

Prior to establishing preventive and corrective measures for each risk identified, the company and the various bodies exercising the functions referred to above, shall discuss the probability of occurrence of each risk, the consequences of the different scenarios in the event of occurrence and the impact that the said occurrence could have on the Group, on its activity and on its financial statements, in addition to its resilience in each case. This information is used to determine the acceptable tolerance level, in order to adapt this to the preventive and corrective measures to be implemented.

In 2015, in line with the Excellence objectives defined in the Viscofan Group strategy, after analysing the risk positioning and due to the improvements achieved, it was decided to

generally lower the tolerance level, whilst zero tolerance was defined for some specific risks such as serious occupational accidents.

In 2016 an exhaustive analysis was performed on the risk maps, incorporating the general vision of the management and the experience in the methodology that was implemented in 2014 by the Global Risks Committee with the aim of adjusting to the current economic and competitive macro environment. With the information obtained, KRI have been established, which facilitate risk management and its tolerance, including tax risk.

Those risks identified as having a major impact and a greater probability of occurrence are continuously monitored.

The Board of Directors has approved the tax policy with the aim of minimizing this risk.

E.5- State what risks, including tax-related risks, have occurred during the year.

Risk is inherent in any business activity and, although the actual company diversification, at a geographic level (sales and production), and with regard to the product range, is a measure in itself that mitigates the risks identified on the risk map, this global nature also means that, during the financial year, adverse circumstances also develop, making it difficult to achieve the objectives established in the budget for the year.

However, in the course of the tax year, the measures implemented and the quantification of the said risks have not prevented the company from achieving the financial objectives established and reported to the investment community.

In this context, some of the risks to materialise with the most significant impact are as follows:

Materialised risk in the course of the fiscal year

Financial risk: *exchange rate*

Circumstances giving rise to the risks

In 2016 the currency market faced high volatility due in this case, to a negative macro-economic evolution in some emerging countries (Brazil), the economic and monetary policies carried out by the competent authorities in different countries and different uncertainties, highlighting, among others, the referendum in the United Kingdom regarding the exit from the European Union. In this respect, several of the currencies in which the Group operates have undergone significant fluctuation, especially the Brazilian real, the Mexican peso, and the Pound Sterling, and not just in average terms, rather that the volatility between exchange maximums and minimums has been very marked in this year.

Functioning of the control systems

Viscofan attentively watches for opportunities to take out exchange rate hedges, endeavouring to cover the transaction flows between different currencies, as required by circumstances. Over the last few years, the company has strengthened the treasury team and has contracted out reporting systems in order to improve the hedging capacity to minimise risk at a lower cost. However, these hedges were made at a more unfavourable cost then the final spot price.

Materialised risk in the course of the fiscal year

Operational risks*: energy costs*

Circumstances giving rise to the risks

Volatility in energy prices

Functioning of the control systems

Viscofan is making considerable investments directed at optimising energy costs from a financial and environmental point of view. In turn, when dictated by circumstances, the company makes hedging on energy prices, involving a reasonable cost or reducing the budget compliance risk. Nevertheless, the volatility of energy prices, and the rise in the Brent price have meant that certain hedges have been made at a lower cost than the spot price, or that the investment payback periods have been lower.

Materialised risk in the course of the fiscal year

Competitive environment and market risk

Circumstances giving rise to the risks

In 2016 the Brazilian market showed weakness as a result of the recession suffered in the country. This situation resulted in the depreciation of the Brazilian real becoming a shortfall in raw materials for the meat processors, and along with the loss of consumer purchasing power, resulted in a fall in market volumes.

Functioning of the control systems

Monitoring work of this market has been performed, maintaining disciplined trading policies that will not damage the financial objectives of profitability. The company has strengthened the Brazilian specific projects aiming to improve levels of service and quality involving increased protection of the market share in adverse scenarios.

Materialised risk in the course of the fiscal year

Operational risk: property damage

Circumstances giving rise to the risks

In November 2016 a fire was declared at a spares part warehouse on the grounds of Naturin Viscofan GmbH in Weinheim (Germany), probably due to an electrical failure.

Functioning of the control systems

Preventive and contingency plans and the rapid intervention of the internal and Weinheim aid teams permitted to put out the fire. In addition, production could be resumed in less than 48 hours, customer service has not been affected, and the company has insurance covering the replacement value of the assets affected.

Materialised risk in the course of the fiscal year

Tax changes

Circumstances giving rise to the risks

Regional law 23/2015 that regulates the corporate income tax in Navarre, applicable in the 2016 year, entailed, among other changes, that the effective tax rate ascended from 25% to 28% for the results obtained in Navarre, the Viscofan Group's social head office.

Functioning of the control systems

The Viscofan Group has a tax policy that has been approved by the Board of Directors. In turn, the multi-national nature of Viscofan, with facilities in various countries, reduces the total impact of the tax changes in the combined Viscofan Group

E.6- Explain the response and supervision plans for the principal risks faced by the company, including tax-related risks

1-Strategic risks

Natural disasters
In 2015 the company completed the preparation of the Corporate level Business Continuity Plan which commenced in the previous financial year and has now moved down to a local level in order to individually equip the production plants with the responsiveness and adaptability in the face of any contingency, including natural disasters.

On the other hand, we are working on intra-group diversity, in other words the production of any plant may be assumed by another group plant in the event of a natural disaster or similar circumstances.

In this respect, particular mention should be made of all the work carried out in the various plants with regard to EHS, since this function was created. This has led to greater uniformity in the management and analysis criteria in this area, as well as in the promotion of improvement-driven initiatives. The close collaboration with the Risk Engineering departments of the insurance companies is allowing Viscofan to gain a better knowledge of its risks and to implement measures/make investments that have a direct impact on the reduction in risk exposure, including Natural Disasters.

Country risk
The Credit Risk Committee met periodically in order to analyse the actual risk to customers of the entire Group, analyse potential delays, review compliance with established procedures, verify the status of insurance policy coverage and conditions, review the risk in different countries, especially the current political and financial instability in certain countries, including Spain, and adopt the measures required in each case to ensure, or, where applicable, decrease, this exposure by changing sales conditions, requesting collection assurance measures, etc.

Cyber-safety risk
A cyber-attack is a malicious action that aims to damage the availability of assets, data confidentiality or the integrity of an organisation's information. The risk of an attack is a growing issue, due to the ever-increasing computerisation of the systems and a greater use of network settings.

An organisation that is aware of the risk that exists both inside and out of its perimeter can minimise the possibility of being attacked. In this respect, Viscofan has a Recovery Plan

implemented within its IT area, a contingency plan that ensures the continuity of operations, and installed software and hardware that protect data. It has also increased employee awareness regarding the risks of cyber-safety, and has implemented an access policy for current external suppliers that require regular access.

2. Financial and systems risks

Exchange rate
Viscofan is attentive to new business and exchange rate hedging opportunities, advisable at any given time, and which make it possible to reduce the impact of this risk.

Financial control of transactions
The company has expanded its corporate management control team in order to conduct a more exhaustive analysis of production costs and to improve the reporting systems. This team will also facilitate the work of financial support, depending on the needs of the various Group subsidiaries.

Computing contingencies.
Once the company defined the contingency plan to reduce the impact of a systems failure, this plan was then implemented, including servers located in different cities, to guarantee system operation in less than twenty-four hours following any type of occurrence, and ensuring the continuity of activity in the event of damage.

3. Operational risks

Energy market
The company is analysing a number of alternatives in order to obtain the most benefit from reductions in energy costs. Likewise, following the regulatory changes made in Spain throughout the fiscal years of 2013 and 2014, the company is making studies and contingency plans to reduce the impact of new regulatory changes in the future. In Germany, the Group has invested in a cogeneration turbine to reduce the plant's dependence on third party supplies. This is more efficient with regard to energy costs whilst the company has taken an important step forward in environmental terms, due to the drop in the consumption of primary energy at this plant. The Group is also performing a viability study of the use of cogeneration in other locations, for example, advances continue to be made in Mexico in the search for a better energy solution.

Scarcity of raw materials
Distinct strategies have been followed for diversification and the homologation of new suppliers in each product line, all directed at the approval of alternative suppliers in order to lower dependency and gain increased flexibility with regard to fluctuations in supply and demand.
Likewise, there has been in-house work directed at adapting a number of processes in order to permit the use of different raw materials.
Furthermore, a corporate head of purchasing has been appointed in order to increase the negotiating possibilities with the various suppliers.

Environmental, safety and hygiene risks

The Board of Directors has endorsed a new corporate policy on the Environment, Safety and Hygiene, which is mandatory for all Viscofan Group collaborators. In order to ensure that all the Viscofan Group collaborators comply with the principles contained in this corporate EHS policy, a set of guidelines has been defined to implement the policy (Viscofan EHS Management Guidelines). The key objective of these guidelines is to provide all the group companies with a sound management system in the Environment and Occupational Health and Safety areas. . This commitment is reflected in the signing of the United Nations Global Compact during the financial year of 2015 and renewed in 2016 and the start of the certification process to international standards such as ISO 50.001, ISO 14.001 and OSHAS 18.001, in the most advanced plants of the group.

4. Regulatory risks

Changes to the regulatory framework

Every effort has been made to monitor the regulatory amendments. Whenever possible, the company has carried out prevention actions on the possible impacts that these changes could cause.

Compliance management is also one of the cornerstones of the EHS management guidelines, defining the need to implement legal requirement identification systems and to conduct periodical compliance audits.

The financial area has legal and tax consultancy to follow-up the evolution of the tax regulation in the different countries where the Viscofan Group operates, and in 2016 the Tax Strategy was approved.

Monitoring system and complaints channel

The Group has a complaints channel available for all locations, and an Ethics Committee to favour the use of this channel and provide greater protection to any collaborators who may use the said complaints channel.

These specific tasks and projects come within the framework of the general policy conducted this year, with an increase in the monitoring measures in the different risk areas in order to control any potential occurrence and incident and to establish the prevention and control measures required, or to adapt those already in place, and to ensure compliance with the same.

In this respect, in the 2016 an Ethics and Compliance Manual was approved, which includes the description of the system. In turn, two new compulsory policies were also approved: the Tax Policy and the Food Regulation Internal Policy.

F.- SYSTEMS OF INTERNAL RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms comprising the risk management and control systems for financial reporting (ICFR) in the entity.

F.1 The entity's control environment

Give information, describing the key features of at least:

F1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Article 5 of the Board Regulations includes among the powers of exclusive knowledge of the Board of Directors as a whole:

"vii) Risk control and management policy, as well as the periodic monitoring of internal information and control systems."

Furthermore, article 13 of the Regulations of the Viscofan Board of Directors lists the functions of the Audit Committee in relation to internal information and control systems.

Among these functions, the Committee has assigned the following supervision and review functions:

"Overseeing the process of preparing and ensuring the integrity of the financial information relating to the company and its group, ensuring that the financial information internal control system (FIICS) is correctly designed and that all legal requirements have been met, and defining an appropriate consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, special purpose vehicles or instrumental entities, and the correct application of accounting standards".

The Audit Committee was created in 1999 and its composition and activity have progressively adapted to the recommendations of the Code of Corporate Good Governance. It currently comprises four members, three of them are independent directors, and the fourth is a Nominee Director

In 2016, the Committee met on ten occasions, three of which with external auditors from EY. Whenever considered appropriate, it has required the presence of members of the management team, the internal audit department and external auditors.

The Committee carries out the tasks assigned to it, as established in the applicable regulations and those set out in the Company's Articles of Association and in the Rules of the Board of Directors. By way of example, it presented a report to the General Shareholders Meeting on the Committee's activities

The Committee oversees, analyses and reports on the activities performed by the Internal Audit department, the financial information preparation process, the interim financial statements, the

projected cash flow statement prior to the approval of the interim dividend distribution, in addition to the Financial Reporting Internal Control System. The latter is subject to a continuous improvement process and is reviewed annually by EY.

The Committee supervises the update of the Risk Map by the Global Risk Committee and its adaptation to the Strategic Plan MORE TO BE 2016-2020 and the Tax Strategy defined by the Group. It has also supervised the advances related to the Compliance System, the review of the Criminal Risks Map and the formalisation of the Ethics and Regulatory Compliance Manual, which includes the entire compliance system implemented within the Group.

In its relations with the external auditor and as one of its duties, the Committee has ensured that the annual accounts are presented with no reservations or qualifications, and that the independence of the auditor is guaranteed.

Furthermore, this year it coordinated and supervised the selection for professional auditing services, in accordance with the current Spanish legal provisions, Act 22/2015, 20th June, and Regulation (EU)-537/2014 proposing the designation of the new Accounts Auditor to the Board of Directors, for submission to the General Shareholders Meeting.

Additionally, it has reported all its activities to the Board of Directors, and has also provided the Directors with all the minutes of its meetings.

For its part, the general duties of the Internal Audit Department include the review and evaluation of the risk control and mitigation systems and procedures for all risks, as well as the methodologies used.

Specifically, with regard to the control of the financial information, it examines and assesses the reliability of the financial information, from an accounting and management point of view, checking that it is complete and correct. It also reviews the recording procedures.

Furthermore, the Internal Audit Department reports the results of all the auditing, inspection and consulting activities to the Audit Committee and keeps it informed of the same, and, where appropriate, the Directors concerned are also informed.

For its part, according to the Policy on Internal Control of the Viscofan Group's Financial Information, the Corporate Finance Division is responsible for carrying out:

- The design, start-up and dissemination of the financial information internal control system (hereinafter, FIICS).

- The definition, review and dissemination of the accounting policies and procedures to be applied, aiming to guarantee uniformity in the processes and in the accounting information.

- The definition of the process of preparation of the financial information and identification of risks that may affect its reliability.

- Identification of the control activities to be carried out to mitigate risks and the supervision of their appropriate performance both at local and corporate level.

- Supervision of the appropriate design and use of the financial information systems.

And of the Financial Departments of each of the companies in the Group:

- Compliance with the common accounting principles and policies.

- Dissemination of the FIICS among the local organisation, identifying those responsible for the execution of each control activity.

- Coordination of the work of the other local departments so that the local financial information is prepared in accordance with the objectives set.

- Performance of the control activities allocated to the department, and supervision of the activities that correspond to the rest of the departments (sales, purchasing, production, warehouse, maintenance, etc.).

Finally, all other Group Departments are to cooperate in the dissemination of the FIICS within their area of responsibility.

Furthermore, each Department shall be responsible for the application of the controls corresponding to its area and coordination with other departments in the application of the FIICS, with the supervision of the corporate departments, and for correcting any deficiencies identified by the Internal Audit Department in its duty of supervision of the system.

F.1.2- Whether, especially in the process of drawing up the financial information, the following elements exist:

- Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for their correct dissemination within the entity.

The General Management and the Corporate Human Resources Division are responsible for the design and review of the organisational structure and for the definition of the lines of responsibility and authority, and the appropriate distribution of tasks and roles.

The Corporate Human Resources Division has procedures for updating corporate-level organisational structures and those of each of the Group subsidiaries. Dissemination takes place via the corporate Intranet, with publication of the current organisational flowcharts of each company and the most relevant changes that take place in them.

Financial Management has organisational structure charts with the composition of the financial departments of each subsidiary company, as well as information about the tasks performed by different members of these departments. Each team has a person responsible for the FIICS at local level, responsible for disseminating it to the rest of the departments involved, checking

that each one of them carries out the checks allocated and regularly reporting on the operation of the system.

The aim of all of this is to guarantee that the internal control principles are suitably disseminated within the organisation, contributing to improved quality of control over financial information.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether specific mention is made of recording the transactions and drawing up of the financial information), body in charge of analysing non-compliance and proposing corrective measures and sanctions

The body that approves the Code of Conduct is the Board of Directors, at the proposal of the Regulatory Compliance Committee. The code affects the Boards of Directors, Senior Management and the rest of the Group's employees in their daily professional performance, regarding the relations and interactions they have with all their stakeholders.

The Code of Conduct that applies in the Viscofan Group was approved by the Board of Directors at their meeting held on 29 February 2012. This Code of Conduct's principles and guidelines cover regulatory compliance, integrity, responsibility, transparency and confidentiality. Furthermore, it also includes the criteria to be taken into account by employees who participate in the preparation of financial information, previously regulated in the Policies that are in force.

Specifically, the Group has implemented a Policy on the Internal Control of Financial Information, with the specific aim of establishing the guidelines necessary to guarantee appropriate preparation and subsequent dissemination of financial information, which establishes the principles that should govern it and describes the roles and responsibilities of each one of the Departments, financial or otherwise, both at Group level and at local level.

The Human Resources Department is responsible for the "Induction Procedure" , in which each new employee receives a copy of the Code of Conduct and the policies coming within the compliance system. These establish the conduct guidelines required in order to ensure that Group personnel act correctly, regardless of the country or department in which they are to work. Finally, each employee must fill-in a form in which he/she signs a pledge to comply with, and implement the Code of Conduct and Internal Rules.

This compliance system has been widely disseminated and is available to employees on the Group Intranet.

- Whistle-blowing channel, to allow financial and accounting irregularities to be communicated to the Audit Committee, as well as possible non-compliance with the code of conduct and irregular activities in the organization, reporting where applicable if this is confidential in nature.

Article 13 of the Board Regulations allocates the following role to the Audit Committee:

"Set up and supervise a mechanism enabling employees to communicate confidentially and, if

deemed necessary, anonymously, their concerns regarding possible irregular and potentially significant practices within the company, particularly those relating to accounting, finances and auditing."

The whistle-blowing channel has been created for this purpose, as a virtual space for Group employees to discuss matters associated with compliance with the Code of Conduct and, generally, with all of the Viscofan Group's compliance systems, especially when there are signs of non- compliance.

This whistle-blowing channel makes it possible to establish a suitable channel to facilitate reporting to the Audit Committee of any financial and accounting irregularities, guaranteeing the confidentiality of communications.

The Audit Committee has delegated the creation and management of this whistle-blowing channel to the Ethics Committee, whose main objective is to manage the communications received via the Whistle-Blowing Channel and to analyse any practices that may be considered as non-compliances. The Ethics Committee reports directly to the Audit Committee.

- Periodic training and refresher courses for employees involved in preparing and revising the financial information, and in ICFR assessment, covering at least accounting standards, audit, internal control and risk management

The aim of the Viscofan Group Training Policy is to guarantee that Group employees have all the knowledge and skills necessary for optimum execution of the duties assigned to them, improving or updating their performance.

Concerning one of the principles of this Policy, namely, planning, and in accordance with the responsibilities described therein, each year the Annual Training Plan is prepared, in which the managers of each department take part. Together with Human Resources Management, they identify training opportunities and the programmes to be carried out during the year.

In the case of the personnel involved in the preparation and review of the financial information for specific training intended to cover the specific needs of each individual or, if applicable, a department, the external training actions for the review of standards and accounting procedures are combined with internal training, mainly concentrated on the dissemination of policies and procedures and on the execution of the internal controls included in the FIICS.

The international meeting held in April 2016 is particularly noteworthy, which brought together the heads of financial information from all the Viscofan Group companies. In that particular meeting, the latest changes regarding accounting regulations were discussed, and the targets established in 2016 in the field of internal control were revealed.

All the documentation used in the internal training sessions is posted on the Group's intranet, so that it is available to users for further consultation.

F.2- Financial reporting risk assessment

Provide information on, at least, the following:

F.2.1- The key features of the risk identification process, including error and fraud risks, with respect to:

- Whether the process exists and is documented.

The two areas most directly involved in the identification of risks that could affect the drafting of financial information are the Corporate Finance Division and the Internal Audit Division. In their daily activities, permanent communication is encouraged between these two departments to analyse how the FIICS is working and identify risk areas for which additional controls should be incorporated into the system.

Subsequently the Internal Audit Division, in its quarterly report, informs the Audit Committee of the main risks identified in the period, together with a risk assessment based on quantitative criteria (Materiality Policy) or qualitative criteria (process) and the monitoring carried out on the corrective actions established in previous periods.

- Whether the process covers all the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, breakdown and comparability; and rights and obligations), whether the information is updated and with what frequency.

In each process and sub-process that affects the preparation of financial information, the Group identifies the risks that may materialise taking the following information into account:

- Description of the existing control objectives to meet the business targets defined by the Company and guarantee the reliability of the financial information.
- Possibility of the occurrence of an error risk, according to its impact on the financial statements, being categorised as follows:
    - Validity: All transactions generated in the period are valid.
    - Integrity: All transactions have been recorded correctly.
    - Registry: All transactions have been accurately entered into the accounts.
    - Cut-off: All transactions recorded represent economic events that occurred during the period in question; transactions are recorded in the corresponding period.
    - Assessment: Assets and liabilities are correctly valued (they appropriately reflect the existing circumstances of the business and its financial conditions).
    - Presentation: The financial statements are appropriately presented and disclosed.

At the meetings discussed above, a conclusion may be reached as to the need or not to modify the existing risk map, following an analysis of the information complied.

- The existence of a process for identifying the consolidation perimeter, taking into account aspects including the possible existence of complex corporate structures, instrumental or special purpose vehicles.

In accordance with the Board Regulations, the definition of the structure of the group of companies is the exclusive remit of the Board of Directors, and in turn the Audit Committee's role is to supervise the appropriate delimitation of the scope of consolidation, considering,

amongst other aspects, the possible existence of complex company structures, instrumental entities or special purpose vehicles.

The Viscofan Group Accounting Policy Manual determines that the responsibility of keeping the scope of consolidation duly updated lies with the Consolidation Area, which forms part of the Corporate Finance Division. Corporate operations that could affect the scope are reported appropriately by the General Management and Legal Divisions.

The Audit Committee is informed about structural and corporative modification operations that are planned for its analysis and preliminary report to the Board of Directors regarding its economic conditions and accounting impact.

Independently of the fact the Group can grow either via acquisitions or organic growth, the Group's corporate strategy is to maintain as simple a structure as possible, in order to facilitate control of the business, from both an operational and a financial and accounting perspective.

In this way, except for the company Nanopack Technology y Packaging, S.L., the Parent company of the Group, that is Viscofan S.A., wholly owns the Group companies, either directly or indirectly and, in this latter case, the shareholding is always through other companies in the Group. In the case of Nanopack S.A., the Group has a 90.57% shareholding in Nanopack Technology y Packaging S.L.

During the 2016, 100% of the Share Capital of Vector USA Inc. and Vector Europe NV were acquired, which in turn is the owner of Vector Packaging Europe NV and of Vector UK Ltd. During 2017 possible initiatives for corporate streamlining will be studied to address the integration of these companies within those already existing within the Viscofan Group.

In addition, it is the exclusive knowledge of the Board of Directors in full to create or acquire interests in special purpose vehicles or institutions registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

According to article 13 of these same Regulations, the Audit Committee is responsible for informing the Board, prior to it making the corresponding decisions in this area.

In this respect, the Viscofan Group does not currently own or have an interest in any company in the territories listed by the OECD or by the Spanish Government that could be defined as tax havens.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax-related, reputational, environmental, etc.) insofar as they impact the financial statements..

Periodically, the Audit Committee evaluates the situation of the main risks that affect the Group, in accordance with the description given in section E of the Annual Corporate Governance Report. For said purpose, it is supported by the Global Risks Committee, set up at

the Audit Committee's proposal and representing the Group's General Management and other divisions (Production, Financial, Legal and Commercial) and Internal Audits.

Specifically, control of risks covers following mentioned risk categories:

1. Concerning the risks of reliability of the financial information, as described above.

2. Concerning criminal risks. The Regulatory Compliance Committee is responsible for monitoring all matters related to risk prevention and the identification of measures for detecting possible crimes, fraud or conduct contrary to Group policy in relation to the criminal liability of companies.

3. Concerning general risks. The responsibility is shared between the General Risks Committee, which identifies the risks map and implements the control policies that are designed to reduce them, and the Audit Committee, which supervises the adaptation of the control policies and procedures in place and reviews the risk management systems so that the main risks are identified, reported and suitably managed.

In the 2016 the Global Risks Committee reviewed the existing map of risks established in accordance with the code of ethics, internal regulation and the Strategic Plan MORE TO BE, which encompasses the 2016-2020 period. This review was performed using the COSO methodology, grouping existing risks into four categories:

- 1. Strategy,
- 2. Operations,
- 3. Information,
- 4. Compliance.

These categories are described in Section E.2 of this report. The integrity of the elaboration of financial information is included in the Risks category of Information.

- Which of the entity's governance bodies supervises the process.

Article 13 of the Regulations of the Viscofan Board of Directors assigns the Audit Committee the role of monitoring the risk management carried out by the Group.

"Monitoring the suitability of the control policies and procedures in place. Reviewing the internal control and risk-management systems, so that the main risks are properly identified, managed and reported".

Furthermore, one of the objectives of the Internal Audit Division is the identification and assessment of any type of risk faced by the Organisation, and to this effect, it is authorised to examine and evaluate the systems and procedures in place for the control and mitigation of all risks, as well as the methodologies used.

F.3- Control activities

Provide information, indicating the main characteristics, about the existence of at least the following:

F.3.1 Procedures for review and authorisation of the financial information and the description of the ICFR, to be published on the securities markets, indicating who is responsible for it, and the documentation describing the activity flows and controls (including those concerning risk of fraud) for the different types of transactions that may materially impact the financial statements, including the procedure for closing the accounts and the specific review of the relevant judgments, estimates, valuations and projections.

The procedures existing in the Viscofan Group define the activities and controls to be carried out in the process of drafting the financial information, distinguishing the following stages until its dissemination:

- Recording of daily operations by each local department involved, including the book closing for each subsidiary.
- Carryover of financial information for consolidation.
- Consolidation of the information.
- Validation and approval of the financial information.
- Publication and dissemination of the information.

In accordance with what is set forth in the Policy on the Internal Control of Financial Information, the Corporate Finance Division is responsible for the design, start-up and dissemination of the FIICS, and for the accounting policies and procedures to be applied, the definition of the process of preparation of the financial information and the control activities for mitigating possible risk. To do this, it receives support from the Internal Audit Division, which in its task of overseeing the comprehensive nature of the accounting and management information issued, both internally and externally, cooperates in defining the FIICS.

Based on the documentation describing the flows that affect the different departments (purchasing, billing, salaries, banks and cash, etc.), the risk areas are identified and the internal controls to be carried out are proposed.

On the other hand, based on the balance sheet and profit and loss accounts, the most significant accounts are identified, analysing, by means of the controls implemented or establishing new controls if considered necessary, the coverage percentage, in order to guarantee the reliability of the information published.

In this way, adding the two approximations by process and by items in the income statement and profit and loss account, the aim is to guarantee that the controls in place cover the most significant risk areas.

To facilitate the internal control a tool has been developed on Viscofan's intranet to implement the FIICS controls, enabling the management of master control data according to subsidiary (executor, supervisor, frequency, etc.), the management of execution and supervision flows for

each control, the storage of evidence of each control and access to controls and evidence from Corporate Finance and Internal Audits.

In the course of 2016, ongoing progress has been made in the preparation of documents describing the objectives of each control, the uniformity of evidence provided by the various subsidiaries and the inclusion of new controls, especially in the budget process and fiscal area.

At local level, each subsidiary has a person responsible for the FIICS, who coordinates the launch, execution and supervision of the monthly controls.

When the local financial information has been generated, in accordance with the Reporting Validation and Analysis Procedure, each company should carry out the additional controls established in this Procedure, with the participation of at least two people: on the one hand, the person responsible for book closing at local level and, on the other hand, the person responsible for validating this closing, who is usually the Company finance manager or the person responsible for the commercial subsidiary.

The procedure for validation of the financial information reported by each subsidiary makes it possible to check that the data received for consolidation is consistent with that existing in the local systems and is standardised in accordance with the corporate accounting plan in force. The computer application used for consolidation has basic controls incorporated to flag any inconsistency in the information reported.

Those responsible for the accounts inform about changes to the financial statements of their subsidiary, transmitting the most relevant accounts with details of the calculations made.

The consolidated information is reviewed by the General Management, the Corporate Finance Division and the Investor Relations and Communication Division. This review takes place before the information is sent to the Board of Directors for final approval.

The Audit Committee intervenes in the supervision of the Company's regular financial information, filling the roles assigned to it in the Board Regulations.

"*Overseeing the process devised by senior management for instituting lawsuits, making assessments and reaching significant estimates, and the impact thereof on the financial statements.*

Reviewing, analysing and discussing the financial statements and other relevant financial information with the senior management team and the internal and external auditors so as to ensure the information is reliable, understandable and relevant, and that the accounting standards used for the preceding year have been duly followed."

This involvement from the Audit Committee extends to permanently monitoring account auditing, holding regular meetings with the audit team to directly supervise the result of the process after both pre-closing and definitive closing of the annual accounts.

All this complies with the following roles allocated by the Board Regulations (art. 13) to the Audit Committee in relation to the external auditor:

(1) Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report.

(2) Overseeing compliance with the audit agreement, ensuring that the audit opinion relating to the annual accounts and the main contents of the audit report are drawn up clearly and accurately.

The Commission pays special attention to proposals for improving internal control, the quality of the opinions and estimates and the accounting criteria applied in the Group.

F.3.2- Internal control procedures and policies for information systems (among others, access security, change control, their operation, operational continuity and segregation of functions) that support the relevant processes in the entity with respect to the drawing up and publication of the financial information

The main standards and procedures existing in the Viscofan Group in relation to the control of computer systems are contained in the following manuals and policies, available on the Group intranet, which regulate the use of computer systems and networks and their control and management:

- Computer systems and networks user manual
- Authorisation policy on computer access and profiles
- Password policy
- Computer systems and networks management policy

These manuals develop the following aspects:

- The control systems should record and limit access to all Group computer systems and networks, establishing at least the creation of a username for each authorised user and the need for a password associated with it in accordance with Password Policy.
- Management of access to any computer system or network shall comply with the provisions of Authorisation policy on computer access and profiles. Thus, the person responsible for managing profiles and access should keep a record that justifies the authorisation of each action or modification of profiles and each access made.
- Maintenance of the computer systems and networks should include periodic measures that guarantee the copying and the possibility of backup and recovery of the data and information contained in the different Viscofan Group computer systems and networks in each case. Access to these copying and backup resources or mechanisms should be limited, protecting their content in all cases and establishing mechanisms for safekeeping and custody that guarantee their security.
- Any development or modification made by the computer departments to the Viscofan Group computer systems and networks shall be carried out with as much coordination as possible, requesting the authorisations necessary for its implementation or for performing any test process and, in any case, establishing at least the same measures in terms of security and limitation of access to the data.
- The security policy, change management, maintenance and handling of incidents should guarantee rapid recovery of the Viscofan Group computer systems and

networks in the event of any contingency that could have an impact on their availability.

The main infrastructure of the Group is located in two Data Processing Centres (DPC), replicated and located in two different cities. The Viscofan Group has a Disaster Recovery Plan, coming within the framework of processes and procedures, and which will serve to guide and support the teams during an incident.

This will enable the teams to respond in a way which is as most efficient and controlled as possible, minimising the impact on users, in order to return to operational service as soon as possible.

F.3.3-Internal control procedures and policies designed to supervise the management of activities subcontracted to third parties, and those aspects of the evaluation, calculation and assessment outsourced to independent experts, which may materially impact the financial statements

The most relevant services that the Viscofan Group sub-contracts to third parties are actuarial calculations of labour costs and the calculation of the Company Tax for certain Group companies.

In any case, the criterion is maintained of working only with prestigious institutions, and the valuations received are reviewed by the financial departments involved.

F.4- Information and communication

Provide information, indicating the main characteristics, about the existence of at least the following:

F.4.1- A specific function in charge of defining and keeping the accounting policies updated (accounting policy department or area) and dealing with queries or conflicts stemming from their interpretation, ensuring fluent communication with those in charge of operations in the organization, and an up-to-date manual of accounting policies, communicated to the units through which the entity operates.

The responsibility for defining, updating and disseminating the accounting policies and procedures to be applied to guarantee standardisation of processes and accounting information lies with the Corporate Finance Division, in accordance with the Policy on the Internal Control of Financial Information.

The manuals are disseminated through the document libraries on the corporate Intranet and are available to the financial teams. Contact between corporate and local levels is continuous, and lines of communication are maintained for resolving any queries and conflicts derived from their interpretation.

In addition, regular account coordination meetings are held to transmit accounting policies, provide training in the performance of the controls included in the FIICS and check standardisation in the preparation of the information reported by each subsidiary.

F.4.2- Mechanisms to capture and prepare the financial reporting in standardised formats, for application and use by all the units of the entity or the group, that support the main financial statements and the notes, and the information detailed on ICFR.

In accordance with the Policy on the Internal Control of the Financial Information, the Group Financial Department is responsible for supervising the appropriate design and use of the financial computer systems.

For these purposes, the Corporate Finance Division has organised selection, set-up, implementation and training into a single reporting tool for consolidation for all Viscofan Group companies.

The data from the local applications are integrated into the consolidation system following a single corporate accounting procedure, the Corporate Accounting Plan. The Corporate Finance Division is responsible for reviewing the equivalence between the accounting plans from each subsidiary and the Corporate Accounting Plan in order to guarantee the standardisation of the information received.

As an additional control measure, the data from the financial modules of each subsidiary and from the consolidation system are exported to a data analysis module in order to check consistency between the original and the final information.

The content of the information reported includes both the financial statements and most of the information necessary for preparing the tables and notes for the Annual Report of the company and subsidiaries, the first draft of which is prepared directly in this system.

F.5- Supervising the system's operation

Provide information, indicating the main characteristics, about at least the following:

F.5.1- The ICFR supervision activities carried out by the Audit Committee and whether the entity has an internal audit function whose powers include providing support to the Audit Committee in its task of supervising the internal control system, including the ICFR. Likewise, give information on the scope of the ICFR assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the entity has an action plan listing the possible corrective measures, and whether its impact on the financial reporting has been considered.

In accordance with Board Regulations. The Audit Committee is responsible for the following:

"Overseeing the internal auditing services, including in particular:

(i)approving the annual internal audit work plan relating to the evaluation of the FIICS, and receiving periodic information on the results of the work performed, including any incidents that may arise. The Audit Committee will likewise receive an annual activities report and action plan to correct any deficiencies detected;

(ii)ensuring the independence and efficiency of the internal audit function;

(iii)proposing the budget for this same internal function;

(iv)receiving periodic information on its activities, and

(v)verifying that senior management takes into account the conclusions and recommendations set forth in its reports".

The Viscofan Group has an Internal Audit Division, which reports functionally to the Audit Committee.

The objectives set forth in the Internal Audit Statute are:

1.Guaranteeing there is a suitable and adequate risk control system;

2.Assisting the Board of Directors or the corresponding delegated body in the objective fulfilment of their responsibilities, offering support to the Group Management and the Organisation in the improvement and consolidation of the internal control system, procedures applied and control activities

3.Checking that, through the standardised and efficient application of the policies and procedures in the internal control system, risks are appropriately managed, facilitating the achievement of the strategic objectives of the Viscofan Group;

4.Reviewing and checking that the Organisation's processes are appropriate and complied according to approved policies and procedures

5.Identifying and assessing all types of risks faced by the Organisation;

6.Overseeing the comprehensiveness of the accounting and management information issued, both internally and externally, i.e., it should be complete and correct;

7.Overseeing compliance with the law

The Internal Audit Division prepares Audit Plans, broken down into two classes, according to the time they are in force:

a) Multi-annual plans.

b) Annual plans.

Annual plans are considered the materialisation in a more limited timeframe of the generic work defined in the multi-annual plan. The latter is considered a declaration of measurable objectives for a longer period.

In addition, the Internal Audit Division carries out the following reporting work:

"It communicates with the Audit Committee and also, where applicable, the Divisions involved, keeping them informed about the results of all audit, investigation and consultancy activities. It also regularly reports to the Audit Committee on the application of audit plans and other relevant activities;

It drafts the results of the work and subsequently discusses them with the managers of the Divisions concerned before the reports are finally issued;

It assesses the level of implementation and efficiency of the recommendations by virtue of the reports issued, and reports on this to the Audit Commission."

The Audit Committee holds regular meetings at which it coordinates the actions of the Internal Audit Division, prepares the action plans, reports on and monitors the progress of each of these plans and analyses the level of implementation of the recommendations that have arisen as a result of its actions.

During the financial year of 2016, the Internal Audit work plan specifically focussed on:

- Participation in the Investment Committee, overseeing and controlling its activity.

In 2016, the Investment Committee held four meetings, coinciding with the quarterly financial closures.

Investments are strictly monitored at all subsidiaries. A report is issued every fortnight and this is sent to the Committee members, making it possible to ensure that any possible deviations are quickly detected and the appropriate actions can be taken.

- Participation in the Credit Risk Committee, overseeing and controlling its activity, particularly with regard to credit risk coverage levels and the principal accounts receivable.

The key objective of the Credit Risk Committee is to report on the taking out of credit insurance, compliance with established procedures and the added risk involved in selling to some countries. Furthermore, a detailed analysis is made of the total exposure of customers, particularly those with the largest amounts of matured debt.

Monitoring conducted by the Committee has made it possible to keep the amount of the debt covered compared to last year. In the course of 2016, the accident rate was maintained below 2 per thousand.

Participation in the aforementioned Overall Risk Committee, updating the Group Risk Map based on the new strategic plan initiated this year, MORE TO BE, which encompasses the 2016-2020 period, considering the new mitigating measures implemented and adding new risks identified by the Committee members. Key Risk Indicators (KRI) have also been associated with each risk so that each person responsible can perform a follow-up of them.

The committee has met twice this year.

- Participation in the Regulatory Compliance Committee, collaborating in the identification of the Company's specific risks related to Criminal Responsibility.

- Review of the controls made and the quality of the evidence provided, establishing appropriate corrective measures in accordance with their materiality. Specifically, every quarterly closure is accompanied by a random review of the most important controls, submitting the findings report to the Audit Committee prior to the approval of the financial information to be published.

- Review in various subsidiaries. The reviewed processes were the implementation of the Compliance System, the Travel Expenses process, the Monthly Financial Closure process, the Purchasing Management process, the Sales Management process and the Warehouse Management process.

- Monitoring of the implementation of the recommendations arising from the reviews of the different processes audited in the past, and particularly the Complaints and Commissions process, both in the Sales area. To do so, a tool has been designed to monitor the Internal Audit recommendations, with the creation of reports for Senior Management.

- It has also intervened throughout the entire year, as sponsor in the implementation of recommendations arising from the review of the transverse Complaints Management Process from the Commercial department.

The activity of the Internal Audit Department is considered to be satisfactory, mainly thanks to the high implementation rate for the improvements and recommendations made in order to correct the incidents detected.

The Audit Department prepares reports on its actions, reflecting the incidents detected during the work execution and suggestions for improvement. These reports are initially discussed with the heads of the subsidiaries or departments involved.

Once the reports have been discussed with the heads and the measures to be adopted have been established, the report is sent to the Audit Committee. Those incidents identified and which could affect the financial reporting, are quantified, where applicable, and reported to the Corporate Financial Department and also to the Local Financial Departments affects, so that they may be corrected.

The Internal Audit Recommendation Monitoring Tool makes it possible to send the recommendations to those responsible for implementing them, who should put the recommendations into practice and provide evidence of this. The tool makes it possible to obtain reports on the audit recommendation status, either separately or by area such as Financial, Sales, Transactions, HR, etc.

F.5.2- Whether there is a discussion procedure by which the auditor (in line with the technical auditing notes), the internal audit function and other experts can inform senior management

and the audit committee or the directors of the entity of significant weaknesses in the internal control encountered during the review processes for the annual accounts or any others within their remit. Likewise, give information on whether there is an action plan to try to correct or mitigate the weaknesses observed. Furthermore, whether there is an action plan to correct or mitigate any weaknesses observed.

In addition to the roles of the Internal Audit Division described in the previous point, the Board Regulations authorise the Audit Committee to request the presence of the external auditors whenever they consider it appropriate:

"The Audit Committee shall be empowered to request the presence of any member of the Management team or any member of the Company's staff at its meetings, as well as the presence of the Company's independent auditors or any Company advisor whose presence is deemed advisable. All of the aforementioned shall be bound to cooperate and facilitate access to the information they have."

In practice, the Audit Committee holds a minimum of three annual meetings with the external auditors, one of which coincides with the pre-audit carried out at the end of October each year and the other two with the year-end audit.

At said meetings, the auditor's report any weaknesses in internal control that may have been detected in the audit process and that could affect the internal control system. The Committee monitors them during the year, in coordination with the Internal Audit Division and the Corporate Finance Division, to identify and implement, where applicable, any measures that may be deemed advisable.

F.6 - Other relevant information

We do not consider it necessary to disclose any other information that has not been already described in the above sections.

F.7 - External audit report

Provide information about the following:

F.7.1. Whether the ICFR information disclosed to the markets has been submitted by the external auditor, in which case the entity must attach the corresponding report as an annexe. Otherwise, explain the reasons why it was not.

SCIIF information has been submitted for review by our external auditors EY, in accordance with the Professional Action Guidelines and the Audit Report form concerning SCIIF-related information on listed companies in July 2013. A report with the conclusions of this review is attached hereto.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the extent to which the company follows the recommendations of the Good Governance Code of listed companies.

Should any recommendation not be followed or be only partially followed, a detailed explanation should be given of the reasons so that the shareholders, investors and the market in general have sufficient information to assess the way the company works. General explanations will not be acceptable.

1, The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies

2, When a dominant and a subsidiary company are both listed, they should provide detailed disclosure on:

a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Not Applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation and any alternative procedures followed in its stead.

Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation

Complies

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) . Report on auditor independence.
b) Reviews of the operation of the audit committee and the nomination and remuneration committee
c) Audit committee report on third-party transactions
d) Report on corporate social responsibility policy

Complies

7. The company should broadcast its general meetings live on the corporate website.

Explain

The Company has an attendance bonus payment policy as a way to encouraging shareholders to take part in the General Meeting, and issues all the information relating to the agenda and agreements proposed, including additional information when considered advisable in order to better understand the proposals presented to the shareholders. Participation in the General Meetings held over the last five years was more than 80%

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies

12. The board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximize participation. The recommended range is accordingly between five and fifteen members.

Complies

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that the appointment or reelection proposals are based on a prior analysis of the board's needs

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report

Complies

15. Nominee and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control

Complies

16. The percentage of nominee directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related

Complies

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board placesSee section: C.1.34

Complies

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of nominee directors indicating the shareholder they represent or have links with.
d) Dates of their first appointment as a board member and subsequent re-elections.
e) Shares held in the company, and any options on the same.

Complies

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of nominee directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a nominee directorship.

Complies

20 Nominee directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to nominee directors, the latters' number should be reduced accordingly.

Complies

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies

27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions

Complies

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company’s expense.

Complies

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted,of the majority of directors present

Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise

Complies

34. When a lead independent director has been appointed, the Bylaws or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman and vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Partially Complies

The articles of association or the rules of the Board of Directors specifically include all the duties/functions of this point, except for maintaining contacts with investors and shareholders in order to form an opinion on their concerns, in particular in relation to the corporate governance of the company. Although the communication policy with shareholders, institutional investors and their representatives or advisors does in fact provide for this function.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies

36,The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.
b) The performance and membership of its committees.
c) The diversity of board membership and competences.
d) The performance of the chairman of the board of directors and the company's chief executive.
e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report

Complies

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Partially complies

The executive directors are a majority in relation to the Executive and the Secretary is the Secretary of the Board.

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies

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

Complies

42. The audit committee should have the following functions over and above those legally assigned

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re- election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer

Complies

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balancesheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Not Applicable

49. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive Directors.

When there are vacancies on the board, any Director may approach the Nomination Committee to propose candidates that it might consider suitable.

Complies

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.
b) Monitor compliance with the remuneration policy set by the company.
c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
b) They should be chaired by independent directors
c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting
d) They may engage external advide, when they feel it necessary for the discharge of their functions
e) Meeting proceedings should be minuted and a copy made available to all board members

Complies

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
b) Oversee the communication and relations strategy with shareholders and investors, including small and medium- sized shareholders.
c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
f) Monitor and evaluate the company's interaction with its stakeholder groups.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks

Partially Complies

All the functions mentioned are attributed to one or several of the board committees, whilst some have created ad hoc committees to support the competent Board committee, however this distribution has not yet been formally transferred to the internal rules governing the board and each of its committees.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
b) The corporate strategy with regard to sustainability, the environment and social issues.
c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
e) The mechanisms for supervising non-financial risk, ethics and business conduct.
f) Channels for stakeholder communication, participation and dialogue.
g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55, The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.
Complies

56,. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies

57,- Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long- term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies

58,- In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59,- A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60,- Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies

61,- A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Partially Complies

The Company's current remuneration policy was prepared by the Appointment and Remuneration Committee with the advice of an external expert, Spencer Stuart, in line with his recommendations as an expert and including the best international Corporate Governance practices, whilst the policy is also in line with the principles and foundations that should inspire the Viscofan Group's remuneration system, as approved by the Shareholders' General Meeting in 2013.

Following the approval of Act 31/2014, by which the Spanish Enterprise Act for the improvement of corporate governance was modified, at the General Shareholders Meeting held on 7th May 2015, the Board of Directors proposed the approval of a policy with no significant variations for 2015 to 2017, via the approval in consultative vote of the 2014 Remunerations

Report, in accordance with the system established in the transitory provision of the Act 31/2014 for the improvement of corporate governance. The variable remuneration of the executive board members included by the company policy, regardless of its link to the delivery of shares or financial instruments referenced to their value, is based on a short-term annual retribution and long-term triennial retribution, both based on a combination of parameters that motivate the achievement of annually established results, as well as the success of the multi-year strategic plan, all aligned with the interests of the shareholders, as both consider the evolution of the value of the share as part of their parameters, among others.

On the other hand, the executive board members have acquired shares in the stock exchange voluntarily and for their part over the years that they have been company board members. As a result of these market acquisitions, both the President and the General Director-Board Member, have shares with a higher value than two years of fixed salary received as executives.

62,-Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Not Applicable

63,- Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Partially Complies

The remuneration policy is designed in such a way that the variable remuneration components are only paid to the executive directors once the payment requirements have been met. The external auditors and other external experts have confirmed compliance with this policy. Furthermore, the variable remunerations are limited in order to ensure that their amount is not significant in relation to the results they are linked to, in order to minimise risk.

64,-Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies

H. OTHER INFORMATION OF INTEREST

1,- If there is any other aspect relevant to the corporate government in the company or in the group entities that has not been reflected in the rest of the sections of this report, but is

necessary to include to provide more comprehensive and well grounded information on the corporate governance structure and practices in your entity or its group, detail them briefly.

2,- This section may also include any other relevant information, clarification or detail related to previous sections of the report insofar as they are relevant and not reiterative.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the mandatory information to be provided when different from that required by this report.

3.- The company may also indicate if it has voluntarily signed up to other international, industry-wide or any other codes of ethical principles or best practices. Where applicable, the code in question will be identified along with the date of signing. In particular, mention will be made as to whether it has adhered to the Code of Best Tax Practices (Código de Buenas Prácticas Tributarias) of 20 July 2010.

This annual report on corporate governance has been approved by the Company's Board of Directors on:

February 28th , 2016

List whether any Directors voted against or abstained from voting on the approval of this Report.

NO

Name or company name of director who has not voted in favour of the adoption of this report	Reasons (counter, abstention, no assistance)	Explain the reasons

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED COMPANIES

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ISSUER IDENTIFICATION

YEAR ENDING	31/12/2016

Registered Name:

VISCOFAN SA

Registered Address:

Polígono Industrial Berroa – C/ Berroa 15-4ª planta – 31192 Tajonar – Navarra (Spain)

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED COMPANIES

A CORPORATE REMUNERATION POLICY FOR THE CURRENT YEAR

A.1 Explain the corporate remuneration policy. This section will include information on:

- General principles and foundations of the remuneration policy.
- Most significant changes in the remuneration policy applied during the previous year and changes made during the year to the conditions for the exercise of previously awarded options.
- Criteria used and composition of similar business groups whose remuneration policies were analysed to design the company's policy.
- Relative importance of variable remuneration items in comparison to fixed items and the criteria used to determine the components of the directors' remuneration package (*remuneration mix*).

Explain the remuneration policy

The remuneration policy for 2015 to 2017 was approved, by virtue of that stipulated in Articles 541 and 529r, according to the system included in the transitional provision of Act 31/2014 regarding improvements to corporative governance, upon approval of the Remunerations Report by consultative vote, presented at the General Shareholders Meeting, held on 7th May 2015.

Principles and Foundations

- Exclusive approval by the General Shareholders Meeting, as stipulated in the bylaws of the Company.
- Objectiveness. Formulated in accordance with objective criteria, even-handedly towards all Board members.
- Proportionality. Adapted to the importance of the company, its financial situation at all times and the market standards in comparable companies.
- Adequacy. In accordance with the Board composition, an amount considered as sufficient compensation for their qualifications, dedication and responsibility and for ensuring due loyalty and bonds with the company, as well as their independence.
- Transparency. Detail per concept, assignment criteria and individual breakdown is published in the annual remuneration report and submitted to the advisory vote of the General Shareholders Meeting.

Non-Executive Board Members

Shall receive a fixed salary for their role as Board Members.

Furthermore, attending Board meetings shall involve an allowance. They will not receive a variable salary.

President and Vice-Presidents of the Board.

Shall receive a fixed amount.

Executive Committee.
Its members shall receive a fixed salary.

Audit Committee and Appointment and Retribution Committee.
Shall receive a fixed salary. Their presidents will receive 1.5 times said amount.

Executive Board Members.
Shall receive:
-A fixed salary
-A variable annual salary and a variable triennial salary.
Both taking the same criteria as those used for the senior management as a reference, set on a combination of parameters based on the completion of Group targets: financial aligned with the multi-year Strategic Plan and the annual completion targets, as well as non-financial strategic plans and personal performance.

For triennial remuneration, the parameters considered are those aligned with the remuneration and creation of long-term value for shareholders.

The parameters that have been marked as objectives for the 2016 annual variable remuneration, through applying this remunerations policy, are: Incomes, EBITDA, Net Result, inventory over sales ratio. Others parameters are share value, projects associated to non-financial strategic goals and to a bigger impulse to EHS and CSR policies.

Determining the annual amount shall be approved by the Administrative Board based on evaluation by the executive board members, in accordance with the proposal from the Appointment and Retribution Committee.
Furthermore, they may receive life and accident insurance and a medical check-up, just as the senior management, medical insurance and a company vehicle.

They shall not receive payment for belonging to the Board, the Board Committees or other Boards belonging to the Viscofan Group, nor allowances for attending Administrative Board meetings or other Committees.

The advanced notification conditions, pledge not to complete, severance pay and other conditions on the contracts are as follows:

In the Executive President's contract, compensation has been envisaged for the two annual payments equal to the total of the last payment received, in the event that during the mandate there is an unjustified severance, with a non-competition pledge of two years once the contract ends. In the event of non-compliance with this non-competition pledge, the compensation received should be reinstated, plus a payment remitted to the value of three times its amount in damages.

The contract also includes a six-month prior notice period in the event of contract

termination, which should be complied with by both parts. In the event of non-compliance, the non-complying part must compensate the other part with the salaries corresponding to the period of uncompleted prior notice.

In the Director General Manager's contract, compensation has been envisaged for the two annual payments equal to the total of the last payment received, in the event that during the mandate there is an unjustified severance, with a non-competition pledge of two years once the contract ends. In the event of non-compliance with this non-competition pledge, the compensation received should be reinstated, plus a payment remitted to the value of three times its amount in damages.

The contract also includes a six-month prior notice period in the event of contract termination, which should be complied with by both parts. In the event of non-compliance, the non-complying part must compensate the other part with the salaries corresponding to the period of uncompleted prior notice.

Maximum limit
The remuneration of the Board of Directors and its Committees may not exceed 1.5% the net profit of the Viscofan Group. This established limit does not compute income from other functions originating from their work or professional relations.

Boards from other Viscofan Group societies
Board Members from the Viscofan parent company shall not receive remuneration in the Boards of the branches to which they belong.

Most significant changes in comparison with the previous year.

Compare to last year, there have been not significant changes in the remuneration policy. The remunerations policy was approved at the General Shareholders Meeting held on 7th May 2015 for years 2015 to 2017

Criteria taken into consideration
The remuneration policy has been prepared by the Board based on the best international practices of corporate government and in collaboration with external expert Mr. Spencer Stuart. It is also based on the core principles and foundations of the Viscofan Group remuneration system.

Moreover, the Board of Directors and the Appointments and Remuneration Committee have also ensured that the policy does not imply significant changes to the amount of remuneration received by the various directors insofar as these sums are adapted to their responsibilities, dedication, position and type, taking into account the particular circumstances of the Company and while there are not variations that justify changes in this remuneration.

Relative significance of variable remuneration components and criteria for determining different components of the remuneration package.

Non-executive Board members do not receive variable remuneration.

Executive directors may receive a yearly variable remuneration and a three yearly variable remuneration. The variable remunerations of the executive directors shall be established by using as a reference point the same criteria determined for Viscofan senior management applying a combination of parameters based on achieving the multi-annual Strategic Plan, annual performance financial targets and non-financial targets, as well as personal performance.

The annual amount shall be decided on the basis of the evaluation of the Executive Directors by the Board of Directors, based on the Appointments and Remuneration Committee reports

A.2 Information on the preparatory work and decision-making process followed to determine the remuneration policy and role, if any, performed by the remuneration committee and other supervisory bodies in shaping the remuneration policy. This information will include, where appropriate, the mandate given to the remuneration committee, its composition and the identity of the external consultants whose services have been used to define the remuneration policy. It will also be described the character of the directors, if any, who have been involved in the definition of the remuneration policy.

Explain de process for determining the remuneration policy

In 2012 the Board of Directors unanimously approved the proposal of the Appointments and Remuneration Committee recommending that the remuneration policy should be reviewed by an external expert in this area, based on best corporate governance practices and that the results should be reported at the 2013 General Shareholders' Meeting.

To meet this commitment, the Appointments and Remuneration Committee, worked with close collaboration from Mr. Spencer Stuart, to draw up a proposal that, was in line with his expert recommendations and included international corporate governance best practices while also adhering to the principles and foundations that must form the basis of the Viscofan Group remuneration system.

This proposal was presented to the Board of Directors and approved at the meeting held on 22 March 2013. It was approved by advisory vote at the General Shareholders' Meeting held on 30 April 2013.

For year 2014, the Appointments and Remuneration Committee, comprising the same members who prepared the initial proposal, made a review of the remunerations policy approved by the AGM, in addition to its principles and rationale and its application in year 2013, and concluded that there had been no changes in the company to justify a review of the said principles or the remunerations policy approved by the shareholders.

Consequently, the Annual Report on the Remuneration of Directors in Publicly Traded

Companies proposed by the Board of Directors and approved by a non-binding vote of the AGM held on the 11th April 2014, maintained the same remuneration concepts, principles and rationale and proposed, for 2014, a policy with no significant changes to the one approved for 2013.

Following approval of Act 31/2014, by which the Spanish Companies Act (LSC) was modified regarding improvements to corporative governance, the Appointment and Retribution Committee implemented a new exhaustive review of the remunerations policy. The Committee established that, in view of the principles and bases that shape the Company's remuneration policy, and taking into account the criteria used for said policy, these changes did not justify the inclusion of significant modifications to the existing remunerations policy, and therefore at the General Shareholders Meeting, the Board of Directors proposed the approval of a policy without significant variations for 2015 to 2017, via the approval through consultative vote of the 2014 Remunerations Report, in accordance with the regulations established in the transitory provision of Act 31/2014 regarding improvements to corporate governance.

A.3 Indicate the amount and nature of the fixed components, with a breakdown where necessary, of the remuneration for the performance of senior management functions by the executive directors, the additional remuneration as chairman or member of any board committee, per diem payments for participation in the board and its committees and other fixed payments for the directorship and an estimate of the fixed annual remuneration to which they give rise. Identify other benefits not paid in cash and the basic parameters for which they are given.

Explain the fixed components of the remuneration

These are the fixed remuneration components and quantification for 2016 compare to last year:

Non-executive Board Members
Fixed remuneration: €80,000
Allowances for meeting attendance: €3,000/meeting

Chairman of the Board
Fixed remuneration: €350,000

Vicechairman of the Board
First Vice Chairman. Fixed remuneration: €250,000
Second Vice Chairman. Fixed remuneration: €175,000

Executive or Delegated Committee
Fixed remuneration: €100,000
No fees for attending

Audit Committee
Members. Fixed remuneration: €30,000
Chairman. Fixed remuneration: €45,000
No fees for attending

Appointments and Remuneration Committee
Members. Fixed remuneration: €20,000
Chairman. Fixed remuneration: €30,000
No fees for attending

Executive Chairman
Fixed remuneration: €353,992
Life and accident insurance.
Healthcare.
Company car.

Director General Manager
Fixed remuneration: €342,518
Life and accident insurance.
Healthcare and health insurance
Company car.

Total maximum limit
Total remuneration of the Board < 1.5% net earnings of Viscofan Group.
Remuneration for other functions due to work-related or professional services is not included.

Boards of other Viscofan Group companies.
The executive directors shall receive no remuneration or per diem allowance for being a member of a commission or another board.

A.4 Explain the amount, nature and main characteristics of the variable components of the remuneration systems.

In particular:

- Identify each remuneration plan of which directors are beneficiaries, their scope, approval date, implementation date, validity period and main features. For share option plans and other financial instruments, the general features of the plan will include information on the conditions for exercising such options or financial instruments for each plan.
- Indicate any payments made under profit-sharing or bonus schemes, and the reason why they were granted.
- Explain the basic parameters and grounds for any annual bonus scheme.
- The types of directors (executive directors, external directors, independent

directors or other external directors) that are beneficiaries of remuneration systems or plans that incorporate a variable remuneration.

- The foundations of such variable remuneration systems or plans, the criteria chosen to assess performance as well as the components and assessment methods to determine whether the criteria have been met or not, and an estimate of the total amount of variable remuneration that would result from the current compensation plan, as a function of the degree to which targets or benchmarks have been met.
- Where appropriate, give information on deferral periods or deferral of payment established and/or holdback periods for shares or other financial instruments, if any

Explain the variable components of the remuneration systems

The only non-fixed remuneration item contained in the Policy corresponds to the Executive Directors that may receive a yearly variable remuneration and a three yearly variable remuneration.
Both remunerations are established by using as a reference point the same criteria determined for Viscofan senior management.

The annual remunerations, applying a combination of parameters based on achieving Group targets, including financial targets in line with the multi-annual Strategic Plan and the annual performance targets, and on strategic non-financial targets, as well as personal performance. The parameters applied for variable remuneration were based on Revenues, EBITDA, Net Profit, and Inventory over sales ratio. Others parameters applied are share value, and greater drive in EHS and Corporate Responsibility policies.

The three-year remuneration 2016 to 2018 shall consider parameters aligned to remuneration and long-term value creation for shareholders, among which there is the market capitalisation, shareholders' remuneration, operation profitability and the improvement of labour security ratios.

In both cases, it shall be determined based on the proposal of the Appointment and Retribution Committee approved by the Board of Directors.

A.5 Explain the main features of the systems of long-term savings, including retirement and any other survivor benefit, partly or wholly funded by the company, whether endowed internally or externally, with an estimate of their amount or annual equivalent cost, indicating the type of plan, whether defined contribution or defined benefit, the conditions for the vesting of the directors' economic rights and their compatibility with any type of severance payment for early cancellation or termination of the contractual relationship between the company and the director.

Also indicate payments made to any director's defined-benefit pension scheme; or any increase in the director's vested rights when linked to contributions to defined-benefit schemes.

Explain the long-term savings systems

Not applicable. Not covered by the remuneration policy.

A.6 Indicate any indemnity payments agreed or paid in the event of termination of the directorship.

Explain the indemnity payments

No indemnity payments have been agreed or paid in the event of the termination of duties as a director.
The only indemnity payments contemplated are those to be received by Executive Directors due to the termination of their contracts for the performance of senior management duties.

A.7 Indicate the conditions that the contracts of executive directors in senior management positions must respect. Among other aspects, give information on the duration, limits to the amounts of indemnity, tenure clauses, notice periods and payments that can replace such notice periods, and any other clauses regarding hiring bonuses, as well as severance payments or ring-fencing for early cancellation or termination of the contractual relationship between the company and the executive director. Include, inter alia, covenants or agreements regarding non-competition, exclusivity, tenure or loyalty and non-competition after termination of contract.

Explain the conditions of the contracts of executive directors

The contracts of the Chief Executive Directors are governed by the stipulations of the remuneration policy approved by the General Shareholders Meeting, and approved by the Board of Directors as is determined in the actual regulation.

In the case of the Executive Chairman the contract includes compensation equal to two yearly salaries at the last received rate, in case of termination without justifiable cause, while being subject to a non-compete obligation for the two years following the contract termination. In the event of non-compliance of the above mentioned non-compete obligation, the received compensation must be returned, along with a payment equal to three times its value as damages.

Moreover, the contract stipulates a six-month advance notice in case of contract termination, which must be fulfilled by both parties. In the event of non-compliance, the defaulting party must provide compensation to the other party for the sum of salary payments corresponding to the unobserved advance notice period.

In the case of the Director General Manager, the contract includes compensation equal to two yearly salaries at the last received rate, in case of termination without justifiable cause, while being subject to a non-compete obligation for the two years following the contract termination. In the event of non-compliance of the above mentioned non-compete obligation, the received compensation must be returned,

along with a payment equal to three times its value as damages.

Moreover, the contract stipulates a six-month advance notice in case of contract termination, which must be fulfilled by both parties. In the event of non-compliance, the defaulting party must provide compensation to the other party for the sum of salary payments corresponding to the unobserved advance notice period.

A.8 Explain any additional remuneration paid to directors for services rendered other than those inherent to their directorship.

Explain supplementary remuneration items

No other supplementary remuneration items exist, except for the remunerations of the Executive Directors detailed above.

A.9 Indicate any remuneration granted in the form of advances, credits and guarantees, indicating the interest rate, key features and any amounts finally repaid, as well as the obligations against them by way of guarantee

Explain the advances, credits and guarantees granted.

Not applicable. Not granted.

A.10 Explain the main features of remuneration in kind.

Explain any remuneration in kind.

The only types of in-kind remuneration that may be received by the Executive Directors shall be life and accident insurance, healthcare, a health insurance for the Director General Manager and a company vehicle.

A.11 Indicate the remuneration accruing to the director by virtue of payments made by the listed company to a third party in which the director provides services, when such payments are intended to remunerate the director's services in the company.

Explain the remuneration accruing to the director by virtue of payments made by the listed company to a third party in which the director provides services

Not applicable.

A.12 Any kind of remuneration item other than those listed above, regardless of their nature or the group entity paying them, especially when it may be considered a related-party transaction or when its issuance would distort the true picture of the total

remuneration received by the director.

Explain other remuneration items.

Not applicable. There are no further pay items other than those described in the preceding points.

A.13 Explain the actions taken by the company in connection with the remuneration system to reduce excessive risk exposure and match it to the long-term targets, values and interests of the company. Include, where appropriate, a reference to: measures designed to ensure that the remuneration policy is aligned with the long-term performance of the company; measures establishing an appropriate balance between fixed and variable compensation; measures taken in relation to those categories of staff whose professional activities have a material impact on the risk profile of the entity; clawback formulae or clauses to reclaim variable components of performance-based remuneration when such components have been paid on the basis of data that is subsequently proven to be wholly inaccurate; and measures designed to prevent conflicts of interest, where applicable

Explain the actions taken to reduce the risks

Non-executive Board members do not receive variable remuneration, thereby ensuring that most of the Board receives remuneration in line with responsibility and dedication, differentiated from the company's short term evolution.

The only variable remuneration contemplated is the one that may be paid to Executive Directors with regard to their senior management duties.

Variable remuneration of the Executive Directors, similarly to that of senior management, is linked to the targets of the Group to which this Company belongs, both from a short-term and long-term perspective, by means of an annual and three-year remuneration schedule. Both remunerations are established by using as a reference point the same criteria determined for Viscofan senior management.

The Appointment and Retribution Committee submits a proposal to the Board of Directors in relation to the remuneration and maximum amount to be received by the Executive Directors for their senior management duties.

Annual remuneration is established applying a combination of parameters based on achieving Group targets, including financial targets in line with the multi-annual Strategic Plan and the annual performance targets, and on strategic non-financial targets, as well as personal performance

The three-year remuneration considers parameters linked to remuneration and long term value creation for shareholders.

Executive directors have acquired shares in the listed market voluntarily and in their personal capacity during the years in which they have been directors of the society. As a consequence of these acquisitions, both the President and the General Director held shares with a superior value of two years perceived fixed remuneration as executive directors.

The three-year remuneration plan in force sets a 75% fixed remuneration limit in order to avoid exposure to excessive risks.

The variable remuneration shall be determined based on the proposal of the Appointment and Retribution Committee approved by the Board of Directors, once, where appropriate, the requisites established in accordance with the parameters set at all times have been completed.

Moreover, in order to reduce exposure to excessive risk, the Company has established a maximum amount of remuneration for the Board; total remuneration received by the Board of Directors and its committees may not exceed 1.5% of Viscofan Group net earnings.

B - REMUNERATION POLICY FORECAST FOR FUTURE YEARS

Revoked

C - GLOBAL SUMMARY OF HOW THE REMUNERATION POLICY HAS BEEN APPLIED DURING THE FINANCIAL YEAR ENDING

C.1 Give a brief explanation of the main features of the structure and remuneration items of the remuneration policy applied during the last financial year, resulting in the breakdown of the individual remuneration accrued by each of the directors listed in Section D of this report, and a summary of the resolutions passed by the board to implement these items.

Explain the structure and remuneration items of the remuneration policy applied during the year.

The remuneration items and structure of the policy applied during the year finishing 31.12.2016 are:

Non-executive Board Members
Fixed remuneration as Board members. €80,000
Allowances for attendance of each Board meeting: €3,000

Chairman of the Board
Fixed remuneration: €350,000

ViceChairmen of the Board
First Vice Chairman: €250,000
Second Vicen Chairman: €175,000

Executive Committee or Delegated Committee
Fixed remuneration: €100,000

Audit Committee
Fixed remuneration: €30,000
Chairman: €45,000

Appointments and Remuneration Committee
Fixed remuneration: €20,000
Chairman: €30,000

Executive Chairman
Fixed remuneration: €353,992
Annual variable remuneration: €104,000 as a consequence of the proposal of the Appointments and Remuneration Committee.
Variable three-yearly remuneration: its perception does not apply until the end of the three years period in 2018. Furthermore, the Chief Executive received life and accident insurance and healthcare, and a company vehicle.

Director General Manager
Receives no remuneration as a director. The remuneration solely corresponds to his senior management duties.
Fixed remuneration: €342,518
Annual variable remuneration: €204,800 as a consequence of the proposal of the Appointments and Remuneration Committee.
Variable three-yearly remuneration: its perception does not apply until the end of the three years period in 2018.
Life and accident insurance, healthcare and health insurance, and a company vehicle.

Total maximum limit.
Total remuneration of the Board of Directors and its committees did not exceed 1.5% of Viscofan Group net earnings.
Remunerations for other professional or work relationships are not taken into account.

D- BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

NAME	TYPE	ACCRUAL PERIOD 2016
JOSE DOMINGO DE EMPUERO Y OSMA	EXECUTIVE	FROM 01/01/2016 TO 31/12/2016
NESTOR BASTERRA LARROUDE	OTHER EXTERNAL	FROM 01/01/2016 TO 31/12/2016
AGATHA ECHEVARRIA CANALES	OTHER EXTERNAL	FROM 01/01/2016 TO 31/12/2016
ALEJANDRO LEGARDA ZARAGüETA	INDEPENDIENT	FROM 01/01/2016 TO 31/12/2016
IGNACIO MARCO-GARDOQUI IBAÑEZ	INDEPENDIENT	FROM 01/01/2016 TO 31/12/2016
JOSE MARIA ALDECOA SAGASTASOLOA	INDEPENDIENT	FROM 01/01/2016 TO 31/12/2016
JAIME REAL DE ASUA Y ARTECHE	INDEPENDIENT	FROM 01/01/2016 TO 31/12/2016
JOSE ANTONIO CANALES GARCIA	EXECUTIVE	FROM 01/01/2016 TO 31/12/2016
JUAN MARCH DE LA LASTRA	NOMINEE	FROM 01/01/2016 TO 31/12/2016
SANTIAGO DOMECQ BOHORQUEZ	NOMINEE	FROM 21/04/2016 TO 31/12/2016
LAURA GONZALEZ MOLERO	INDEPENDIENT	FROM 01/01/2016 TO 21/04/2016

D.1 Complete the following tables on the individual remuneration of each of the directors (including remuneration for carrying out executive functions) accrued during the year.

a) Remuneration accrued in the company covered by this report:

i) Cash remuneration (000'€)

Name	Salary	Fixed Remuneration	Allowances	Compensation Variable in short-term	Compensation Variable in long-term	Remuneration for positions on Board committees	Penalties	Others	2016 Total	2015 Total
NÉSTOR BASTERRA LARROUDÉ	0	330	33	0	0	100	0	0	463	463
ÁGATHA ECHEVARRÍA CANALES	0	255	33	0	0	100	0	0	388	388
IGNACIO MARCO-GARDOQUI IBÁÑEZ	0	80	33	0	0	63	0	0	176	170
ALEJANDRO LEGARDA ZARAGÜETA	0	80	33	0	0	35	0	0	148	158
JOSÉ MARÍA ALDECOA SAGASTASOLOA	0	80	33	0	0	30	0	0	143	143
JAIME REAL DE ASÚA Y ARTECHE	0	80	33	0	0	27	0	0	140	133
JUAN MARCH DE LA LASTRA	0	80	30	0	0	20	0	0	130	84
SANTIAGO DOMÉCQ BOHÓRQUEZ	0	51	21	0	0	20	0	0	92	0
LAURA GONZÁLEZ MOLERO	0	29	12	0	0	0	0	0	41	112
JOSÉ ANTONIO CANALES GARCÍA	342	0	0	205	0	0	0	0	547	759
JOSÉ DOMINGO AMPUERO OSMA	354	350	0	104	0	0	0	0	808	994

ii) Share-based remuneration systems

iii) Long-term savings systems

b) Remuneration accruing to company directors for membership of boards in other group companies:

i) Cash remuneration (000'€)

Name	Salary	Fixed Remuneration	Allowances	Compensation Variable in short-term	Compensation Variable in long-term	Remuneration for positions on Board committees	Penalties	Others	2016 Total	2015 Total
Nestor Basterra Larroudé	0	0	0	0	0	0	0	0	0	8

ii) Share-based remuneration systems
iii) Long-term savings systems

c) Summary of remuneration (thousands €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to the director, in thousand euros .
Where there are long-term Saving Systems, include contributions or endowments made to such systems:

Name	Remuneration accruing to the company				Remuneration accruing to group companies				Totals		
	Total Cash remuner.	Value of Shares granted	Gross profit on options exercised	2016 Total	Total Cash remuner.	Value of Shares granted	Gross profit on options exercised	2016 Total	2016 Total	2015 Total	Contribu. To saving systems /year
JOSÉ DOMINGO AMPUERO OSMA	808	0	0	808	0	0	0	0	808	994	0
NÉSTOR BASTERRA LARROUDÉ	463	0	0	463	0	0	0	0	463	471	0
ÁGATHA ECHEVARRÍA CANALES	388	0	0	388	0	0	0	0	388	388	0
ALEJANDRO LEGARDA ZARAGÜETA	148	0	0	148	0	0	0	0	148	158	0
IGNACIO MARCO-GARDOQUI IBÁÑEZ	176	0	0	176	0	0	0	0	176	170	0
JOSÉ MARÍA ALDECOA SAGASTASOLOA	143	0	0	143	0	0	0	0	143	143	0
JAIME REAL DE ASÚA Y ARTECHE	140	0	0	140	0	0	0	0	140	133	0
JUAN MARCH DE LA LASTRA	130	0	0	130	0	0	0	0	130	84	0
JOSÉ ANTONIO CANALES GARCÍA	547	0	0	547	0	0	0	0	547	759	0
SANTIAGO DOMÉCQ BOHORQUEZ	92	0	0	92	0	0	0	0	92	0	0
LAURA GONZÁLEZ MOLERO	41	0	0	41	0	0	0	0	41	112	0
	3.076	**0**	**0**	**3.076**	**0**	**0**	**0**	**0**	**3.076**	**3.412**	**0**

D.2 Give information on the relationship between the remuneration received by the directors and the earnings or other performance indicators of the entity, explaining, where appropriate, how variations in the company's performance may have influenced the variation in directors' remunerations.

Non-executive directors' remuneration is fixed and proportional to their responsibility and dedication in their respective positions.

The Company's results and performance are directly related to the following aspects of remuneration of the Board Members:

Remuneration of the Executive Directors.

Remuneration of the Executive Directors consists of the following:

- Annual variable remuneration and variable remuneration every three years.

Both shall be established by using as a reference point the same criteria determined for Viscofan senior management, applying a combination of parameters based on achieving Group targets linked to results and share price growth, as well as personal performance.

The amount of 2016 variable annual remuneration is established based on data corresponding to, turnover, EBITDA, net earnings, ratio of. Others parameters are share value, projects associated to non-financial strategic goals and to a bigger impulse to EHS and CSR policies.

The amount shall be decided on the basis of the evaluation of the Executive Directors by the Board of Directors, based on the Appointments and Remuneration Committee reports.

In this year the period established to attain the long-term variable has been completed. For the three-yearly remuneration, parameters that align with the remuneration and creation of long-term value will be considered. These parameters have been set within the framework of the encouraged initiatives in accordance with the Be MORE strategy plan.

40% of this quarterly remuneration depends on the growth of the TSR (Total Shareholder Return) in three years, defining, as an objective in order to obtain the totality of this period, a TSH growth of more than 17%. This objective was achieved completely upon closing 2015.

The remaining 60% depends on the improvement of operative results and company balance sheet strength. To do this, a formula was established to unite both criteria, equivalent to eight times the EBITDA minus the net debt before paying dividends. It was defined as an objective to obtain the full amount of this period of growth of 17% in the result of this formula upon closing the third financial year. This objective was achieved completely upon closing 2015.

In both annual and quarterly variables, payment only occurs once the Appointment and Retribution Committee has approved completion of all the customised objectives in accordance with those established when fixed.

Therefore, company performance is directly related to the amount of annual variable remuneration of the Executive Directors.

Maximum limit

It is established that the maximum amount of total remuneration received by the Board of Directors and its committees may not exceed 1.5% of Viscofan Group net earnings.

Remuneration related to the performance of work or professional duties in the Company that are different from those performed as Board members will not be calculated for the purposes of the established limit.

Therefore, the application of the proportionality principle avoids exposure to excessive risks, ensuring that remunerations are in line with the company's financial situation at all times.

D.3 Give information on the outcome of the consultative vote of the annual general meeting on the annual remuneration report of the previous year, indicating the number of votes cast against, if any.

	Number	% of total
Votes cast	37,318,900	80.08%

	Number	% of votes cast
Votes against	855,428	2.29%
Votes in favour	36,402,449	97.55%
Abstentions	61,023	0.16%

E- OTHER INFORMATION OF INTEREST

If there are any relevant aspects relating to directors' remuneration that you have not been able to describe in other sections of this report but that are necessary to provide more comprehensive and fully reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

This annual report on the remuneration of directors has been approved by the company's board of directors on the 28th February 2017.

Indicate whether any board members have voted against or abstained with respect to the approval of this report.

☐ Yes No ☒