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ACTIVITY REPORT FROM THE AUDIT COMMITTEE IN THE FINANCIAL YEAR 2016

The Audit Committee is made up of the following people:

NAME	Function in the Audit Committee	
Mr. Ignacio Marco-Gardoqui Ibañez	Chairman	Independent Director
Mr. José María Aldecoa Sagastasoloa	Secretary	Independent Director
Mr. Alejandro Legarda Zaragüeta	Director	Independent Director
Mr. Santiago Domecq Bohórquez	Director	Nominee Director

In the 2016 financial year, the Committee met on ten occasions, with the aim of following up the issues summarised in the following sections.

On 21st April, marking the end of Mr Alejandro Legarda Zaragüeta's mandate as the Committee Chairman, Mr Ignacio Marco-Gardoqui was unanimously appointed the new Chairman of the Audit Committee.

1). Activities undertaken related to the 2015 financial year

Regarding external audit

EY España, the Company Accounts Auditor, has made three appearances before the Committee to notify Members of the most important aspects highlighted in the External Audit process, both in the preliminary phase as well as whilst in progress, and the final annual closure.

As in each financial year, in the preliminary phase the pre-closure review is highlighted, performed on 31st October, allowing EY and the Committee to identify and anticipate the work of the external audit as well as issues that given their uniqueness or accounting impact require a special mention, such as that stipulated in the Management Report accompanying the Consolidated Report and among which the following are highlighted:

Purchase of the Vector Group.

On 31st October 2016, VISCOFAN acquired the Vector Group, dedicated to the production and commercialisation of plastic solutions with plants located in Belgium and the United States of America. Viscofan Spain acquired Vector Europe, which represents approximately 51.9% of the total value and Viscofan USA acquired Vector USA which is 48.10%.

The initial company value stipulated was 17.5 billion USD, of which it is estimated that 3.2 B USD was the total cost to pay for 100% of the Vector company shares after deducting the net financial debt and the other balance adjustments identified during the due diligence process. As such, this estimated amount could be reduced through the detection of other unidentified liability adjustments during the pre-purchase process.

A first payment was made for the amount of 0.7 B USD, and the second is planned, which will initially ascend to 0.6 B USD, to which a 5% interest rate would be applied but from which adjustments identified during this period would be deducted. The remaining 1.9 B USD will be paid in October 2018 (without interest) and may be subject to a reduction in the event that unforeseen liabilities arise during the period.

The "Purchase Price Allocation" has been performed in accordance with the accounting regulation that requires the appraisal of independent experts of the acquired company group's tangible and intangible assets. The involvement of Viscofan companies in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the combination of businesses. This existing difference has been acknowledged in the result of the tax year once the cost of the acquisition has been re-assessed and the acquired net assets have been assessed, generating a positive result in the tax year of 4.5 B€.

In terms of the Vector audit, it will be limited both in the USA and in Belgium; it will be performed from Spain and will include the verification of the inventory in the USA.

From 31st October 2016, the Vector Group was strengthened through global integration.

Fire in Germany

In November a fire had a considerable impact on a spare parts warehouse in Weinheim, whose accounting value reached €260,000 in consolidated accounts. The incident was covered by the Allianz insurance company. Thanks to the prevention and containment measures, production was not affected by the fire, though it did temporarily stop for preventive reasons, to be re-started two days later. Although the incident is being investigated, in early December an anticipated payment of 3B€ was received, and it is hoped that the expert investigation will conclude in April 2017. The planning of the warehouse construction will take place in 2017.

Complaint against the supplier Alemán Stein

Naturin has filed a claim to the Allianz insurance company for the damages and loss of profits caused by a maintenance supplier – STEIN GMBH & CO.KG. Allianz has estimated €1.8M of compensation, of which the corresponding excesses would have to be deducted. Documentation and the definitive compensation are pending receipt.

Regulation of the electrical Sector in Spain

With regards to the current regulation of the electric sector in Spain, Viscofan has the following processes open:

Appeal against RD 413/2014 and EIT ruling 1045/2014

The vote and decision to rule a sentence has been suspended so as to request the Ministry of Energy, Tourism and Digital Agenda to make a statement regarding certain aspects about which Viscofan has also proposed a series of question.

Appeal against the Pre-allocation in the 120 MW quota Decision.

Viscofan filed a contentious administrative appeal before the Madrid High Court of Justice against the Ruling of 15th July 2015, of the Directorate General for Energy and Mines (hereinafter "DGEM), which determined the registration in the specific remuneration system Register in the pre-allocation state of 2.146MW, by virtue of which it is required that the payment of the specific remuneration system should be made from the date upon which the facility enters into operation, or, collaterally, from 9th November 2014 (date upon which it should have been resolved). At this time the procedure is in the trial phase.

Rectification of the Self-assessment of the Electrical Production Value Tax of tax years 2013, 2014 and 2015.

Viscofan has presented rectifications of the self-assessments of the Electrical Production Value Tax that correspond to the tax years 2013, 2014 and 2015 as they consider that different European and Spanish Constitution legal precepts are contravened.

Likewise, and as a result of the average energy pool in 2016 being positioned below the legally established limits for the type of facility owned by Viscofan, it has recognised a receivable amount of 1.6B€ to 31st December for the compensation deriving from it.

Nanopack goodwill

The goodwill recorded as a result of the acquisition that took place in 2015 ascends to the amount of 3.5B€. In accordance with the IAS 36, an impairment test has been carried out as it is an asset of indefinite useful life. The result of this analysis concludes that it is not necessary to impair the recorded goodwill.

Litigations and complaints

In the MIVISA case, no changes have occurred since 2015, when Viscofan filed a cassation appeal before the Supreme Court. In accordance with the Industrias Alimentarias de Navarra S.A.U. sales contract of 10th March 2015, the possible compensation that could result from the appeal is the property of Viscofan, S.A. for which if the Supreme Court rules against Mivisa Envases, S.A., the compensation would correspond to Viscofan. A voting and ruling date has been set for the end of March 2017.

With regards to the dispute with the constructor of the plant in Uruguay, Berkes Construcciones y Montajes SA, the legal procedure is still in the trial phase.

Regarding the legal procedures with Griffith Colombia, a ruling has been declared in favour of Viscofan CZ for the bills of exchange issued by Griffith for the purchase of its products. This ruling may be contested by Griffith before the Czech Supreme Court. In Brazil a favourable sentence was also ruled in 2015, but no amounts have been paid as of yet. The complaint process for the termination of the business relationship initiated by Griffith in Colombia is still open, and no relevant advances were made in 2016. Finally the Superintendent of Industry and Consumption of Colombia has ruled in favour of Viscofan in the unfair competition process initiated by Griffith. To date no news has been received regarding any appeals filed by Griffith.

On the other hand, Viscofan has presented legal proceedings before the Mercantile Court against Sayer Technologies for the disclosure of confidential information, after the Provincial Court dismissed the initiated criminal proceedings. The complaint has been admitted into procedure and is in the transfer phase to Sayer.

Each year the Committee ensures the Independence of the External Auditor and requests external auditors to declare their independence in the breakdown of the additional services provided to the Group.

In compliance with the current Spanish legal provisions, Act 22/2015, 20th June and Regulation (EU)-537/2014, in 2016 the Committee supervised and coordinated a bid for professional auditing services for the 2017-2019 period, as a result of which the Audit Committee proposed PricewaterhouseCoopers Auditores S.L. before the Board of Directors as the designated new Accounts Auditor, for later submission before the General Shareholders' Meeting.

- ✓ SCIIF follow-up

    - Within the supervision of the development process and the integrity of the Company's financial data, for the second year EY was requested to assess the evolution of the SCIIF implementation in the Group during 2016, taking the CNMV Recommendations Guide as a reference. In its report, EY considers that the description from section 5 of the Annual Report of Corporative Governance regarding internal control and risk management systems linked to financial data is correct and that no inconsistencies or incidences have emerged that may affect it.

Each quarter, the Committee supervised the financial data to be sent to the CNMV and market, requesting the presence of Management and members of the Group's Financial Department to contrast the business evolution and its accounting review, as well as Consolidation activities, along with the Group's Financial Director and Internal Audit.

Finally, the opinion given in the External Audit Report issued on 28th February 2017 was favourable for both the Consolidated Annual Accounts from the 2016 financial year, as well as for the individual Viscofan, S.A. Accounts from the same period.

Regarding the Viscofan Group's risk management

Throughout the year the Committee supervised the follow-up of the Annual Internal Audit Plan and Proposals from the Audit Committee.

Throughout 2016, the Committee has focused its efforts on the on-going improvement of its control environment; the follow-up and improvement of the Financial Information Internal Control System (SCIIF), as well as Internal Audit activities.

Regarding the internal Audit, within the three-year plan and among the activities carried out, particularly noteworthy are the in situ audits in 4 subsidiaries: of the travel expenses management process, of the monthly financial closure, of the purchasing process, of the sales process, of the logistics process and of the Regulation Compliance System. In terms of regulation compliance, Internal Audit has completed the audits in situ, with test-type surveys asked of managing employees and directors across the entire Group. As well as carrying out a follow-up of the execution of the auditing recommendations, the department has participated as a sponsor in the fulfilment of the major targets of the transverse complaints management process.

On the other hand, Internal Audit has participated in the Credit Risk Committee, the Investments Committee, the Global Risks Committee, the Ethics Committee and the Regulation Compliance Committee, which will allow it to carry out a close follow-up of the management of the different risks, whether strategic, operational, regarding information or compliance, which are assessed in the Group's risk map and are notified to the Audit Committee for its transfer to the Board of Directors.

Another key role of the Internal Audit has been the quarterly review of a SCIIF control sample. At the start of the year Internal Audit selects a control sample that it considers relevant given its impact on the balance sheet and reviews its execution to transfer its opinion to the Audit Committee regarding the reliability of the Financial Statements to publish.

In the follow-up of the Compliance System, the Audit Committee has overseen the updating of the system performed, the review of the criminal risks map and the formalisation of the Ethics and Regulation Compliance Manual, which covers and summarises the entire compliance system implemented within the Group. It has also overseen the Group's risk map, as well as its adaptation to the new Strategic Plan More To Be 2016-2020, for its later transferral to the Board of Directors, the Group's Taxation Strategy, later approved by the Board of Directors, and has formalised the regular follow-up of the Group's taxation.

With regards to Directive 2014/95/EU, the Committee has analysed the situation of the Corporate Social Responsibility (CSR), the reporting in the Group and the improvements regarding the 2016 annual report.

Regarding the assessment of the Audit Committee

As in previous years, the Audit Committee, at the request of the Appointments and Remuneration Committee, has performed a self-assessment of all of its members. This year, in accordance with good practices, this assessment has been performed with the assistance of the external consultant, SpencerStuart. The ensuing result is satisfactory in content and performance.

2) Perspectives relating to the 2017 financial year

Just as in 2016, the overseeing of the quality and reliability of financial information via the SCIIF shall continue to be a priority for the Committee. For this reason, Internal Audit shall continue to provide its opinion and assessment regarding the execution of the SCIIF controls on a quarterly basis.

In the Internal Audit work plan that has been created for 2017, in situ audits have been scheduled of various processes in different areas of three subsidiaries, and transverse audits that are carried out from the Matrix. On the other hand, it wishes to maintain the follow-up and sponsorship of improvements in already audited processes.

As in previous years, the Committee shall continue to pay special attention to the updating of the Group's risk map, the Group's taxation, and the follow-up of the different internal control policies of the Group, which help reduce these risks.