

VISCOFAN S.A. AUDIT COMMITTEE

**ANNUAL REPORT ON ACTIVITIES AND OPERATIONS, RELATED-PARTY
TRANSACTIONS AND ON THE INDEPENDENCE OF THE EXTERNAL AUDITOR**

2019

(This is a free translation of the original Spanish document. In the event of any discrepancy between this translation and the original Spanish document, the original Spanish version shall prevail.)

A. INTRODUCTION

The Viscofan S.A. (hereinafter "Viscofan" or "The Company") Audit Committee (hereinafter "Committee") was created by agreement of the Board of Directors as a specialist body with the authority to provide information and advice and put forward proposals, facilitating performance of the general function of oversight and control that corresponds to the Board of Directors. The existence of a committee specialising in the area is currently required by Article 529 (15) of the Spanish Capital Companies Act and Article 33 of the company by-laws, and recommended by supervisory bodies and best corporate governance practices. In addition to the provisions in the company by-laws and current legislation, it is regulated by Article 15 of the Board of Directors Regulations and by the Audit Committee Regulations (available on the company's website www.viscofan.com)¹, the latter being approved on 28 February 2019.

The Audit Committee is drawing up this report on activities for approval by the Board of Directors and submission to the Annual General Meeting. The report also includes the report on related-party transactions and on the independence of the external auditor, which will be published on the website sufficiently in advance of the Annual General Meeting, under the terms set out in legislation and internal regulations.

B. ANNUAL REPORT ON ACTIVITIES.

1. COMMITTEE FUNCTIONS AND SCOPE

Chapter II of the Committee Regulations (Articles 5 to 11) contains the committee's functions and scope². In relation to its functions, it is worth noting that the Board of Directors agreed to amend the Board of Directors Regulations and the Audit Committee Regulations, in addition to the Appointments and Remuneration Committee Regulations, on 19 September 2019, in order to assign the Appointments and Remuneration Committee functions previously assigned to the Audit Committee in relation to oversight of compliance with corporate governance and sustainability rules and policies, as reported to the market through relevant information that the company sent to the Spanish National Securities Market Commission (CNMV) on the same date. Nonetheless, as set out in the company's internal regulations and in relation to sustainability and governance, the Audit Committee retains the functions relating to the oversight of (i) non-financial risk management, (ii) the Ethics and Compliance Committee, code of conduct and whistle-blowing channel, (iii) related-party transactions, and (iv) the creation or acquisition of shares in special-purpose entities or those domiciled in tax havens, under the terms set out in current legislation.

¹ On 28 February 2019, the Viscofan Board of Directors endorsed the approval by the Audit Committee of one of its regulations. This regulation completes the provisions of the Board of Directors Regulations regarding its organisation and operation. Consequently, the criterion of the Spanish National Securities Market Commission's Technical Guide 3/2017 of 27 June on Audit Committees, has been embraced in relation to the suitability of this committee having its own regulation.

2. COMPOSITION OF THE COMMITTEE AND ATTENDANCE AT ITS MEETINGS IN 2019

At year end 2019 and at the time the report is approved, the Board of Directors has established the number of members of the Audit Committee as five (5), and these are the following:

Name	Position	Type
Ignacio Marco-Gardoqui Ibáñez	Chairman	External independent
José María Aldecoa Sagastasoloa	Member	External independent
Laura Gonzalez Molero	Member	External independent
Santiago Domecq Bohórquez	Member	External member representing a controlling shareholder
Agatha Echevarría Canales	Member	Other external
Jose Antonio Cortajarena ³	Secretary	Non-director secretary

Notwithstanding the functions that are legally the responsibility of the Committee Secretary in relation to providing advice and support to the directors in exercising and better performing their duties, the committee regularly seeks the collaboration of the members of the Board of Directors under the terms set out in Article 31 of the Audit Committee Regulations. Likewise, for the best performance of its functions, the Committee may seek the advice of external professionals. This power has been used under the terms set forth in this Report.

All committee members have the status of External Directors appointed as board members in relation to their experience, training and professionalism, and any classified as "Independent", which are most of the committee, fulfil the independence requirements set out in legislation.

Information regarding the members of the committee can be found on the company's website, <http://www.viscofan.com/corporate-responsibility/corporate-governance/board-of-directors/board-committees>).

³ Effective as of 1 September 2019, José Antonio Cortajarena Manchado has replaced Juan María Zuza Lanz as Secretary of the Board of Directors and its respective committees, including the Audit Committee.

3.- OPERATION

The committee has performed its duties with full operational independence, under the direction of its Chairman, who has, in conjunction with the secretary, called meetings, set the order of the day, directed debates and required the attendance of any directors, employees, members of the company's management or third parties as necessary for it to better perform its functions.

The Audit Committee met eleven times in 2019, with the aim of following up on the issues summarised in the following sections. All the members of the committee participated on ten occasions, and one member did not attend on one occasion, but delegated their vote to the Chairman, with instructions, in relation to the items to be addressed on the order of the day.

In addition, several members of the management team, such as the Head of Internal Audit, the Chief Financial Officer and members of the Ethics and Compliance Committee took part in the different meetings, along with any other members of senior management, directors or employees whose presence was deemed necessary by the Audit Committee, so that they could present aspects relating to their areas, limiting their presence to their respective presentations.

The external auditor, PwC, S.L., was also required to be present at three of the meetings for monitoring the different phases of the process up to the definitive close of the same.

The Committee members have had, in due time and form, the documentation and presentations necessary for them to form an opinion.

Pursuant to Section 1, Article 27 of the current Audit Committee Regulations, the Chairman of the Committee reported to the Board of Directors after every committee meeting, and minutes were drawn up for each meeting and approved by the committee members and signed by the secretary with the approval of the Chairman. These minutes were made available to all directors once they were approved.

4. ACTIVITIES

In the performance of its activity, the Audit Committee has fulfilled all duties assigned to it.

Account auditing

The Audit Committee has formed an appropriate relationship with the external auditor, PwC, S.L., and reported to it on the performance of its activity in order to reasonably ensure an unqualified opinion in the audit report for the accounts drawn up by the Board of Directors.

In particular, three meetings were held with the external auditor in order to report the schedule of actions, the most relevant aspects detected during the preliminary phase of the pre-closure review, performed on 31 October as usual, and the final annual closure for 2019, which allowed PwC, S.L. and the committee to identify and anticipate external audit work, as well as issues that, due to their uniqueness or accounting impact, required a special mention or record in the company's annual accounts.

Thus, in relation to the performance of account auditing work and the role played by the Audit Committee in this process:

- ✓ It has supervised compliance with the audit contract, gathering information on the audit plan and ensuring that the opinion of the annual financial statements and the content of the audit report are drafted in a clear and precise manner.
- ✓ It has ensured that internal procedures are in place to ensure that situations do not arise that could give rise to conflicts with the independence and objectivity required from the external auditor, including ensuring that their remuneration does not compromise their quality or independence, and that the policy on the provision of non-audit services is complied with, that the external auditor had access to all the information needed to conduct its work and that it received the greatest possible collaboration from each of the Group's subsidiaries.
- ✓ It has been informed of the result of the work performed during the preliminary phase, which involved reviewing pre-closure, and closure, in order to identify and plan the tasks that, given their uniqueness or impact on accounting, require special attention from the external auditor, such as:
 - The acquisition of 100% of Nitta Casings Inc. shares in the United States on 19 December 2019 and 100% of Nitta Casings (Canada) Inc. in Canada for a business value of 13.5 million US dollars, equivalent to 9.0x of the annual estimated EBITDA and including an additional payment of 1.5 million US dollars to be paid in 2021 if the EBITDA reaches 1.8 million US dollars in 2020 (8.3x EBITDA). Viscofan has paid 2.8 million US dollars in cash and has assumed debt and pensions amounting to 10.7 million US dollars.
 - Monitoring of Nanopack business plan.
 - Implementation of IFRS 16.
 - 3-year share-based plan.

The committee has verified the statements made by the external auditor regarding its independence in relation to the entity or entities related to it, receiving their statement of independence and issuing the corresponding report on the independence of the accounts auditor that is contained in Section D of this document.

Lastly, after the process of assessing PwC's performance was completed, it was agreed to propose them as accounts auditor for the financial year ending 31 December 2020 and this proposal will be submitted to the company's governing bodies for approval.

Internal Audit

Internal Audit reports functionally to the Audit Committee and, as a result of that relationship, the Audit Committee has analysed and approved the 2019 work plan drawn up by the area, has regularly monitored execution of the same and has received direct reports on any incidents in its implementation.

During 2019, Internal Audit has carried out audits on both the Group's global processes and on certain processes run by some of its subsidiaries, such as financial closure, procurement management, warehouse management, sales management, HR management, representation office expenses, etc., and completed the established annual plan.

In addition, the "Continual Audit" project has been started, involving the automation of detective controls (alerts) in the SAP management system environment for different Group processes.

Along these same lines and in accordance with the context of monitoring the effectiveness of Internal Audit, the Audit Committee was informed of the reports issued by the Group's Internal Audit upon completion of its activities, and of the follow-up to the recommendations included in these reports, and it has concluded that none of them reveal situations that indicate significant control weaknesses.

Financial and non-financial information

Prior to their presentation to the Board and communication to the CNMV and securities markets, the Audit Committee has reviewed and analysed the financial statements of Viscofan S.A. and its Group, contained in the annual, half-yearly and quarterly reports, to confirm that this information is reliable, understandable and relevant and that accounting criteria consistent with the previous annual closure have been followed, for which it has had the necessary support from the Group's senior management, especially from the area in charge of Consolidation and Financial functions, as well as from the Group's internal and external auditors.

It has monitored the corporate performance of the Group, which is in full growth while constantly aiming for simplification and efficiency. There has been corporate restructuring in this regard as below:

- Effective from 1 January 2019, Gamex C.B. s.r.o. was taken over by Viscofan CZ, s.r.o. in the Czech Republic.
- In August 2019, Transform Pack Inc. was liquidated in Canada.
- In July 2019, Viscofan (Thailand) Co. Ltd. was formed in Thailand.
- In December 2019, 100% of shares in the companies Nitta Casings Inc. in the United States and Nitta Casings (Canada) Inc. in Canada were acquired. After the acquisition, the companies were renamed Viscofan Collagen USA Inc and Viscofan Collagen Canada Inc, respectively.

The committee has supervised the correct application of the accounting principles and practices and the measurement criteria used in the process of drawing up and presenting the mandatory financial information and has also reviewed the appropriate delimitation of the scope of consolidation. In addition, the Committee has monitored the development of the main figures of the Group's balance sheet and income statement and has obtained the additional information it considered appropriate prior to its presentation to the Board of Directors.

Consequently, following the work of the external auditor, the Audit Committee proposed, on 27 February 2020, that the Viscofan Board of Directors draw up the Group's individual and consolidated annual accounts under the same terms as they are submitted to the Annual General Meeting for voting, accompanied by the corresponding report issued by the accounts auditor, PwC, S.L., containing its favourable and unqualified opinion.

The Audit Committee has supervised the process of drawing up the non-financial information, which forms part of the Management Report, and verification of the same by Deloitte, S.L with an unqualified opinion.

Risk management and internal control systems

The Audit Committee has reviewed the internal control systems set up by the Group, the results of the internal audit activity and the systems for risk management, including tax risk.

In specific terms and as regards risk management and internal control systems, the Audit Committee has supervised:

- ✓ the various quarterly reports on internal control of financial information prepared internally by both Internal Audit and Corporate Finance.
- ✓ the Group's risk map, receiving information on the activity performed by the Global Risk Committee.
- ✓ the control activities carried out by the Investment Committee and the Credit Risk Committee.
- ✓ the monitoring of the tax principles and best practices contained in the Group's tax strategy prior to consideration of the same by the Board of Directors.
- ✓ Cybersecurity Risks and Monitoring of the Security Plan 2018–2020.

The Audit Committee has asked the external auditor to review the Internal Control over Financial Reporting (ICFR)

Ethics and Compliance Committee.

The committee has supervised the activity performed by the Ethics and Compliance Committee, which involves the management, monitoring and, where applicable, proposed updating of the Group's Compliance system and, particularly, of communications received via the Whistle-blowing Channel. As part of this, the Compliance model has been improved on an organisational level, the Ethics and Compliance Manual has been updated, and additional oversight and control measures have been implemented.

During 2019, the Ethics and Compliance Committee met on seven occasions and completed investigations of three matters raised.

Other functions

In relation to other functions, it is worth noting:

- In relation to Directive 2014/95/EU and legislation for implementation of the same in Spain, and Spanish Law 11/2018 on non-financial reporting, the Audit Committee has monitored the process of reporting non-financial information, the content of which forms part of the Management Report submitted for approval at the Annual General Meeting.
- The monitoring of the tax principles and best practices contained in the Group's tax strategy prior to consideration of the same by the Board of Directors.
- When related-party transactions have been submitted to the Board of Directors, the mandatory report, required by current legislation and the company's internal regulations, has been issued and is explained in detail below.

Assessment

Led by the Appointments and Remuneration Committee as part of the assessment of the Board of Directors and the committees, the quality and operations of the Audit Committee have been assessed, concluding that they have complied with the provisions of the law and internal regulations with regard to their organisation, operations and activities covered, without prejudice to the process of continuous improvement of their activity continuing.

C. REPORT ON RELATED-PARTY TRANSACTIONS

The Audit Committee prepares this report on related-party transactions for publication on the Company's website, in accordance with the sixth recommendation of the Listed Companies Good Governance Report.

Pursuant to the Viscofan Group's Board of Directors Regulations and Audit Committee Regulations, one of the duties of the Audit Committee is to report to the Board of Directors, before adopting decisions, regarding transactions that the company performs in conjunction with directors, significant shareholders or shareholders represented on the Board, or with persons related to them ("related-party transactions"). The following are worth mentioning:

- Loan transaction with Banca March S.A. During 2019, Viscofan S.A. performed a transaction with Banca March, an entity that is related to Corporación Financiera Alba, S.A., a significant shareholder in Viscofan with 13.03% of the company's share at 31 December 2019. Specifically, the financial debt includes a loan of 10 million euros from Banca March S.A. that was favourably reported by the committee and approved by the Board of Directors on 24 October 2019, with any directors for whom it might entail a potential conflict of interest not attending the meeting, deliberation or voting. This loan replaces a loan of 5 million euros granted by that financial entity in 2018, which has been fully repaid as a consequence, amounting to 5,061 million euros including financing costs. The committee's report concurred that the offer made by the above financial entity was better than other offers on the market and was, as a whole, more advantageous for the company.
- Pursuant to established procedure, Viscofan S.A. has also underwritten exchange rate insurance policies with the financial entity related to Corporación Financiera Alba, S.A., worth 213 thousand euros at 31 December 2019 (24 thousand euros in 2018). The committee has verified that these transactions were likewise performed under market conditions.

D. REPORT ON THE INDEPENDENCE OF THE AUDITOR

The Audit Committee issues this report in compliance with its duty to express its opinion on the independence of the accounts auditor included in Article 15 of the Board of Directors Regulations and Article 26.3 of the Committee Regulations.

As the external auditors of Viscofan S.A., PwC, S.L. and its subsidiaries have audited the accounts for 2019, which is the third year that they have provided this service.

During 2019, the Audit Committee supervised and monitored the arrangement of non-audit services in all Group companies as specified in the pre-approval policy on external audit services. The monitoring report concludes that PwC, S.L.: 1) has not performed any non-audit services, 2) that PwC, S.L.'s invoicing to the company and to its related companies for both audit services and other audit-related services was as follows:

Thousands of euros	2019	2018
VISCOFAN S.A.	122	89
Audit services	118	85
Other audit-related services	4	4
AFFILIATED COMPANIES	502	507
Audit services	502	501
Other audit-related services	-	-
Other services (tax)	-	6
TOTAL	624	596
Audit services	620	586
Other audit-related services	4	4
Other services (tax)		6

The Audit Committee has received a declaration of independence from PwC, S.L. They declare that they have complied with the requirements to guarantee their independence as external auditors with regard to the commission and performance of the audit, the audit services and other audit-related services, as well as the existence of the procedures aimed at identifying and evaluating threats that may arise from circumstances related to audited entities and that may pose a significant threat to their independence.

Therefore, the Audit Committee considers that the requirements to guarantee the independence of the PwC, S.L. external auditors have been met and will inform the Board of Directors accordingly.

This report was unanimously approved by the Audit Committee at its meeting held on 27 February 2020.