

(Free translation from the original in Spanish, in the event of discrepancy, the Spanish-language version prevails).

REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE IN 2017

The Audit Committee prepares this report, which includes the reports on the functioning of the Audit Committee and on related-party transactions and on the independence of the auditor, which will be published on the website sufficiently in advance of the Ordinary General Shareholders' Meeting. The foregoing is in accordance with recommendation six included in the annual corporate governance report for listed companies.

Index

- I. Operating Report of the Audit Committee**
- II. Report on related-party transactions**
- III. Report of the Audit Committee on the independence of the External Auditor**

I. Operating Report of the Audit Committee

In accordance with the provisions of article 30 of the Bylaws, the Board of Directors of Viscofan S.A. has set up an Audit Committee to better perform its functions, such as the supervision of accounting and financial information, internal and external audit services and Corporate Governance.

Its regulation, in addition to that established in the Company's Bylaws and current legislation, is established in Article 13 of the Regulations of the Board of Directors (available on the Company's website www.viscofan.com).

1. Composition

At the end of 2017, the Audit Committee was made up of the following Directors:

Name	Committee position	
Mr. Ignacio Marco-Gardoqui	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

(Information on the members of the Committee is available on the Company's website at the following address www.viscofan.com/corporate-responsibility/Pages/board-of-directors.aspx).

2. Committee Activity

The Committee exercises full operating autonomy, under the direction of its Chairman, who is responsible for calling the meetings, deciding on the matters included on the agenda and requiring the attendance of those Directors, employees or members of the Company's senior management or third parties necessary in order to better perform its functions.

The Audit Committee met eight times in 2017, with the aim of following up on the issues summarised in the following sections.

Six of the meetings were attended by all the members of the Committee, and two of them were not attended by one of the members who delegated the Chairman with voting instructions on the items to be dealt with on the agenda.

In addition, the person in charge of Internal Audit, the Chief Financial Officer, the Compliance Committee, the Ethics Committee and those Directors and members of senior management whose presence has been requested by the Audit Committee to present aspects related to their areas in seven of the eight meetings have also taken part in the meetings, limiting their presence to their respective interventions.

In addition, the presence of the external auditor has been requested at four of the meetings held:

EY Spain has appeared before the Committee on two occasions in 2017, with the aim of reporting on the most significant aspects highlighted in the final annual closing of 2016, which corresponds to the tenth and final year of its services being contracted.

PwC, the new Auditors of the Company, as of 2017, has also appeared before the Committee on 2 occasions, with the purpose of reporting on the most relevant aspects detected during the preliminary phase of the pre-closure review, which is carried out as usual on 31 October and allows PwC 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, as stated in the Management Report that accompanies the Consolidated Report.

Performance Evaluation

As part of the Evaluation of the Board of Directors and the Committees arising from it, the Appointments and Remuneration Committee led the evaluation of the quality and functioning of the Audit Committee, with a highly satisfactory result.

Financial/accounting information

As in previous years, the Audit Committee has reviewed and analysed the financial statements of Viscofan S.A. and its Group prior to their presentation to the Board and communication to the CNMV and the securities markets, 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 closing have been followed. To this end, the Committee was assisted by Group Senior Management, particularly, in the Consolidation and Financial area, as well as by external and internal auditors.

In this respect, the Committee has supervised the correct application of the accounting principles and practices and the measurement bases used in the preparation and presentation of the mandatory financial information and it 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 that the Board of Directors of Viscofan prepare the Group's individual and consolidated financial statements in the same terms as those in which they are submitted to a vote at the General Shareholders' Meeting, and which are accompanied by the corresponding report issued by the statutory auditor, PwC, S.L. that contains its favourable and unqualified opinion.

Internal control systems

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

Likewise, with respect to internal control systems:

- ✓ It has supervised the various quarterly reports on internal control of financial information prepared internally by both Internal Audit and Corporate Finance.
The external auditor has also been asked for a brief review of the financial information internal control system implemented in the Group, considering that the description in section 5 of the IAGC on the internal control and risk management systems linked to financial information is correct and that no inconsistencies or incidents that may affect it have been revealed.
- ✓ It has supervised the Group's Risk Map and received information on the activity carried out by the Global Risk Committee, which manages the risks.
- ✓ It has supervised the activity carried out by the Ethics Committee and the communications received through the Complaints Channel, which after analysis were deemed not to meet the requirements to be considered complaints.
- ✓ It has supervised the preparation by the Compliance Committee of new policies within the Group's compliance system for submission to the Board of Directors. Thus, internal regulations on personal data protection, risk management and control, and access to systems by external parties, among others, have been reviewed and subsequently approved. In addition, the Audit Committee has continued to supervise the monitoring of the system within the Group and has promoted the implementation of additional measures to control and supervise the compliance system.

- ✓ It has supervised the control activities carried out by the Investment Committee and the Credit Risk Committee.

Relations with the external auditor

In view of the fact that the external audit is one of the essential elements of the chain of control mechanisms established to ensure the quality and integrity of the financial information, the Audit Committee has established the appropriate relations with the external auditor, PwC, S.L., who has promptly reported on the development of its activity to ensure that the accounts prepared by the Board are presented without reservations or qualifications in the audit report.

Thus, in relation to conducting the audit work and the role played by the Committee in this process:

- ✓ It has supervised compliance with the audit contract, gathered information on the audit plan and ensured that the opinion of the annual financial statements and the contents 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 that their remuneration does not compromise their quality or independence, and that the rules on the provision of non-audit services are respected. It has also ensured that the external auditor had access to all the information needed to conduct its work and that it received the greatest possible collaboration from all the Group's subsidiaries.
- ✓ It has been informed of the results of the work carried out during the preliminary phase, which consists of a review of the pre-closure carried out on 31 October. It has thus been possible to identify and plan the tasks that, given their uniqueness or accounting impact, require a special mention by the external auditor, as has been the case as follows:
 - i. The acquisition on 15 November 2017 of 100% of the shares of Supralon International AG and Supralon Verpackungs AG, including its subsidiaries (Supralon Produktions und Vertriebs GmbH and Supralon France SARL), through Naturin Viscofan GmbH. The total value of the transaction was EUR 12 MM, of which EUR 10.5 MM has been paid, leaving EUR 1.5 MM to be paid within 9 months. The Purchase Price Allocation has been carried out in accordance with the accounting regulations which require the valuation to be carried out by independent experts, KPMG. Asset revaluations have been identified in Germany and France for an amount of EUR 2.7 MM, and a single intangible asset, the customer portfolio, which has been valued at EUR 1.4 MM, has therefore generated a deferred tax liability (EUR 1.1 MM) and goodwill as the difference between the price paid and the value of the company of EUR 1.386 MM.
 - ii. Follow-up to the procedure for the enforcement of the Supreme Court judgement of 3 May 2017 against Mivisa Envases, S.A. (now Crown Foods España, S.A.) which

established an infringement of an IAN patent and for which Viscofan is liable for compensation under the IAN sales contract

- iii. The compensation received for the fire at a warehouse in 2016 in Naturin, coming from the fully comprehensive insurance policy.
- iv. The ICMS receivable balance in Brazil in excess of EUR 9MM, of which EUR 7MM are long-term and EUR 2.3MM short-term. The reduction during the first 10 months of the year was EUR 2.1 MM. The recovery plan put in place was thus materialised.
- v. The possible tax reform in the United States that would lead to a reduction in deferred tax obligations in the United States due to a change in the federal tax rate.
- vi. Corporate streamlining of the Vector Group and activation of carry forward of non-used tax losses for Vector Europe Packaging.

In addition, 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 the declaration of its independence and issuing the corresponding report on the independence of the statutory auditor that is attached to this document.

Internal Audit

With regard to the functions performed by the Group's Internal Audit Department, of which it reports directly to the Audit Committee, the Committee analysed and approved the 2017 work plan drawn up by this Department, regularly monitored its execution and was directly informed of any incidents in its development. During this year, the Internal Audit Department has carried out audits in 4 subsidiaries of various processes such as financial closure, procurement management, warehouse management, sales management, representation office expenses, human resources and the compliance system, as well as a cross-cutting audit of the budget process in the parent company.

In the context of monitoring the effectiveness of the Internal Audit Unit, it was informed of the reports issued by the Group's Internal Audit Department at the end of its activities and of the follow-up to the recommendations included in these reports, and concluded that none of them reveal situations of significant weakness.

Finally, the Committee has ensured that the Internal Audit Area has organisational independence and the capacity to perform its duties to the best of its ability.

Fiscal policy and strategy

In accordance with the Group's tax strategy, the Committee has supervised the monitoring of the principles and good practices included in the strategy, including the recommendations of the Code of Good Tax Practices, prior to their consideration by the Board of Directors.

Other functions

Likewise, throughout 2017 the Audit Committee has evaluated the Company's system of corporate governance and has reviewed the Annual Corporate Governance Report as a step prior to its approval by the Board of Directors, taking into account the recommendations of the CNMV.

In relation to Directive 2014/95/EU and its implementing legislation in Spain, on non-financial reporting, the Committee has monitored compliance with corporate social responsibility policy and coordinated the process of reporting non-financial and diversity information.

II. 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 Code of Good Governance of Listed Companies.

In accordance with the Regulations of the Board of Directors, one of the duties of the Audit Committee is to report to the Board of Directors, prior to the adoption of the corresponding decisions, on the transactions that the Company carries out with Directors, significant shareholders or shareholders represented on the Board, or with persons related to them ("related-party transactions"). This is one of the matters of which the Board is exclusively aware, in accordance with Article 5 of its Regulations, according to which the Board shall approve related-party transactions following a favourable report from the Audit Committee.

However, the Board's authorisation shall not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard agreements applied across the board to a large number of customers;
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.

Persons considered to be related-party are regulated in Article 26 of the Board Regulations, as well as the duty of loyalty (Article 22), the duty to avoid conflicts of interest (Article 24) and the duty to abstain (Article 25).

During 2017, Viscofan S.A. has carried out transactions with an entity related to Corporación Financiera Alba, S.A., which has been a significant shareholder of Viscofan since May 2014.

Specifically, this is a total amount of €1,300,494.73 corresponding to the repayment of €1,250,000, 25% of the €5 million loan granted to the Group's parent company in 2013, and the payment, among others, of interest of €50,494.73 to the financial institution, Banca March.

There have been no other transactions that, due to their characteristics or participants, could be classified as related.

III. Report of the Audit Committee on the independence of the External Auditor

The Audit Committee issues this report in compliance with its function of expressing its opinion on the independence of the statutory auditor, included in Article 13 of the Regulations of the Board of Directors.

PwC, S.L. as the external auditors of Viscofan, S.A. and its subsidiaries have audited the accounts for 2017. This was the first year that they have provided this service, after EY had provided these services for the period of ten years until 2016.

During 2017, the Audit Committee supervised and monitored the contracting of non-audit services from all the Group companies. This monitoring shows that PwC has not performed any non-audit services and that PwC, S.L.'s invoicing for the external audit services provided to the Company and its related companies has been as follows:

	2017
VISCOFAN SA	87,400
Audit services	83,900
Other audit-related services	3,500
AFFILIATED COMPANIES	480,732
Audit services	480,732
Other audit-related services	0
TOTAL	568,132
Audit services	564,632
Other services audit-related services	3,500

Non-audit service charges represent:

	Company	Group	Total
Non-audit	0	0	0
% of total	0%	0%	0%

Likewise, the Audit Committee has received a declaration of independence from the external auditors. They declare that they have complied with the requirements to guarantee their independence as external auditors with regard to the team in charge of the audit, the audit services and other services provided, 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 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 26 February 2018.