

VISCOFAN S.A. AUDIT COMMITTEE

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

2020

A. INTRODUCTION

Viscofan S.A.'s 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 of the Articles of Association and current legislation, it is regulated by article 15 of the Board of Directors Regulations and, in its enactment, by the Audit Committee Regulations (available on the Company's website (www.viscofan.com), the latter being updated on 17 December 2020.

The Audit Committee prepares this Activity Report (the "**Report**") to be approved by the Board of Directors and made available to the General Shareholders' Meeting, pursuant to article 26 of the Committee Regulations. The report also includes that of related-party transactions and that of the independence of the external auditor, which will be published on the website sufficiently in advance of the General Shareholders' Meeting, under the terms set out in the aforementioned 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 scope¹. In relation to its functions, it must be highlighted that on 17 December 2020, the Board of Directors agreed to amend the Audit Committee Regulations, mainly to adapt its functions to the reform of the Code of Good Corporate Governance of the Spanish National Securities Market Commission (CNMV) approved in June 2020, introducing new aspects of supervision in risk management and non-financial information.

Hence, the Committee will make (a) the proposal for the appointment, re-election or replacement of the auditors and it will supervise (b) the independence and effectiveness of the Internal Audit; (c) the process of preparation and supervision of mandatory financial and non-financial information, (d) the effectiveness of the internal control system of the Company and its Group and financial and non-financial risk management systems, and (e) the effectiveness and operation of the Ethics and Compliance Committee and of the whistleblower channel.

2. COMPOSITION OF THE COMMITTEE AND ATTENDANCE AT ITS MEETINGS IN 2020

¹ The Committee will have the powers set forth in chapter II and others that, where appropriate, are attributed by law, internal corporate governance regulations or the Board of Directors.

At year-end 2020 and at the time the Report is approved, the Board of Directors has established the number of members of the Audit Committee as six (6), and these are the following:

Name	Position	Type
Ms Laura Gonzalez Molero ²	Chairman	External independent
Mr Ignacio Marco-Gardoqui Ibáñez	Director	External independent
Mr José María Aldecoa Sagastasoloa	Director	External independent
Ms Carmen De Pablo Redondo ³	Director	External independent
Mr Santiago Domecq Bohórquez	Director	External Nominee
Ms Agatha Echevarría Canales	Director	Other external
Mr Jose Antonio Cortajarena	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 Management team under the terms set out in Article 31 of the Audit Committee Regulations. To better fulfil its functions, the Audit Committee may seek the advice of external professionals.

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 the legislation.

Information regarding the members of the committee can be found on the company's website,

<https://www.viscofan.com/corporate-governance/board-of-directors/board-committees>

In 2020, as a result of the pandemic and State of Alarm, the technical and digital means were provided to continue the Committee activities and sessions as normally as possible, hence, all the Committee procedures envisaged in the Annual Plan were held.

² On 24 April, as a result of the expiry of the four-year mandate of Mr Ignacio Marco-Gardoqui as the Chairman of the Committee, Ms Laura Gonzalez Molero was unanimously appointed as the new Chairwoman of the Audit Committee.

³ On 24 April, Viscofan's General Shareholders' Meeting approved the appointment of Ms Carmen de Pablo Redondo, as a new external independent director for a statutory period of four years.

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 and members of the Company's management or third parties as necessary for it to better perform its functions.

The Audit Committee met thirteen (13) times in 2020 to follow up on the issues summarised in the following sections. All the members of the Committee participated on twelve occasions, and one member did not attend on one occasion, but delegated their vote to the Chairman, with voting instructions, in relation to the items to be addressed on the order of the day established. As a result of the circumstances arising from the COVID-19 health crisis, three (3) face-to-face meetings and ten (10) virtual meetings through telematic means (video-conference) were held in the year, in which the legal and regulatory requirements were met for the necessary identification of the Committee members by the Secretary and the availability of the adequate technical means.

In addition, several members of the management team, such as the Head of Internal Audit, the Corporate Chief Financial Officer and members of the Ethics and Compliance Committee, the Head of Strategy, Organisation and Systems and the Investor Relations and Communication Director 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. Attendance at the meetings of directors that are not members of the Committee and executives directors was limited to the matters on the agenda in which their participation was required, subsequently abandoning the session.

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 has reported to the Board of Directors in each meeting of the Board of Directors held after the Committee meeting, and minutes were drawn up for each meeting, 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., who 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 (3) 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 and the final annual closure, which allowed PwC 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 guarantee that situations do not arise that could give rise to conflicts with the independence and objectivity required from the external auditor, including making sure that their remuneration does not compromise their quality or independence, and that the policy to pre-approve services to be provided by the external auditor 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, to identify and plan the tasks that, given their uniqueness or impact on accounting, require special attention from the external auditor, such as:
 - Merger with Nanopack
 - Three-year share-based plan.
 - Implementation European Single Electronic Format (ESEF).
 - COVID – 19.
 - Potential regulatory change regarding the taxation of dividends.

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.

The Audit Committee has been informed and has monitored the recommendations made by the external auditor arising from its review of the main accounting cycles of the Internal Control Over Financial Reporting System (ICFR).

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 2021 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 2020 work plan drawn up by the area, has regularly monitored its execution and has received direct reports on any incidents in its implementation.

During 2020, Internal Audit carried out audits on both the Group's global processes (financial, powers, culture and cohesion, tax and insurance) and remote audits on certain processes of various US and Asian subsidiaries, and it followed up the main risks and support for the extension of the risk model to subsidiaries, and completed the established annual plan.

In 2020, the first phase of the "Continual Audit" project was successfully completed, involving the automation of detective controls (alerts) in the SAP management system environment for different Group processes.

Along these same lines and to supervise the effectiveness of Internal Audit, the Audit Committee was informed of the reports issued by the Internal Audit Department upon completion of its activities, and of the follow-up to the recommendations and action plans included in these reports, and it has concluded that none of them reveal situations that indicate significant control weaknesses.

The Audit Committee, as in prior years, assessed the performance of the Internal Audit Director and of the Internal Audit Department itself, in accordance with the objectives set for 2020, and whose compliance therewith was highly satisfactory.

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 Group's corporate performance, but with an on-going quest for simplification and efficiency. There has been corporate restructuring in this regard as below:

- In July 2020, the Representative Office in Thailand was closed, and all business activity is now performed through the Viscofan Thailand subsidiary.
- In September 2020, a Representative Office was opened in India.
- Effective from 1 October 2020, the merger by absorption of Nanopack Technology & Packaging, S.L.U. was performed by Viscofan, S.A. in Spain.
- In November 2020, within the intragroup organisation process, the subsidiary Viscofan España S.L.U. was formed, which will benefit from business activity in Spain by means of an unbundling process, which will be subject to approval by the General Shareholders' Meeting in 2021.

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, on 25 February 2021, the Audit Committee favourably informed Viscofan's Board of Directors that it has authorised for issue the Group's individual and consolidated annual accounts, under the same terms as they will be submitted to the General Shareholders' Meeting for voting, accompanied by the corresponding report issued by the auditor, PwC, S.L., containing its favourable and unqualified opinion.

In relation to Directive 2014/95/EU and its implementing regulations in Spain, and Law 11/2018, amending the Code of Commerce, the Corporate Enterprises Act and the Audit Law in the area of non-financial information and diversity, the Audit Committee monitored the reporting of non-financial information, whose content forms part of the Management Report, which will be submitted for approval by the General Shareholders' Meeting and verified by Deloitte, S.L. without qualifications.

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.

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 Policy prior to its consideration by the Board of Directors.
- ✓ 2018–2020 Cybersecurity Master Plan risks.
- ✓ The update and approval, among others, of the Risk Control and Management Policy, the Internal Control Policy for Financial and Non-Financial Information, the Occupational Health and Safety Policy and the Tax Policy.

Likewise, it supervised the monitoring of the possible risks and impacts arising from COVID-19 and the measures implemented throughout the whole of the Viscofan Group.

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, the supervision of communications received via the Whistleblowing Channel. During this financial year actions included updating the Ethics and Compliance Manual and Internal Conduct Regulations regarding the Securities Market, as well as the preparation and approval of the Crime Prevention Policy. The training activity envisaged has also been undertaken with the collaboration and support of external consultants.

In 2020, the Ethics and Compliance Committee met on five occasions and received four complaints that did not lead to investigations due to the failure to specify events.

Training sessions

The training plan was divided into two sessions. One of “Cybersecurity risks associated with the 4.0 performance of the industrial surroundings” and another on “Sustainable Finance”.

Other functions

In relation to other functions, it is worth noting:

- The monitoring of the tax principles and best practices contained in the Group's Tax Policy prior to its consideration by the Board of Directors.
- The issuance of the mandatory report required by current legislation and the Company's internal regulations, when related-party transactions have been submitted to the Board of Directors, a matter which is explained in detail below in section C.

Assessment

Led by the Appointments, Remuneration and Sustainability 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 preventing the on-going improvement of their activity.

C. REPORT ON RELATED-PARTY TRANSACTIONS

The Audit Committee has prepared this report on related-party transactions for publication on the Company's website (www.viscofan.com), in accordance with recommendation six of the Good Governance Code of Listed Companies.

Pursuant to the 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:

- During 2020, Viscofan S.A. performed transactions with Banca March, S.A., a financial entity related to Corporación Financiera Alba, S.A., owner of 13.03% of the Company's share at 31 December 2020 and 2019. Specifically, the financial debt includes a loan of 10 million euros (maturing in 2024 and informed upon favourably by the Committee and approved by the Board of Directors on 24 October 2019), whose payments made in 2020 amounted to 61 thousand euros, which relate to finance costs accrued in 2020.
- Pursuant to the established procedure, Viscofan S.A. has also underwritten exchange rate insurance with Banca March S.A., a financial entity related to Corporación Financiera Alba, S.A., worth -35 thousand euros at 31 December 2020 (213 thousand euros in 2019).

The Committee verified that these transactions were performed on an arm's length basis and no additional services were received by companies related to this shareholder in 2020 or 2019.

C. 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 auditor included in Article 15 of the Board of Directors Regulations and Article 26.3 of the Committee Regulations.

PwC, S.L. as the external auditors of Viscofan S.A., PwC, S.L. and its subsidiaries have audited the accounts for 2020, and this is the fourth year that they have provided this service.

During 2020, the Audit Committee supervised and monitored the arrangement of non-audit services at 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	2020	2019
VISCOFAN S.A.	122	122
Audit services	118	118
Other audit-related services	4	4
AFFILIATED COMPANIES	518	502
Audit services	518	502
Other audit-related services	-	-
Other services (tax)	-	-
TOTAL	640	624
Audit services	636	620
Other audit-related services	4	4
Other services (tax)	-	-

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 23 February 2021.