

## **ANNUAL ACTIVITY REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF EBRO FOODS, S.A. FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **1. Duties and responsibilities**

The Audit and Compliance Committee was set up by virtue of a resolution adopted by the Board of Directors on 22 September 1998. As a delegated committee of the board it has the duties and responsibilities attributed to it by law, the Articles of Association and the Regulations of the Board of Directors of Ebro Foods, S.A. (the “Company”).

Following the amendments made by Act 31/2014 of 3 December, section 529 quaterdecies.4 of the Corporate Enterprises Act establishes that, *“without prejudice to any other duties assigned in the Articles of Association or, in accordance therewith, in the Regulations of the Board, the Audit Committee shall have at least the following duties:*

- a) Inform the general meeting of shareholders on any issues raised in connection with the matters falling within the competence of the committee, particularly the results of the audit, explaining how it has contributed to the integrity of the financial reporting and the role played by the committee in that process.*
- b) Oversee the effectiveness of the internal control of the company, internal audit and risk management systems and discuss with the auditors any material weaknesses of the internal control system detected during their audit work, without jeopardising their independence. For this purpose, if appropriate, recommendations or proposals may be submitted to the board of directors, indicating the time for follow-up.*
- c) Supervise the process of preparation and delivery of the mandatory financial reporting and submit recommendations or proposals to the board to protect its integrity.*
- d) Submit to the board proposals for the selection, appointment, re-appointment and replacement of the external auditor(s), taking responsibility for the selection process, pursuant to Articles 16.2, 3 and 5 and 17.5 of Regulation (EU) No 537/2014 of 16 April. It shall also propose the terms of contract and regularly obtain information from the auditors on the audit plan and its fulfilment, while preserving their independence in the performance of their duties.*
- e) Establish the appropriate relations with the external auditors to receive information on any issues that may threaten their independence, which shall be studied by the committee; any other issues related with the audit process and, where appropriate, the authorisation of non-audit services other than the prohibited non-audit services, pursuant to Articles 5.4 and 6.2(b) of Regulation (EU) No 537/2014 of 16 April, and Title I, Chapter IV, Section 3 of the Audit Act 22/2015 of 20 July, on independence, and any other communications contemplated in the audit laws and standards. In any case,*

*the committee should receive each year from the external auditors a declaration of their independence from the company or any companies directly or indirectly related to it, and detailed information for each company of any additional services of whatsoever nature provided and the corresponding fees received from those companies by the external auditors or the persons or entities related to them, according to the laws and standards regulating audit activities.*

- f) Issue annually, prior to issuance of the auditors' report, a report expressing the committee's opinion on whether the independence of the auditors or audit firms is jeopardised. This report shall contain at least a reasoned assessment of the presentation of each and all of any additional services contemplated in the preceding paragraph, individually or altogether, other than the legal audit and in relation to the provisions on independence or those regulating audit activity.*
- g) Inform the board in advance on all matters contemplated in the law, the articles of association and the regulations of the board and, in particular, on:*
  - 1. The financial information that the company is obliged to publish periodically.*
  - 2. The creation or acquisition of shares in base companies or special purpose vehicles or companies domiciled in countries or territories considered tax havens.*
  - 3. Related party transactions.*

*The Audit Committee will not perform the duties contemplated in this paragraph (g) if they are assigned in the articles of association to another committee and the members of that other committee are exclusively non-executive directors, at least two of them being independent directors, one of whom should be chairman.*

*The provisions of paragraphs 4.(d), (e) and (f) shall be without prejudice to the audit laws, regulations and standards.”*

Article 24.4 of the Regulations of the Board establishes the following: *“The Audit and Compliance Committee shall have the following powers, in addition to those assigned to it by law, regulations or the Articles of Association:*

- a) Supervise and promote internal control of the company and the risk management systems and submit recommendations to the Board for a decision on the risk management and control policy, including tax risks, specifying at least:*
  - The types of risk to which the company is exposed.*
  - The risk level that the company considers acceptable.*
  - The measures for mitigating the impact of identified risks, should they actually occur.*

- *The control and reporting systems used to control and manage those risks.*
- b) *Supervise and promote the policies, procedures and systems used for drawing up and controlling the company's financial information, checking the services performed in this regard by the Internal Audit Department, the Financial Department and the Management Committee and making sure they are correctly distributed throughout the Group.*
- c) *Receive the information sent regularly to the Stock Exchange Councils, issue prospectuses and any public financial information offered by the Company and, in general, all information prepared for distribution among shareholders, ensuring the existence of internal control systems that guarantee the transparency and truth of the information.*
- d) *Ensure that (i) the systems used for preparing the separate and consolidated Annual Accounts and Directors' Report submitted to the Board to be authorised for issue in accordance with current legislation give a true and fair view of the equity, financial position and results of the Company and make sure that any interim financial statements are drawn up according to the same accounting principles as the annual accounts, considering the possibility of asking the external auditors to make a limited audit if necessary; and (ii) the Board of Directors endeavours to submit the annual accounts to the General Meeting with an unqualified auditors' report.*
- e) *In this respect, it shall also see that the internal control systems are adequate and effective in respect of the accounting practices and principles used for drawing up the company's annual accounts, supervising the policies and procedures established to ensure due compliance with applicable legal provisions and internal regulations. The Committee shall, through its Chairman, obtain information and collaboration from both the Internal Audit Manager and the External Auditors to perform these duties.*
- f) *Establish regular contact with the External Auditors to receive information on any issues that may jeopardise their independence, and any other issues relating to the auditing of accounts, receiving information from and exchanging communications with the External Auditors in accordance with prevailing auditing standards and legislation.*
- g) *Be informed of the decisions adopted by the senior management according to recommendations made by the External Auditors in connection with the audit.*
- h) *Report to the Board prior to the adoption of any decisions on related party transactions submitted for its authorisation.*
- i) *Implement a confidential whistle-blowing channel accessible to all Group employees and a protocol for establishing priority, processing, investigating and solving any issues reported through that channel according to their importance and nature, paying special attention to those involving possible falsehood or misrepresentation in financial or accounting documents and possible fraud.*

- j) *Supervise compliance with the internal codes of conduct and rules of corporate governance. In particular, oversee the implementation of and compliance with the internal regulations and codes applicable to the risk management and control systems in general and the financial reporting process in particular.*
- k) *Submit to the Board, to be tabled at the General Meeting, proposals for the selection, appointment, re-appointment and replacement of the company's External Auditors and their terms of contract, the scope of their commission and the renewal or revocation of their engagement. The Committee shall ensure the independence of the External Auditors and the existence of a discussion procedure enabling the External Auditors, the Internal Audit Department and any other expert to inform the company of any significant weaknesses in its internal control detected while checking the annual accounts or any other processes in which they have worked. The Committee shall issue an annual report, prior to issuance of the auditor's report, expressing an opinion on the independence of the External Auditors and any supplementary services they may have provided. It shall also inform the Board on the proposal submitted to the Board by the Company Chairman regarding the appointment of the Internal Audit Manager, who shall report directly to the Chairman of the Board.*
- l) *Supervise and report to the Board on intragroup and related party transactions of the company or subsidiaries and settle any conflicts of interest that may arise between the company or the group and its directors, executives, significant shareholders and listed subsidiaries, if any.*

*The Audit and Compliance Committee shall also report to the General Meeting on any issues raised by shareholders concerning matters within its competence. ”*

## **2. Composition**

Following the amendment of the Corporate Enterprises Act by the Accounts Audit Act 22/2015 of 20 July (which entered into force, for these purposes, in June 2016), section 529 quaterdecies establishes that, “*all the members of the Audit Committee shall be non-executive directors appointed by the Board and at least the majority of them shall be independent directors, one of whom shall be appointed on the basis of their experience and expertise in accounting, auditing or both.*” Prior to that amendment, the Corporate Enterprises Act required at least two of the members of the Audit and Compliance Committee to be independent directors, so the new feature affecting the composition of the committee is the requirement that most of the members be independent directors.

In the company's internal regulations, the composition of the Audit and Compliance Committee is regulated in Article 28.2 of the Articles of Association and Article 24.1 of the Regulations of the Board.

Article 28.2 of the Articles of Association provides that: “*An Audit and Compliance Committee shall be set up within the Board, with no fewer than three nor more than five members appointed by the Board. All the members of this Committee shall be non-executive directors and at least two of them shall be independent directors, one of whom*

*will be appointed on the basis of his experience and expertise in accounting, auditing or both.*

*The Board shall appoint one of the independent directors on the Audit and Compliance Committee to chair that committee. The Committee Chairman shall be replaced every four years and will become eligible for re-election one year after his retirement as such. In the event of absence or temporary unavailability of the Chairman, he shall be substituted by a member of the Committee provisionally so nominated by the Board, or otherwise by the oldest Committee member.”*

Article 24.1 and 2 of the Regulations of the Board establishes the following:

*“An Audit and Compliance Committee shall be set up within the Board, with no fewer than three nor more than five directors. All the members of this Committee shall be non-executive directors and at least two of them shall be independent directors, one of whom will be appointed on the basis of his experience and expertise in accounting, auditing or both.*

*The Board shall appoint one of the independent directors on the Audit and Compliance Committee to chair that committee, subject to a report by the Nomination and Remuneration Committee. The Committee Chairman shall be replaced every four years and will become eligible for re-election one year after his retirement as such.”*

Therefore, although the articles of association and regulations have not yet been adapted to the new legal requirement regarding the composition of the Audit and Compliance Committee, said requirement is directly applicable.

The composition of the Audit and Compliance Committee during 2016 and up to the date of this report was as follows, with the variations indicated:

- José Ignacio Comenge Sánchez-Real - Chairman (Independent director)
- Fernando Castelló Clemente - Member (Independent director)
- Mercedes Costa García - Member (Independent director). Appointed director and member of this committee on 27 July 2016.
- Hispafoods Invest, S.L. (Blanca Hernández Rodríguez) - Member (Proprietary director). Stepped down as director and member of this committee on 21 December 2016.
- Grupo Tradifín, S.L. (Blanca Hernández Rodríguez) - Member (Proprietary director). Appointed director and member of this committee on 21 December 2016.
- Eugenio Ruiz-Gálvez Priego - Member (“Other non-executive” director). Stepped down as director and member of this committee as of 31 December 2016.

- Belén Barreiro Pérez-Pardo - Member (Independent director). Appointed director and member of this committee on 25 January 2017.

As stipulated in the Regulations of the Board, Luis Peña Pazos, non-member Secretary of the Board, is (non-member) Secretary of the Audit and Compliance Committee.

Therefore, since Mercedes Costa García joined the Audit and Compliance Committee, the majority of members of this committee have been independent directors, thus complying with current legislation.

### **3. Procedure**

Article 28.2 of the Articles of Association provides as follows: *“The Audit and Compliance Committee shall meet with the frequency stipulated in the Regulations of the Board and as and when called by its Chairman, whenever so decided by at least two of its members or at the request of the Board. Committee meetings shall be held at the registered office or wheresoever else may be decided by the Chairman and indicated in the notice of call, and shall be quorate when attended, in person or by proxy, by the majority of its members. Resolutions shall be carried with the votes in favour of the majority of members attending the meeting. In the event of a tie, the Chairman, or acting Chairman, shall have the casting vote. The Secretary of the Committee shall be appointed by the Board and shall issue minutes of the resolutions adopted, which shall be reported to the Board.*

*The Audit and Compliance Committee shall have the powers assigned to it by law, the Articles of Association and the Regulations of the Board. The Regulations of the Board may develop and complete the Committee’s powers and the rules for its organisation and procedure, in accordance with the relevant provisions of law and the Articles of Association.”*

Article 22 of the Regulations of the Board contains general provisions applicable to all the Committees of the Board, including the Audit and Compliance Committee.

### **4. Activities performed during 2016**

The Audit and Compliance Committee held seven meetings in 2016, all attended by the Committee Chairman.

The actions taken by the Audit and Compliance Committee during the year are summarised below:

- **Meeting on 24 February 2016:**
  - The external auditing of the separate and consolidated annual accounts 2015 was monitored, ensuring that the auditors’ reports were unqualified, even though some of the audit work had yet to be completed.
  - The consolidated annual accounts 2015 were checked, highlighting the principal changes in respect of 2014 and the reasons for those changes.

- The internal control over financial reporting (FRICS) was checked and the ratios and covenants analysed, without revealing any material incidents.
  - The committee checked and agreed to issue a favourable report to the Board on the H2 2015 financial report.
  - The report issued by the Internal Audit Department on a Group subsidiary, within the Internal Audit Plan 2016, was studied.
  - The operation and use of the whistle-blowing channel in 2015 was reviewed.
- **Meeting of 31 March 2016:**
- The Committee checked and resolved to pass a favourable report to the Board on the separate and consolidated annual accounts for the year ended 31 December 2015. The external auditors of the company and its group (EY) presented their draft report on the accounts, which was unqualified.
  - The draft report by the auditors on the FRICS (financial reporting internal control system) 2015 was reviewed; said report pointed to the absence of any material irregularities in the FRICS.
  - After due examination, a favourable report was issued on the independence of the auditors, to be submitted to the Board.
  - The information on related party transactions and potential conflicts of interest was checked, and the information on those aspects to be included in the Annual Corporate Governance Report 2015. The Committee resolved to submit a favourable report to the Board.
  - The information on risk control included in the Annual Corporate Governance Report 2015 was checked and the Committee resolved to submit a favourable report to the Board.
  - Monitoring commenced of the investments approved by the corporate bodies, focusing on seeing that the investments were made within the established financial parameters.
  - The Committee's Activity Report for 2015 was issued and approved for submission to the Board.
  - The Plan for 2016, presented by the Manager of the Internal Audit Department, was approved.
- **Meeting of 27 April 2016:**
- The committee checked and agreed to issue a favourable report to the Board on the Q1 2016 financial report.

- The committee studied and resolved to submit a favourable report to the board on the Corporate Social Responsibility Report 2015.
- **Meeting of 30 June 2016:**
  - The external auditors presented their recommendations regarding the internal control processes established in the Group. Although no deficiencies had been detected in the existing control measures, recommendations were made to avoid certain inefficiencies and strengthen the controls over internal control processes. The corresponding action plans were drawn up to implement those recommendations.
  - The Group's tax manager gave a presentation on the principal tax aspects of the Group, for monitoring and control by the Committee.
  - The Committee analysed the latest changes in legislation regarding the issuing of auditors' reports.
- **Meeting of 27 July 2016:**
  - The committee checked and agreed to issue a favourable report to the Board on the H1 2016 financial report.
  - The Committee analysed the work done by the Compliance Unit with regard to the Crime Prevention Model established within the Group.
  - The Committee analysed the proposed amendment to the Internal Code of Market Conduct following the entry into force, as of 3 July, of Regulation (EU) 596/2014 on market abuse. This proposal was presented to and given a favourable report by the Compliance Unit for submission to the Board.
- **Meeting of 26 October 2016:**
  - The committee checked and agreed to issue a favourable report to the Board on the Q3 2015 financial report.
  - The proposed fees of the external auditors (EY) for auditing of the 2016 accounts was analysed and a report submitted to the board.
  - The report prepared by the Internal Audit Department on one of the Group's subsidiaries, within the Internal Audit Plan 2016, was examined.
- **Meeting of 21 December 2016:**
  - The external audit work on the separate and consolidated annual accounts 2016 was monitored without detecting any material aspects requiring attention.
  - The internal control over financial reporting (FRICS) was checked and the ratios and covenants analysed, without revealing any material incidents.

- The Committee was informed by the external auditors of the principal new aspects regarding accounting and taxation and the new Audit Act.
- The proposal for the distribution of dividends against the 2016 accounts (payable in 2017) was assessed, resolving to submit a favourable report to the board, on the terms subsequently approved by the board and announced to the market on 22 December 2016.

The Audit and Compliance Committee informed the Board promptly on all issues discussed at its meetings during 2016.

#### **5. Whistle-blowing channel**

No reports were received during 2016 through the channel provided in the Code of Conduct.

#### **6. Internal Audit Plan for 2017**

At a meeting of the Audit and Compliance Committee held on 28 February 2017, the internal audit department submitted its Internal Audit Plan for 2017 for approval.

#### **7. Responsibility for the information contained in the Annual Activity Report of the Audit and Compliance Committee**

The Audit and Compliance Committee assumes responsibility for the contents of this Report, approved by the Committee on 29 March 2017. This report will be made available to the company's shareholders and investors within the General Meeting section on the corporate website [www.ebrofoods.es](http://www.ebrofoods.es) coinciding with publication of the notice of call to the forthcoming Annual General Meeting.

Issued in Madrid on 29 March 2017.

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José Ignacio Comenge Sánchez-Real  
Chairman

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Luis Peña Pazos  
Secretary

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