



**REPORT OF THE AUDIT AND  
COMPLIANCE COMMITTEE**

# ANNUAL ACTIVITY REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF EBRO FOODS, S.A. FOR THE YEAR

ENDED 31 DECEMBER 2014

## 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").

Under Article 28.2 of the Articles of Association, "The Audit and Compliance Committee shall have the following powers:

- ❖ *Report, through its Chairman, to the General Meeting on any issues raised by shareholders concerning matters within its competence.*
- ❖ *Propose to the Board, for submission to the General Meeting, the appointment of the external auditors and, where appropriate, their terms of contract, the scope of their commission and the renewal or revocation of their engagement.*
- ❖ *Supervise the effectiveness of internal control of the company, internal auditing and risk management systems, if any, and discuss with the external auditors any significant weaknesses in the internal control system detected in audits.*
- ❖ *Oversee the financial reporting process and internal control systems of the Company.*
- ❖ *Have contacts with the external auditors to receive information on any issues that may jeopardise their independence, for study by the Audit Committee, and any other issues relating to the auditing of accounts, and receive information from and exchange communications with the External Auditors in accordance with prevailing auditing standards and legislation.*
- ❖ *Issue an annual report, prior to the issuance of the auditors' report, expressing an opinion on the independence of the external auditors. This report shall necessarily refer to the provision of the additional services contemplated in the preceding paragraph.*
- ❖ *Ensure that all transactions between the Company and its subsidiaries or associated companies or between those companies and the directors and controlling shareholders are effected on arm's length terms, respecting the principle of equal treatment and controlling any conflicts of interest that may arise in intercompany transactions."*

The minimum powers established in the Articles of Association are developed in Article 13 of the Regulations of the Board:

**“13.3** The Audit and Compliance Committee shall have the following powers, in addition to those assigned to it in the Articles of Association or by law:

- a) *Supervise and promote internal control of the company and the risk management systems and submit recommendations to the Board regarding the risk management and control policy, specifying at least:
  - ❖ *The types of risk (operating, technological, financial, legal and reputational) 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 the systems used for preparing the separate and consolidated Annual Accounts and Directors’ Report submitted to the Board to be officially drawn up and 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.*

*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. Furthermore, whenever the Committee so requests its Chairman, its meetings may be attended by any member of the company management, who may speak but not vote.*

- e) *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.*
- f) *Be informed of the decisions adopted by the senior management according to recommendations made by the External Auditors in connection with the audit.*
- g) *Report to the Board prior to the adoption of any decisions on related party transactions submitted for its authorisation.*

- h) 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.*
- i) 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.*

**13.4.** *The Audit and Compliance Committee shall, through its Chairman, propose to the Board, for submission to the General Meeting, the appointment of the External Auditors of the Company 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. 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.*

**13.5.** *The Audit and Compliance Committee shall also 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.*

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

Since the reform of the Corporate Enterprises Act made by Act 31/2014 of 3 December, the Audit and Compliance Committee must also issue a prior report to the Board of Directors on the creation or acquisition of interests in special purpose vehicles or companies domiciled in countries or territories considered tax havens.

## **2. COMPOSITION**

The composition of the Audit and Compliance Committee is regulated in Article 28.2 of the company's Articles of Association and Article 13.1 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 directors appointed by the Board. All the members of this Committee shall be non-executive directors and at least one of them shall be an independent director, who shall be appointed on the basis of his experience and expertise in accounting, auditing or both.*

*The Board shall appoint the Chairman of the Audit and Compliance Committee from among its members. 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.”*

Since the reform of the Corporate Enterprises Act made by Act 31/2014 of 3 December, there must, by law, be at least two independent directors on the Audit and Compliance Committee. Since the Audit and Compliance Committee already met this condition, it has not been necessary to alter its composition to comply with this change in legislation, although an alteration of the Articles will be tabled at the forthcoming Annual General Meeting to include the new legal requirement on this point.

Article 13.1 of the Regulations of the Board establishes the following:

*“The Audit and Compliance Committee shall have no fewer than three nor more than five non-executive directors appointed by the Board in accordance with the Articles of Association.*

*The Board shall appoint one of the independent directors on the Committee to be Chairman, who shall be replaced every four years, becoming eligible for re-election one year after his retirement as such. This notwithstanding, the Chairman of the Board may attend and participate in the meetings of this Committee, although he may not vote.*

*In the event of absence or temporary unavailability of the chairman, he shall be provisionally substituted by a Committee member nominated by the Committee, or otherwise by the oldest Committee member.*

*The Secretary of the Board shall act as Secretary of this Committee, with voice but no vote, issuing minutes of the resolutions adopted.”*

At the beginning of 2014, the Audit and Compliance Committee had the following five members:

- ❖ Sol Daurella Comadrán - Chairman (independent director)
- ❖ Fernando Castelló Clemente - Member (independent director)
- ❖ José Ignacio Comenge Sánchez-Real - Member (independent director)
- ❖ Hispafoods Invest, S.L. (Blanca Hernández Rodríguez) - Member (proprietary director)
- ❖ Eugenio Ruiz-Gálvez Priego - Member (“Other non-executive” director)

The following changes were produced during 2014 in the composition of the Audit and Compliance Committee:

- ❖ On 26 November 2014, upon recommendation by the Nomination and Remuneration Committee, the Board unanimously resolved to appoint José Ignacio Comenge Sánchez-Real Chairman of the Audit and Compliance Committee, taking over from Sol Daurella Comadrán, whose 4-year term in office had expired.
- ❖ On 1 December 2014, Sol Daurella Comadrán resigned from the board (for professional reasons) and, consequently, also from the Audit and Compliance Committee.

To sum up, at 31 December 2014, the composition of the Audit and Compliance Committee was as below and there have been no further changes up to the date of issue of this Report:

- ❖ José Ignacio Comenge Sánchez-Real - Chairman (independent director)
- ❖ Fernando Castelló Clemente - Member (independent director)
- ❖ Hispafoods Invest, S.L. (Blanca Hernández Rodríguez) - Member (proprietary director)
- ❖ Eugenio Ruiz-Gálvez Priego - Member (“Other non-executive” director)

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.

### 3. PROCEDURE

Article 18.2 of the Articles of Association provides that: *“The Audit and Compliance Committee shall meet as and when called by its Chairman, whenever 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.”*

Article 13.2 of the Regulations of the Board establish that: *“The Audit and Compliance Committee shall meet as and when called by its Chairman, or at the request of two of its members and at least once every three months. It shall also meet whenever the Board requests the issuance of reports, submission of proposals or adoption of resolutions within the scope of its duties. Meetings shall be called by the Secretary of the Committee following instructions of the Chairman. Apart from the Committee members, any company executive may be called to meetings.*

*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.*

*At the following Board meeting, the Chairman of the Audit and Compliance Committee shall report on all resolutions, reports or proposals made by the Committee since the previous Board meeting. Directors shall have access to the minutes of Committee meetings, through the Secretary of the Board.”*

### 4. ACTIVITIES PERFORMED DURING 2014

The Audit and Compliance Committee held six meetings in 2014, all attended by the Committee Chairman, and it adopted written resolutions on one occasion.

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

#### **Meeting on 26 February 2014:**

- ❖ The external auditing of the separate and consolidated annual accounts 2013 was monitored.
- ❖ The committee checked and agreed to issue a favourable report to the Board on the H2 2013 financial report.
- ❖ It approved the Internal Audit Plan for 2014 presented by the Internal Audit Manager.

#### **Meeting on 26 March 2014:**

- ❖ The committee checked and agreed to issue a favourable report to the Board on the separate and consolidated annual accounts and directors' report 2013. During the review, the external audit of the company and its group (Deloitte at that time) submitted its draft unqualified auditors' report.

- ❖ The draft report by the auditors on the FRICS (financial reporting internal control system) 2013 was reviewed.
- ❖ After the corresponding review, a favourable report was issued on the independence of the auditors.
- ❖ Related party transactions and potential conflicts of interests in 2013 were reviewed and a favourable report was issued on those transactions and situations, and on their authorisation in 2014.
- ❖ The report submitted by the Internal Audit Manager on the company and group risk control system in 2013 was assessed and a favourable report was issued to the Board.
- ❖ The Committee's Activity Report for 2013 was issued, to be submitted to the Board.
- ❖ It was agreed to institute a process of consultations among the *big four* auditing firms with a view to submitting a proposal to the Board, to be laid before the general meeting, on the appointment of an external auditor for 2014 and, if appropriate, 2015 and 2016.

#### **Meeting on 28-29 April 2014:**

- ❖ The different bids submitted by the candidates for auditing services were assessed, with the presence and presentations by representatives of the *big four*.
- ❖ The committee checked and agreed to issue a favourable report to the Board on the Q1 2014 financial report.

#### **Written resolution adopted on 30 April 2014:**

- ❖ In view of the presentations given by the candidate firms at the meetings held on 28-29 April 2014, it was resolved to propose to the Board, for submission to the general meeting, the engagement of Ernst & Young, S.L. as Auditor of the company and its group for a term of three years, to audit the separate and consolidated annual accounts and directors' reports of Ebro Foods, S.A. for the years 2014, 2015 and 2016.

#### **Meeting on 30 July 2014:**

- ❖ The committee checked and agreed to issue a favourable report to the Board on the HQ1 2014 financial report.
- ❖ The Committee examined the report issued by the Internal Audit Department on one of the Group's subsidiaries, under the Internal Audit Plan 2014.
- ❖ The Committee analysed the latest changes in corporate governance and company law being adopted (or in the process of adoption) at that time in Spain and Europe.

#### **Meeting on 30 October 2014:**

- ❖ The committee checked and agreed to issue a favourable report to the Board on the Q3 2014 financial report.
- ❖ The Committee examined the report issued by the Internal Audit Department on one of the Group's subsidiaries, under the Internal Audit Plan 2014.
- ❖ The Committee examined the report issued by the Internal Audit Department on the Audit Bill.

#### **Meeting on 17 December 2014:**

- ❖ This was the first meeting held to monitor the external audit work in respect of the separate and consolidated annual accounts of 2014, and was attended by representatives of the external auditor.
- ❖ The Committee studied and decided to issue a favourable report to the Board on the proposal for dividends against 2014 profits (payable in 2015), on the terms that were subsequently approved by the Board and announced to the market on 18 December 2014.

- ❖ The Committee examined the report issued by the Internal Audit Department on one of the Group's subsidiaries, under the Internal Audit Plan 2014.
- ❖ The report issued by an external auditor on Personal Data Protection was studied.

The Audit and Compliance Committee informed the Board promptly on all issues discussed at its meetings during 2014.

## **5. WHISTLE-BLOWING CHANNEL**

No complaints or reports were received through the whistle-blowing channel during 2014.

The last of the enquiries opened in respect of a report submitted in September 2013 was concluded in March 2014. After due investigation, the reporting employee was notified of the conclusions pursuant to the procedure established and the enquiry was filed by the Commission Secretary.

## **6. INTERNAL AUDIT PLAN FOR 2015**

On 26 February 2015 the Audit and Compliance Committee unanimously approved the Internal Audit Plan for 2015, presented by the Department Manager.

## **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 24 March 2015. 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 24 March 2015.