

## **ANNUAL ACTIVITY REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF EBRO FOODS, S.A. FOR THE YEAR ENDED 31 DECEMBER 2015**

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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.*

*5. 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.*

*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.*

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.*

j) *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.*

*k) 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**

The composition of the Audit and Compliance Committee is regulated in Article 28.2 of the company's 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.”*

The composition of the Audit and Compliance Committee during 2015 was as follows, with no variation during the year (or after year-end up to the date 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 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 2015**

The Audit and Compliance Committee held ten meetings in 2015 all attended by the Committee Chairman.

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

- **Meeting on 25 February 2015:**
  - The external auditing of the separate and consolidated annual accounts 2014 was monitored.
  - The related party transactions and situations of potential conflict of interest corresponding to 2014 were checked, resolving to submit a favourable

report to the board on those transactions and situations, and on the authorisation for them to be made in 2015.

- The committee checked and agreed to issue a favourable report to the Board on the H2 2014 financial report.
- It approved the Internal Audit Plan for 2014 presented by the Internal Audit Manager.
- The operation and use of the whistle-blowing channel in 2014 was reviewed.

- **Meeting of 11 March 2015:**

- The Committee checked and resolved to pass a favourable report to the board on the review and modification of periodical public reporting on 2014, which had previously been checked and approved by the Board, following the resolution passed by the CNMV in the dairy inquiry, in view of which that review of the previously approved financial information was considered advisable on the terms reported to the market.

- **Meeting of 24 March 2015:**

- The separate and consolidated annual accounts for the year ended 31 December 2014 were checked, submitting a favourable report to the board. Within the review, the external auditors of the company and its group (EY) presented the draft audit report, unqualified.
- The draft report by the auditors on the FRICS (financial reporting internal control system) 2014 was reviewed.
- After the corresponding review, a favourable report was issued on the independence of the auditors.
- The information on related party transactions and situations of potential conflict of interest and the information on risk control included in the Annual Corporate Governance Report 2014 was checked, resolving to submit a favourable report to the board.
- The information on risk control included in the Annual Corporate Governance Report 2014 was checked, resolving to submit a favourable report to the board.
- The Committee's Activity Report for 2014 was issued, to be submitted to the Board.

- **Meeting of 29 April 2015:**

- The committee checked and agreed to issue a favourable report to the Board on the Q1 2015 financial report.

- The committee studied and resolved to submit a favourable report to the board on the modification of the Regulations of the Board
  - The committee studied the presentation given by the external auditors (EY) of the letter of recommendations regarding internal control processes. The internal audit department was required to present an analysis of the alternatives for heeding the recommendations made by the external auditors to optimise internal control.
  - The external auditors (EY) ran a training session on new aspects on accounting and auditing; in particular, they explained (i) the novelties introduced in the Corporate Enterprises Act by the reform of December 2014 and the new good governance recommendations affecting the Committee; and (ii) the parliamentary initiatives concerning auditing
  - The report prepared by the Internal Audit Department on a subsidiary of the Group, within the Internal Audit Plan 2015, was examined.
- **Meeting of 1 July 2015:**
- The alternatives submitted by the internal audit department in respect of the implementation of measures to optimise the internal control system were analysed.
  - The committee was informed of the review and update of the crime prevention model made following the reform of the Penal Code 2015.
- **Meeting of 29 July 2015:**
- The committee checked and agreed to issue a favourable report to the Board on the H1 2015 financial report.
  - The external auditors (EY) ran a training session on IFRS 15 (revenue recognition), with special emphasis on how it might affect the Group's accounting.
  - The report prepared by the Internal Audit Department on two subsidiaries of the Group, within the Internal Audit Plan 2015, was examined.
- **Meeting of 30 September 2015:**
- The report prepared by the Internal Audit Department on two subsidiaries of the Group, within the Internal Audit Plan 2015, was examined.
  - The proposed fees of the external auditors (EY) for auditing of the 2015 accounts was analysed and a report submitted to the board.
- **Meeting of 28 October 2015:**
- The committee checked and agreed to issue a favourable report to the Board on the Q3 2015 financial report.

- The committee was informed on the work being done in respect of the control and management of risks, including tax risks, and financial reporting internal control systems, particularly the measures taken to strengthen the control structure in accordance with the good governance recommendations.
  - The committee was informed on the review and update in progress of the crime prevention model
- **Meeting of 25 November 2015:**
- The general policies affecting the powers of the committee were checked and a favourable report was submitted to the board.
  - The amendment to the Internal Code of Market Conduct and the Code of Conduct proposed within the review of the crime prevention model were checked and a favourable report was submitted to the board.
- **Meeting of 22 December 2015:**
- This was the first meeting to monitor the external audit work on the separate and consolidated annual accounts 2015 and was attended by representatives of the external auditors.
  - The proposal for the distribution of dividends against the 2015 accounts (payable in 2016) was assessed and a favourable report was submitted to the board, on the terms subsequently approved by the board and announced to the market on 22 December 2015.
  - The report prepared by the Internal Audit Department on a subsidiary of the Group, within the Internal Audit Plan 2015, was examined.
  - The committee attended the presentation given by the head of the shareholder and investor relations department, within the committee's duty to supervise the general policies of the company.

The Audit and Compliance Committee informed the Board promptly on all issues discussed at its meetings during 2015.

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

Two reports were received during 2015 through the channel provided in the Code of Conduct.

These reports gave rise to the corresponding internal procedures to check the facts reported. The reporting parties were duly informed of the conclusion of the investigations, by the procedure established for this purpose, and it was then filed with the Committee Secretary.

No significant aspects emerged from that investigation requiring the adoption of remedial or disciplinary measures.

**6. Internal Audit Plan for 2016**

As in previous years, the internal audit department will submit its Internal Audit Plan for 2016 to the Audit and Compliance Committee 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 31 March 2016. 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 31 March 2016.

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José Ignacio Comenge Sánchez-Real  
Chairman

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Luis Peña Pazos  
Secretary