

CORPORATE GOVERNANCE

↑ Viscofan adds a strategic value to its good corporate governance to provide a high level of trust to make its business goals and structure compatible with the protection of the rights of all stakeholders.



MATERIAL ASPECTS

- *Regulatory compliance*
- *Prevention of corruption and fraud*
- *Identification, management and monitoring of the main risks that affect the company.*



Good governance practices

Good corporate governance is a key factor for generating value, improving economic efficiency, integration of businesses and bolstering the trust of its shareholders and other stakeholders, thanks to the appropriate division of functions, duties, and responsibilities, among all the Company's governing and administrative bodies.

In recent years, it has progressively reinforced its structure to ensure the incorporation of the principles and best practices of good corporate governance both nationally and internationally, adapting them to the circumstances of the Viscofan Group until reaching the best level of compliance.

The Viscofan Group's governance is ruled by the general ethical principles and guidelines established by the Group's Code of Conduct. In turn, the Viscofan Board of Director's commitment to good governance is manifested in its Corporate Social Responsibility (CSR) Policy, which was approved by the board to promote the development of a culture of best practices in sustainability and contribute to improving the welfare of people, promote the economic, environmental and social development of the communities in which the Viscofan Group is present, and create value on a sustainable basis through ethical behaviour for all its stakeholders:

This commitment to good governance was also formalised in 2019 with the

approval by the Board of Directors of the Sustainability Action Plan, establishing commitments and initiatives, within the framework of the sustainable value dimensions (economic, governance, human-social and environmental) and considering the Sustainable Development Goals of the United Nations Global Compact, of which Viscofan has been a signatory member since 2015.

In addition, during the 2019 financial year, the Regulations of the Board of Directors were modified in order to assign to the Appointments and Remuneration Committee functions relating to the supervision of corporate governance and corporate social responsibility, which up to that date had been assigned to the Audit Committee.

Following this modification, the Appointments and Remuneration Committee is now responsible for periodically evaluating the effectiveness of the Company's corporate governance system¹ to confirm that it is fulfilling its mission to promote the interests of the company and take account of the legitimate interests of other stakeholders. In addition, it should lead the review of CSR policy and ensure that it is geared towards the creation of sustainable value, and monitor CSR strategy and practices and evaluate the degree of compliance.

1. Without prejudice to the functions that the Audit Committee maintains in the process of preparation and integrity of non-financial information and its verification, control and supervision of non-financial risks and the Group's Code of Conduct and Whistle-blower Channel.

Governing Bodies

The governance structure of Viscofan is based on two main bodies: the General Shareholders’s Meeting and the Board of Directors.

Shareholders and the General Meeting

The General Shareholders’ Meeting is the supreme governing body of the Company in which shareholders decide by a majority vote on the affairs within the scope of their authority.

Viscofan has established the principle of “one share, one vote” which promotes equality among all of the Company’s shareholders. There is only one class of shares, giving the same rights and obligations to all of the Company’s shareholders. There are no restrictions to voting and no limit to the number of votes that can be cast by one single shareholder.

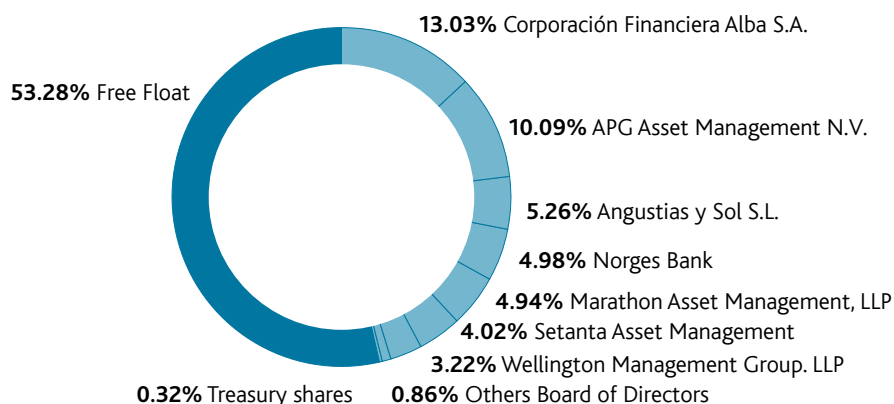
In recent years Viscofan has been pursuing a series of initiatives to promote transparency, communication and shareholder participation at the General Meeting, including information on the items on the agenda, an attendance premium of 0.01 euros per share, facilitating remote voting, an electronic forum and a questionnaire to answer the most common questions regarding the General Meeting.

As a result of these measures, at the General Meeting held on 12 April 2019, 82.47% of the company’s share capital participated, maintaining the high attendance percentage in the General Meetings of recent years, above the average for listed companies, which is especially significant taking into account the company’s high free-float.

General Shareholders’ Meeting participation

General Meeting	12/4/2019	25/5/2018	27/4/2017
% Attending in person	19.67%	18.22%	17.20%
% Proxy	38.30%	53.83%	21.53%
% Remote	24.50%	8.31%	40.39%
Total participation	82.47%	80.36%	79.12%

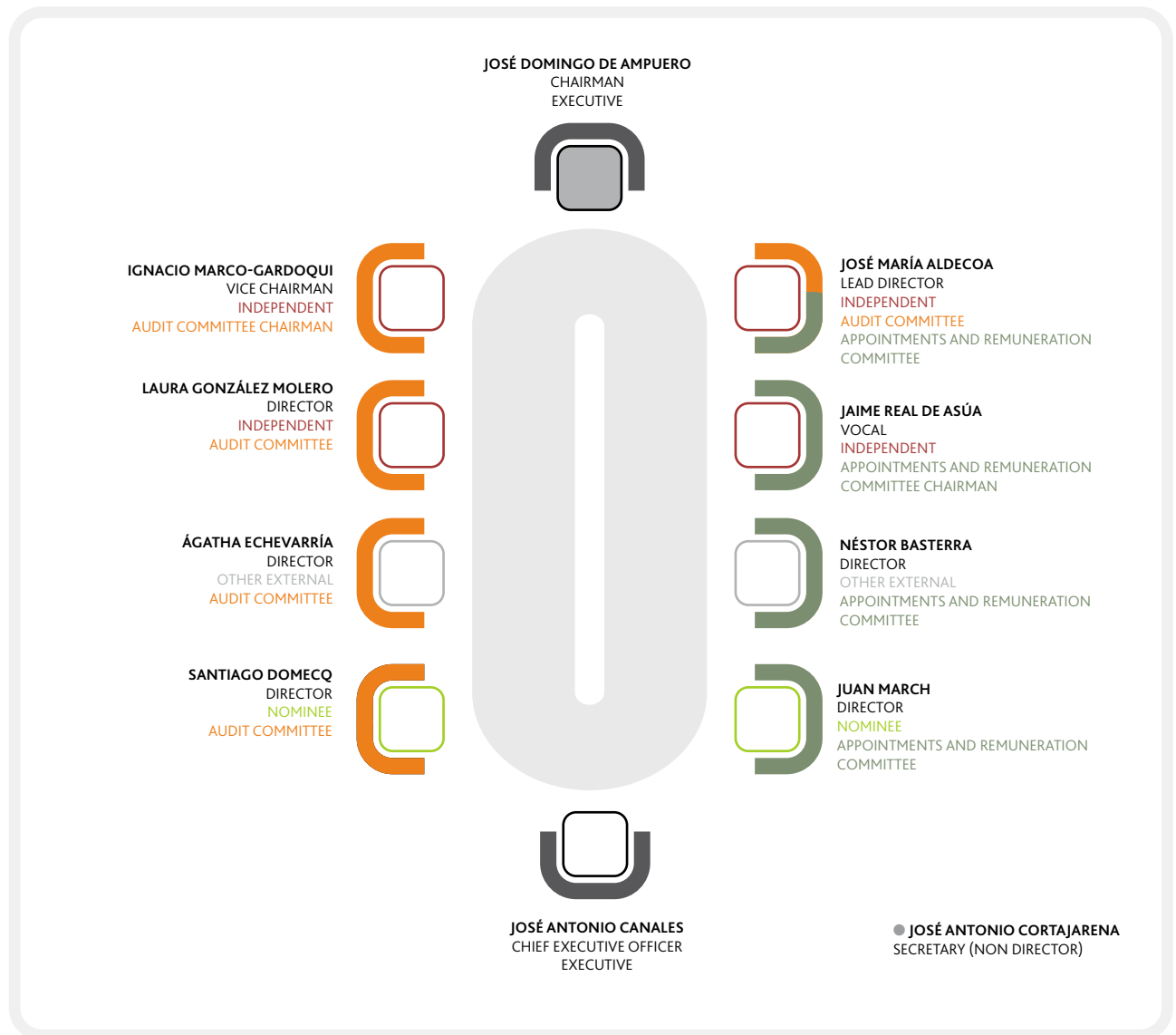
Significant holdings on 31.12.2019



Board of Directors

The Board of Directors is the body in charge of representing and managing the Company. Its core function is the general supervision of Viscofan S.A., and its companies comprising the Group, guided by the company interest.

Board Members



The Board of Directors consists of ten directors, of which two are executive, two are nominees, representing the shareholders Corporación Financiera Alba, S.A., and Angustias y Sol S.L., two are external and the other four are independent, thus complying with the most recent recommendations for good corporate governance in that the number of nominee and independent directors should constitute an ample majority on the Board of Directors. The Secretary to the Board of Directors is not a Director.

The Appointments and Remuneration Committee, following the evaluation process of the Board and the Committees for the 2018 financial year, proposed to the Board of Directors and the Board agreed that it would be appropriate to submit to the General Meeting of Shareholders in 2020 an increase in the number of directors from 10 to 11 in order to strengthen the Board of Directors and increase the number of both independent and female directors, which is the gender least represented on the Board of Directors, so that the percentage of women would reach 27.3% in 2020 compared to the current 20.0%.

The Policy on Selection of Directors establishes the principle of equality. Based on this, all candidates shall have the right to be considered for any vacancy produced in the Board, in accordance with objective criteria avoiding any implicit bias that may imply some discrimination, due to nationality, race, sex, ideology or any other aspect beyond their competencies, knowledge and professional experience.

Last April, the Board Members Mr José Domingo de Ampuero y Osma and Mr Juan March de la Lastra were renewed in their positions as Board Members with support of 90.72% and 87.74%, respectively.

On 30 July 2019, Mr José Antonio Cortajarena (previously Deputy Secretary of the Board of Directors) was appointed Secretary of the Board of Directors, replacing Mr Juan María Zuza. The succession became effective from 1 September 2019 and he also assumed the position of secretary of the committees.

Curriculum and Profiles of members of the Board of Directors

The curriculum and profiles of the members of the Board of Directors as at 31 December 2019 are detailed in section C.1.3 of the Annual Corporate Governance Report which forms part of this Management Report. They are also available on the Company's website www.viscofan.com in the section on Corporate Governance.





In 2019 the Board of Directors drew up and implemented a programme to update the knowledge of the directors, a programme that will be continued in 2020 and the following years.

Performance of functions

In order to perform their duties with the required rigor and efficiency, the Board of Directors of the Company prepares an annual schedule of meetings of the Board and the various committees, so that the directors can better plan their time and to encourage commitment to, and attendance of meetings. Directors receive the information they need well in advance, including, as appropriate, the minutes or reports of the different Board Committees.

The Board of Directors delegates to its Chairman and the General Manager the powers of representation, powers relating to the purchase or sale, powers relating to personnel, to charges, payments, contracts, auctions and transactions, to checking accounts, credit or savings, to bills of exchange and promissory notes, securities, guarantees, and supplementary powers to the previous.

Actions are still being carried out to guarantee the participation of the directors, facilitating their dedication and attendance to the meetings, to provide them with tools to give more in-depth knowledge of specific aspects of the activity and specific environments of the different production centres, thus improving the monitoring of the strategy of the Group and of each of its companies.

In this regard, in 2019 the Board of Directors drew up and implemented a programme to update the knowledge of the directors, a programme that will be continued in 2020 and the following years.

In addition, the annual plan includes visits to some of the Group's production centres and the participation of executives to enable stronger monitoring of the implementation of the Group's strategy and of the management of each of its companies.

The Board met on 12 occasions in 2019, and the Board Chairman attended all the meetings. All meetings were attended by all the directors in person, or by proxy with specific instructions. The percentage of meetings attended in person of the total votes during 2019 was 98.33% (in 2018, 95.83%).

Also, during the 2019 financial year, the Lead Director held two meetings with the other directors without the attendance or representation of any executive director.



Evaluation

The Board of Directors carries out an annual evaluation of the quality and efficiency of the operation, diversity and competencies of the Board itself and of the Committees - which is promoted by the Appointments and Remuneration Committee, and coordinated by the Lead Director in the case of the Executive Chairman.

Every three years, the Board of Directors is assisted by an external facilitator in the evaluation process. This facilitator's independence is verified by the nomination committee. In 2019, the Board of Directors commissioned the external consultancy firm Korn Ferry to provide the necessary support and assistance in the performance of the evaluation process of the Board and Committees. In order to carry out the evaluation exercise, a questionnaire was defined for each of the directors on various matters of structure and operation of the Board, under the lead of the Appointments and Remuneration Committee; a personal interview has also been held with each director; and the process concluded with a phase of conclusions and identification of plans for improvement.

Remuneration

A new remuneration policy for directors was approved at the 2018 General Meeting held on 25 May, which came into force on that date for 3 years and which is available on the company's website.

The remuneration of the Board of Directors in 2019 was 2,995 thousands of euros (3,349 thousand euros in 2018).

The Annual Remuneration Report for 2019 is available on the company's website in the Corporate Governance section.

The Annual Report on the Remuneration of Directors for 2018 was presented as a separate item on the agenda and for a consultative vote to the General Meeting of Shareholders held on 12 April 2019, and was approved by 98.22% of shareholders.

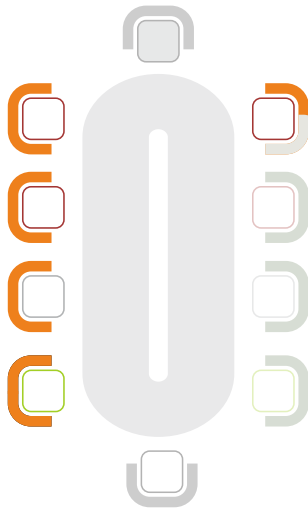
In addition, the Board of Directors of Viscofan, S.A., at a meeting held on 30 July 2019 at the proposal of the Appointments and Remuneration Committee, approved a Long Term Incentive Plan for the period 2019-2021 for the Company's executive directors, managers and other key personnel of the Viscofan Group. This plan establishes the delivery of a cash amount and shares in the Company based on the fulfilment of objectives of creation of value for shareholders (TSR) and sustainability which includes the improvement in the indicators of accident rate and reduction of waste in a landfill. The Plan will be submitted, with regard to the Company's executive directors, for approval by the next General Meeting of Shareholders.



Committees of the Board of Directors

The Board has created two committees in support of its functions: the Audit Committee and the Appointments and Remuneration Committee.

Audit Committee



The Audit Committee consists of five independent directors, all non-executive and a majority of independents, appointed by the Board of Directors pursuant to a report by the Appointments and Remunerations Committee, bearing in mind accounting, auditing and risk management knowledge, skills and experience. Since 21 April 2016, its Chairman has been the independent director Mr. Ignacio Marco-Gardoqui.

The composition, functions, organisational and operational rules, as well as the responsibilities conferred upon the Committee are regulated in the Bylaws, the Regulations of the Board of Directors and the Committee's own Regulations, which were updated on 19 September 2019 to confer upon the Appointments and Remuneration Committee the following functions relating to the supervision of corporate governance and corporate social responsibility, previously assigned to

the Audit Committee. Additionally, they are outlined in section C.2.1 of the Annual Corporate Governance Report of this Management Report.

Actions:

The Audit Committee met 11 times in 2019.

Throughout its relationship with its external auditor (PricewaterhouseCoopers, S.L.), it ensured that the financial statements were presented without reservations or qualifications, and with total independence. Whenever the Audit Committee considered it appropriate, it required the presence of members of the management team, the internal audit and external auditors.

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, for which it has had the necessary support from the group's senior management, especially from the areas in charge of the Consolidation and Financial functions, as well as from the Group's external and internal auditors.

Also, the Committee has dealt with issues such as the analysis of the acquisition of Nitta Casings Inc. (now

Viscofan Collagen USA Inc.) and Nitta Casings (Canada) Inc. (now Viscofan Collagen Canada Inc.) and the monitoring of the purchase price allocation carried out in accordance with the present legislation.

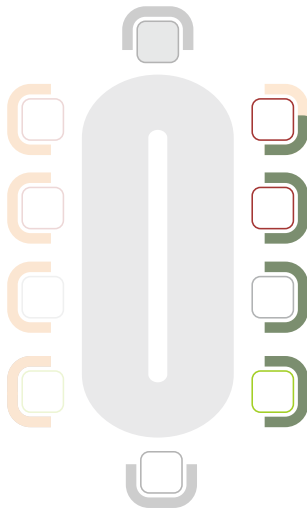
The Committee analysed and approved the work plan for 2019 drawn up by internal audit, has regularly monitored its implementation and has been directly informed of any incidents in its development.

In relation to Directive 2014/95/EU, its implementing regulations in Spain and Law 11/2018 on non-financial information and diversity, the Committee has monitored the reporting process of this statement of non-financial information.

To better fulfil its functions, the Audit Committee may seek the advice of external professionals.

The Audit Committee issues its own annual report on its activities, which is available to the public on the company's website, and has reported on all its activities to the Board of Directors, while also delivering all the minutes of its meetings to the directors, in addition to information related to the risk map and tax matters.

Appointments and Remuneration Committee



The Appointments and Remuneration Committee is made up of four non-executive directors appointed by the Board of Directors: two independent, one classified as other external and one proprietary. Its chairman has been the independent director Mr Jaime Real de Asúa since 21 April 2016.

The composition, functions, rules of organization and operation, as well as the responsibilities conferred upon the Committee are regulated in the Bylaws, in the Regulations of the Board of Directors, and in the Regulations of the Committee itself. Additionally, they are outlined in section C.2.1 of the Annual Corporate Governance Report of this Management Report.

Actions:

The Appointments and Remuneration Committee met on 8 occasions in 2019 and, whenever considered appropriate, the presence of senior management members was requested.

It reviewed the qualifications of the directors, has led the evaluation of the Board and its committees with regard to their actions in the 2019 financial year, and with the coordination of the Lead Director as far as the Executive Chairman is concerned. Korn Ferry has advised the Board and its Committees on the evaluation.

It also analysed the skills, knowledge and experience required on the Board, including updating the skills matrix, and received the advice from Russel Reynolds and it submitted proposals to the Board of Directors to increase the number of Board members.

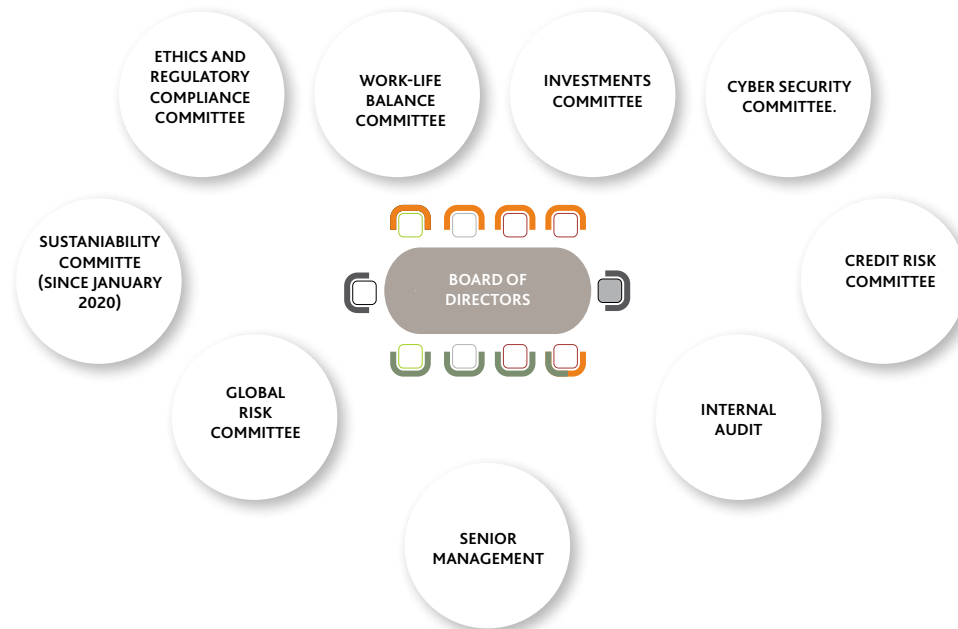
The Appointments and Remuneration Committee, in accordance with the Policy on the Selection of Directors and the diversity objectives, considered the suitability of identifying female candidates as the least represented gender and made proposals for the appointment and re-election of independent directors and issued the report on the proposal for the re-election of the nominee director at the next General Meeting of Shareholders. Lastly, it reviewed the succession plan of the Chairman, the Chief Executive and Senior Management and the talent management policy.

Likewise, the Committee fulfilled its role in relation to the preparation of the Annual Report on the remuneration of directors, as well as in setting and reviewing the objectives to which annual and multi-year variable remuneration is subject, and proposed the new long-term incentive plan that includes new requirements for three-year remuneration, both for directors and for senior management, which includes payment in cash and shares, as well as, in short, the salary policy for senior management.

The Committee assumed its new functions related to the supervision and monitoring of the sustainability of the Viscofan Group and has reviewed the Sustainability Action Plan proposed by the Management for approval by the Board of Directors.

Likewise, the Committee for work-life balance of employees of the Viscofan Group also reported to this Committee.

Top Management (31 December 2019)



JOSÉ ANTONIO CANALES
General Manager Director

CORPORATE MANAGEMENT DIVISION

JOSÉ ÁNGEL ARRARÁS

R&D and Quality Chief Officer

ANDRÉS DÍAZ

Chief Operations Officer

GABRIEL LARREA

Chief Commercial Officer

MARÍA CARMEN PEÑA

Chief Financial Officer

ÓSCAR PONZ

Chief Plastic Business Unit Officer

CORPORATE SERVICE DIVISION

ARMANDO ARES

Chief IR & Corporate Communications Officer

CÉSAR ARRAIZA

Chief Strategy, Organization and IT Officer

ALEJANDRO BERGAZ

Internal Audit Manager

JOSÉ ANTONIO CORTAJARENA

Chief Legal Officer & Secretary of the Board of Directors

IÑAKI RECALDE

Chief Technology & Diversification Officer

JUAN JOSÉ ROTA

Chief Human Resources Officer

RICARDO ROYO

Chief European Business Officer

REGIONAL UNIT MANAGEMENT

EDUARDO AGUIÑAGA

General Manager Mexico

LUIS BERTOLI

General Manager Brazil

JESÚS CALAVIA

General Manager Spain

BELÉN ALDAZ

Human Resources Manager Spain

GUILLERMO EGUIDAZU

General Manager USA

MILOSLAV KAMIS

General Manager Czech Republic

ÁNGEL MAESTRO

General Manager Uruguay

IÑIGO MARTINEZ

General Manager Serbia

JUAN NEGRI

General Manager Asia Pacific

WILFRIED SCHOBEL

General Manager Germany

The remuneration of senior management in the 2019 financial year was 4,587 thousand euros, and 4,679 thousand in 2018.

Regulatory compliance system

Code of Conduct

The Code of Conduct contains the ethical principles and guidelines for conduct to be followed by the administrators, directors and employees of the Viscofan Group, as well as any person who works for the Viscofan Group, in the performance of their professional activity.

The general ethical principles included in such Code can be summarised in: Respect and Defence of Human Rights; Sustainability; Integrity, Responsibility and Transparency; Respect and Non-Discrimination; Efficiency; and Loyalty.

The functions of the Board of Directors are to ensure the correct application of this Code of Conduct, and to that end, it has the collaboration of the Ethics and Regulatory Compliance Committee, who supervise and monitor compliance with the Code of Conduct.

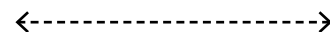
Internal Regulations in the scope of good governance policy

The internal regulations are principally made up of:

- **Articles of Association:** These are the basic rules governing the Company and all its bodies. The articles set out the main features and operating principles of the General Shareholders' Meeting, the Board of Directors and its committees.
- **Regulations of the General Meeting of Shareholders:** This text lays down the regulations governing the Shareholders General Meeting to ensure transparency and safeguard shareholders' rights, and their access to Company information. The rules stipulate the formalities of calling, attending, holding and minutes and of access to prior and General Meeting information by shareholders.
- **Regulations of the Board of Directors:** These set down the principles of action of the Board of Directors, including an appraisal mechanism, and its organisational and operating rules, the standards of conduct of Directors (including the duty to avoid conflict of interest), their duties and the overarching principles that should guide their decisions. They also govern Committees existing within the Board of Directors, their organisational and operational rules, and their remit and powers.
- **Regulation of the Audit Committee and Regulation Appointments and Remuneration Committee:** They establish the scope and functions of the Committee, its composition and operation, the Committee's relations with governing bodies and other entities, and the possibility of seeking advice.
- **Internal Code of Conduct on Matters Relating to the Securities Market:** Rules of conduct to ensure that the institutional and personal acts of the Directors and employees of the Viscofan Group strictly comply with current laws and regulations on transparency in the markets and to protect investors' interests.



The internal rules governing the aforementioned bodies, supplemented by the applicable rules to ensure good corporate governance in the Viscofan Group, are available on the Company's website (www.viscofan.com), as well as in compulsory publications and registration, on the website of the CNMV (www.cnmv.es) and the Mercantile Registry of Navarre www.rmbmnavarra.com, respectively.



Likewise, within the regulatory compliance system, the Viscofan Group has approved action policies in the following areas:



GOOD GOVERNANCE

Anti-corruption policy: This policy is intended to minimise the risk of employees and third parties committing any type of corruption, and to reinforce the Group's position in the event of any breach to avoid actions involving bribery, extortion and other forms of corruption.

Control and Management of Risks Policy: The purpose of this policy is to set the basic principles and the general action framework to control and manage risks of all nature faced by the Viscofan Group in order to identify, measure, prevent and mitigate their impact in its activity, in case of any occurrence.

Corporate Social Responsibility Policy (Sustainability): It acknowledges the commitment of the Viscofan Group to developing its activities responsibly, maximising the creation of sustainable and shared value for its stakeholders (shareholders, employees, the market and the society as a whole), identifying, preventing and correcting the possible negative impacts of its actions.

Human Rights Policy: With this policy the Group assumes the commitment to support and respect the protection of fundamental human rights, and specifically labour rights, the environment and corruption.

Communication policy with shareholders, institutional investors and its representatives or advisors: Aimed at ensuring the continuous flow of communication and providing certainty to shareholders about the transparency of information and access to it, and paying special attention to their views on corporate governance rules and practices, among others.

Board Remuneration Policy: Includes the characteristics of the remuneration system of the directors who perform executive functions, including the objectives and metrics of the variable remuneration, expost adjustments (clawback clauses), the table with all the remuneration components and the summary of the main contractual conditions of the executive directors, as well as the characteristics of the remuneration system of the directors in their condition as such. Also determines the maximum amount of the annual remuneration to be paid to all directors.

Director's selection policy: It has the objective of providing the Board of Directors with candidates that can offer the competencies, knowledge and experience required for the Board at all times, taking account of the vacancies to be covered and the structure and composition of the Board.

Policy to encourage shareholders to take part in the General Meeting of Shareholders: attendance fee. All shareholders may exercise their attendance and participation rights in accordance with objective non-discrimination criteria.



COMMERCIAL

Commercial Practices Manual: The document specifies the guidelines and standards that have to be taken into account throughout the performance of commercial activity within the Viscofan Group. Its aim is to ensure the security of such activity and reduce its risks, by guiding and setting the conduct guidelines that are admitted by the organisation.

Policy of Business Courtesies: The purpose of the policy of business courtesies of the Viscofan Group is to establish an objective criterion that sets the difference between business courtesies and the eventual granting of advantages with another purpose.

Policy to outsource commercial services: distributors, agents and other: The policy to outsource commercial services is developed in order to incorporate new control guarantees in business management.



FINANCIAL AND TAX RESOURCES

Policy on Internal Control of the Financial Information: Oriented towards ensuring that the internal control systems of the Viscofan Group are able to give reasonable assurance on the financial information that is prepared, showing an accurate, true, correct, complete and homogeneous picture of the economic situation, complying with the applicable legal obligations of Viscofan S.A. and of each of the companies comprising the Group.

Tax Strategy: It embodies the principles and basic lines that will govern the tax strategy of the Viscofan Group in accordance with the applicable legislation and with best tax practices, avoiding risks and inefficiencies and ensuring adequate coordination of tax practise in each jurisdiction and its alignment with the long-term business strategy of the Group and the achievement of corporate profit.



INFORMATION AND SYSTEMS

Personal Data Protection Policy: Its purpose is to ensure personal data protection by setting the common principles and guidelines for the Viscofan Group in compliance with and adequacy of the applicable legislation.

IT Security Policy: The policy therefore establishes the basic principles of security, the organisational structure, and indicates the actions necessary to guarantee storage, management and use of information in a digital medium, the security of the systems and networks of the Viscofan Group.

Authorisation policy on computer access and profiles: It establishes measures to ensure the correct use of IT resources.

Password Policy: Specifies the basic principles to ensure security of computer systems and networks within the Viscofan Group and to regulate and limit their access.

Computer Systems and Networks Management Policy: Aimed at management to ensure availability, and combine both the functionality and operability of systems and networks, and their security.

Policy on Audio visual Information Control: Standardisation of the use of audio visual media in the Viscofan environment.



PEOPLE

Policy on Staff Selection and Recruitment: Aimed at ensuring objectivity and qualification of new staff, and the selection of the people who best meet the requirements in each case.

Policy on New Recruits’ Reception: The purpose is to ensure an appropriate reception, with an overall and efficient view, to all our new staff members of the Viscofan Group, so as to guarantee their knowledge of the position, duties to be performed and the internal rules and procedures that have to be complied with, and to speed up the adaptation of new employees to the Group.

Training Policy: The aim is to guarantee that all employees have all the knowledge and skills necessary for optimum execution of the duties assigned to them, improving or updating their performance.

Staff Leave Procedure: It establishes a smooth and safe process that is able to guarantee business security and continuity due to any person’s leave, with the same guarantees and level of confidentiality, and avoiding the loss of other resources.

Policy on Business Expenses: It regulates the expenses incurred during the period in which personnel are deployed outside their centre of origin.

Code of conduct for trips and stays abroad: It sets out the action principles and the behavioural pattern that must be followed by directors, managers and employees of the Viscofan Group in their trips, travel or stays, both temporary and permanent, in countries other than their country of origin, as a result of their professional relationship with the Viscofan Group.





PRODUCTION

EHS (environment, health & safety) policy: This policy is a commitment to carry out the best practices of the industry in this environmental, safety and health matter.

Basic principles in safety, health and hygiene matters: The main purpose of these principles is prevention, through the performance and implementation of effective actions prior to the materialisation of risks, in order to avoid them, or to reduce their impact if they were to take place.

Food Regulation Policy: Its purpose is to ensure compliance with and adequacy to food regulations that are applicable to the activities and products of the Viscofan Group, identifying the necessary channels for their control, analysis and monitoring.

Control procedure instructions in case of product recall: The purpose of this procedure is to set action recommendations to ensure the quick identification and recall of products that might represent a risk for food safety, in case of crisis, in order to protect consumers, brand image in the market and the interests of the Viscofan Group and its customers.

Policy on Management of Purchases for Assets and Contracts for Services: This policy aims to increase the activity's security and control in management of the purchase of goods and the contracting of services, reduce its risks by guiding and setting the conduct guidelines that are admitted by the Group.

Transport Management Policy: The objective of this Policy is to establish the criteria and principles that favour the coordination of transport management and contracting throughout the Group, promoting procedures and practices that guarantee maximum neutrality in choices and interactions with suppliers.

Supervision and regulatory system

In order to oversee and monitor the adequate implementation and follow up of the regulations, and the management and maintenance of an internal channel for complaints, the Viscofan Group has the Ethics and Regulatory Compliance Committee:

It is responsible for the implementation and monitoring of the Group's compliance system as defined by the Board of Directors, and for periodically reporting on it to the Audit Committee, as well as for proposing its revision and/or updating.

In particular, with respect to the whistle-blower channel, it is the body responsible for opening, on its own account or at the request of a third party, the investigation of any situation that may involve a breach of the Code of Conduct and of present legislation that might give rise to a situation of risk for the Viscofan Group.

In 2019 the Ethics and Regulatory Compliance Committee met on 7 occasions and completed the investigation of 3 matters raised.

In 2019, specific training was given on the regulatory system, and 1,236 employees received basic training in Ethics and Compliance.

Risk Management

In line with the corporate social responsibility policy, risk management aims to balance the will of value creation for our stakeholders and the risks associated with business, commercial, operational, labour, financial and social initiatives.

The risk management system of the Viscofan Group is regulated by the Control and Management of Risks Policy approved in 2017, whose object is to establish basic principles and the general framework for acting for the control and risk management of any nature to which the Viscofan Group faces with the purpose of identifying, measuring, preventing and mitigating their possible impact on its activity in the case of occurrence.

There are several bodies within the Viscofan Group in charge of the supervision and control of different risks that could arise in the course of Viscofan activities with different level of occurrence and materiality:

- Board of Directors
- Audit Committee
- Internal Audit
- Ethics and Regulatory Compliance Committee
- Global Risk Committee
- Credit Risk Committee
- Investments Committee
- Cybersecurity Committee.
- Senior Management
- Employees

The Global Risk Committee met four times in 2019 to update the methodology of the Risk Management process and the composition of the risk map.

Risk map

The Viscofan Group, through the different risk control and supervision bodies, entrusts the Global Risk Committee with the preparation of an inherent and residual map of risks that, due to their materiality, may compromise the creation of value for its stakeholders and therefore may hinder the attainment of its objectives, which is included in the MORE TO BE strategic plan and that materialise in the search for triple leadership in service, technology and costs.

The organisation's risk map has been defined in accordance with the code of ethics, internal regulation and the Strategic Plan MORE TO BE, which encompasses the period from 2016-2020, and is presented adopting the COSO reference framework, grouping the existing risks in four categories:

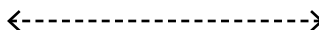
1. Strategy
2. Transactions
3. Information
4. Compliance

Knowing the location of each risk on the inherent and on the residual map requires an on-going dialogue between the interest groups through the channels established by the company. This system enables the Organisation to measure the effectiveness of the mitigating measures adopted and to focus on the risks that are still outside of the comfort zone, adding corrective and preventive measures that allow the impact and/or probability of the risk occurring to be lowered.

In line with the task of adapting to the environment, especially in the area of risk management, the methodology for the realisation of the risk map was revised in 2018. In this review the risk map was simplified, merging or eliminating those risks with a very high or redundant correlation, in addition, in the new model the weighting in the risk assessment of the principal responsible for it has been increased, as well as the inclusion or refinement of the KRI (Key Risk Indicators) until the inclusion of a total of 218 for periodic evaluation.



See [section E.2 of the Annual Corporate Governance Report](#) for a more detailed description of the bodies of the company responsible for the preparation and execution of the Risk Management System, including taxation.



The inherent risks identified as being most critical (having a major expected impact and greater probability of occurrence) are:



Competitive environment of the sector. Competitors: The strategies of our competitors could affect our position and, therefore, the achievement of our objectives, especially price drops and greater commercial efforts in certain markets.



Cyber-security: A cyber-attack is a malicious action that aims to damage the availability of assets, data confidentiality or the integrity of an organisation's information. The risk of an attack is a growing issue, due to the increase in Viscofan's visibility in recent years as sector leader and example of best industry practices, due to greater mobility of our human teams and due to the opening up of our industrial environment to the Internet (remote access to entities and persons outside Viscofan). An organisation that is aware of the risk that exists both inside and out of its perimeter can minimise the likelihood of being attacked.



Exchange rate: It is associated with fluctuations between one currency and another, whereby changes in currency value lead to changes in the valuation of total wealth. Especially due to the fluctuation of the Euro against US\$, given the long exposure of the Viscofan Group to the US currency, with a higher percentage of revenue in US\$ than that of costs.



Environmental issues: Industrial processes involve the use of natural resources and although the Group is fully aware of its responsibility with respect to the environment, our production processes could involuntarily affect or damage its immediate environment.



Budget control: The budget process requires several assumptions that are required to set budgets and objectives. Errors or simply variations beyond the expected tolerances can affect the development of the corresponding operational and financial plans.



Competitive environment of substitute products: The Group operates in a free market where other products may take the place of those offered by Viscofan. This risk is accentuated in the case of lower priced replacement products.



WORKPLACE ACCIDENTS

Workplace accidents: In the activity of Viscofan, especially in its productive activity, there is the possibility of bodily injury of varying severity and even life-threatening for workers and third parties.



CUSTOMER DISSATISFACTION

Customer dissatisfaction: Customer satisfaction is the basis for continuity, stability and loyalty of relationships. It is mainly linked to product quality and to customer-orientation and services provided. Shortcomings in any of these aspects can lead to customer loss.



GROUP COHESION

Group cohesion: The internationalisation and dispersion of the productive centres could affect the communication and interaction of the people who work there with the rest of the organisation. Likewise, the variety of cultures and countries in which the Group operates is a daily challenge when establishing operational and commercial practices consistent with such diversity.



ENVIRONMENT AND TAX COMPLIANCE

Environment and tax compliance: Multinational presence and the large number of commercial transactions and financial operations is subject to regulation and tax regulation in the different countries, which may take back or generate resources for the Group.



REPUTATION

Reputation: Sustainability and creation of value is closely linked to the impact of our business activity, the results obtained and the adaptation to the expectations of our stakeholders and the environment in which they are developed.



SCARCITY OF RAW MATERIALS

Scarcity of raw materials: The Viscofan Group needs to acquire certain specific raw materials in multiple locations, which means that our production process may be affected in the event of shortages and/or lack of quality in such items. The strategies of our suppliers could also affect our production process.



The information in reference to risk management has been developed in section E) of the Annual Corporate Governance Report. In this section, the Viscofan Group describes the main risks and uncertainties, the bodies responsible for drawing up and enforcing the risk management system, the description of the main risks, level of tolerance and risks occurred in the year.



Prevention of corruption and fraud

As stated in Principle 10 of the United Nations Global Compact, to which Viscofan is a signatory, “Businesses should work against corruption in all its forms, including extortion and bribery”. Thus, in January 2019, the Board of Directors approved the company’s Anti-Corruption Policy under the principle of zero tolerance for any non-compliance in this area.

The Code of Conduct, which is provided in the protocol for welcoming new employees, also includes the prevention of corruption in all its forms, and is applicable in 100% of the company’s business units. It establishes that Viscofan will fight corruption in all its forms, including extortion and bribery.

To avoid any type of corruption, this policy establishes a series of guidelines that define actions that are not allowed and that may be subject to corruption: bribery, extortion, facilitating payments and influence peddling, gifts, business courtesies, donations and sponsorships and relationships with third parties.

Further, the Global Risk Committee carries out an analysis of fraud risks, and its different forms are regulated in various policies; and sets specific controls and mechanisms to reduce their likelihood of occurrence. The identified risks are: conflict of interest and internal fraud, private corruption, and fraud and misleading advertising.

It should be noted that in 2019, there have been no acts that have been subject to significant legal actions related to unfair competition, monopolistic practices and against free competition, nor have processes or complaints been opened due to breaching laws or regulations in the social and economic field. Likewise, no case of corruption has been reported on which the Ethics and Regulatory Compliance Committee has had to take action.



The Code of Conduct, which is provided in the protocol for welcoming new employees, also includes the prevention of corruption in all its forms, and is applicable in 100% of the company’s business units.

