

## 2.2.3. Risk management

Risk management aims to balance the desire for value creation for our stakeholders with the risks associated with business, commercial, operational, labour, financial and social initiatives, as established by the sustainability policy.

Viscofan has approved a risk management control policy, whose purpose is to set the basic principles and the general action framework to identify, measure, prevent and mitigate risks of all types that may affect the attainment of the strategic objectives.

Viscofan seeks to reinforce the risk control system, promoting a solid business model enabling risks to be confronted in a controlled manner. The aim of the risk management policy is to identify and assess risks as soon as possible, based on the Code of Conduct, the internal regulations, and the strategic plan, and to take adequate measures to reduce them and, in some cases, they can present opportunities.

The risk management system is the responsibility of the Board of Directors, which delegates its supervision and correct functioning to the Audit Committee. Likewise, the Viscofan Group has different bodies charged with the supervision and control of different risks that could arise in the course of Viscofan's activities with different level of occurrence and materiality:

- **Internal audit:** their purpose is to promote the application of Risk Management in all activities and supervise to ensure that significant risks are suitably identified, assessed, managed and controlled. It has a broad presence on specific risk committees.
- **Ethics and regulatory compliance committee:** this is the body responsible for supervising the risks specific to the Group with regard to criminal liability or any other non-compliance, and for assessing, implementing and monitoring the Regulatory Compliance System.
- **Global risk committee:** this is a body whose purpose is to identify and assess the main risks threatening the Viscofan Group, making a deeper analysis of their organisation and recommendations for the actions required to manage the risks within the established margins.
- **Credit risk committee:** it is established as a supervisory and control body for those risks related to customer payment management. The objective of this Committee is to delve into the prevention, monitoring and solution of the risks mentioned, via the creation and implementation of the instruments considered most appropriate at the time.



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- **Investments committee:** its main purpose is to control and supervise compliance with the Investment Plan approved by the Board of Directors. To achieve this, it meets on a quarterly basis for the purposes of performing periodic follow-up checks on the correct application of approved investments and controlling the efficient use of Group resources and investments.

- **Cybersecurity committee:** it is in charge of defining the strategic objectives of the Group's Cybersecurity, ensuring the secure management of information and assuring the state of protection, as well as periodically monitoring compliance with regulations, risk projects and situations and incidents.









- **Executive sustainability committee:** this is the body responsible for coordinating and supervising the Sustainability Action Plan, the initiatives, work plans and long-term objectives for the same.

- **Senior management:** it is responsible for identifying and assessing the risks faced by the Group with its activity and taking appropriate measures to prevent these risks from occurring or, if they do occur, to reduce or eliminate their impact. Therefore, it plays a fundamental role in designing and implementing control mechanisms and ensuring their fulfilment across the organisation.

The management and control activities enable the risks to be anticipated and detected and the threats to be examined and measured that may prevent the Viscofan Group from attaining its objectives, as well as the creation of value that is sustainable and shared with the stakeholders.

Moreover, the Viscofan Group monitors the values of the risk indicators and the defined thresholds, so that when these thresholds were exceeded the required management measures are taken to redirect the risks to the defined tolerance level. The information in reference to risk management has been set forth in greater detail in section E) of the Annual Corporate Governance Report. In this section, the Viscofan Group describes the main financial and non-financial risks, the bodies responsible for drawing up and enforcing the financial and non-financial risk management system, the level of tolerance, the risks occurred in the year and the plans to respond to and supervise the main risks.

Below are the main risks faced by the company in 2023 and the response and supervision plan:

Risk	Materialisation in 2023	Response and supervision plan
1. Financial	1.a) Exchange rate: Fluctuations in exchange rates, especially the USD with respect to the Euro, has an impact on Group earnings. 	This impact has been managed through the application of a policy involving hedging and commercial disciplinary measures.
	1.b) Increase in interest rates: The monetary policies of the world's main Central Banks aimed at combating inflation have resulted in an increase in financing interest rates. 	Viscofan manages interest rate risk by maintaining a balanced portfolio of fixed and floating rate loans and credits. The Group's policy is to hold loans at a fixed interest rate.
2. Environmental and climate change risks	2.1) Significant increase in the price of CO2 emission allowances. 	<ul style="list-style-type: none"> <li>- The deployment of a sustainability strategy and plan, together with the corresponding policies approved by the Board of Directors and the creation of a committee to manage sustainability risks that include environmental risks and those resulting from climate change.</li> <li>- As part of its decarbonisation plan, Viscofan has installed energy equipment with green hydrogen capability and has performed various tests with this renewable fuel source in the equipment installed at the Cáseda plant in Spain. Also, an energy diversification strategy beyond natural gas has been promoted that includes greater electrification of the energy supply with renewable energy.</li> <li>- The Group is also evaluating, and plans to implement, the Net Zero commitment to greenhouse gas emissions based on the Science Based Target Initiative.</li> </ul>
3. Operational risks: commodities, transport, and energy.	3.1) Increase in the cost of raw materials: In the previous year, interruptions in manufacturing and consumer activity, together with transport interruptions, caused a shortage of raw materials and basic products worldwide, leading to high inflation in the main raw materials used by the Group in the production process. In 2023, this inflationary spiral has continued for some of these raw materials. 	To offset the impact of the increase in operating costs Viscofan has implemented price increases to customers. In addition, the Group has taken other measures such as detailed monitoring of costs, needs and the risk of non-availability, the search for diversification of suppliers, and a plan to reduce consumption.
	3.2) The cost of natural gas has increased significantly in Spain in 2023. 	<p>Against this background, Viscofan has implemented price increases to customers and energy efficiency measures to offset part of the impact of energy costs. In parallel, the Group has carried out a detailed analysis of energy needs and the examination of various scenarios and has promoted projects aimed at energy diversification in operations.</p> <p>Looking ahead to 2024, in an environment of more favourable natural gas costs, the Viscofan Group has entered into purchase contracts with a fixed price for a portion of its natural gas consumption.</p>
	3.3) Production stoppages at the Danville plant (USA) due to power outages caused by the electricity company. 	Measures are being planned for better energy management of the plant and investments in equipment as support alternatives for the energy supply. Likewise, a lawsuit has been filed against the electricity company claiming damages derived from negligent maintenance of the electrical substation that has caused several shutdowns of the plant.
4. Regulatory	4.1) The European Commission's ban of 8 April 2022 continues. The ban, in response to Russia's actions destabilising the situation in Ukraine, is justified by the fact that the use of these casings instead of the traditional alternative of animal casings improves the capacities of the industry in Russia and resulted in the Board of Directors of Viscofan S.A. adopting the decision to discontinue the activity of exporting casings to Russia. 	In this situation, work continues, within Viscofan's risk control and management system, on commercial and operational mitigation measures to offset this impact.
5. Competition and market environment. Decrease in demand	5.1) In 2023, the market was influenced by the process of inventory adjustment in the meat industry, leading to a decrease in volumes in the casings market. Viscofan, as a market leader, has not been immune to this global trend, which resulted in declines in sales volumes during the year. 	In this situation, tasks have been carried out to monitor the evolution of the main affected markets, maintaining disciplined commercial policies to prevent harm to the financial profitability goals. In parallel, specific projects to improve service and quality levels have been reinforced, involving greater protection of market share in adverse scenarios, as well as an impact on inventory planning and management.

