



ANNUAL REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.

2015 FINANCIAL YEAR

I. Introduction

The Audit and Compliance Committee of the company DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (“**DIA**” or the “**Company**”) has prepared this annual report on its activities with the purpose of evaluating its operations and organisation in 2015, highlighting the main incidents that have arisen with respect to the specific functions it has been assigned.

This report has been prepared in compliance with Articles 6.2 and 38.12 of the Regulation of the Board of Directors of DIA, and pursuant to the recommendations on good corporate governance for publicly traded companies. This report also complies with the provisions of new Article 529 nonies of the Corporate Companies Act (*Ley de Sociedades de Capital*), following the amendments carried out as a result of the enactment of Law 31/2014, of 3 December, amending the Corporate Companies Act to improve corporate governance (the “**Companies Act**”), which stipulates that the Board of Directors shall evaluate the operation of its committees once a year, based on the report issued by each of them, and in this specific case by the Audit and Compliance Committee.

II. Composition

According to Article 41 of the Articles of Association and Article 38 of the Regulation of the Board of Directors, the Audit and Compliance Committee shall be composed of outside directors or non-executive directors, the number of said members being determined and appointed by the Board of Directors and, with a minimum of three and a maximum of five, the majority of which and, in any case, the chairperson, will be independent.

The members of the Audit and Compliance Committee, and in particular its chairperson, shall be appointed taking into account their knowledge and experience in matters of accounting, auditing or both. For these purposes, the Board will take into consideration the knowledge and professional experience acquired as a result of the performance of responsibilities related to this matters, as well as the knowledge and experience due to the performance of management and executive roles and responsibilities which could be related to these issues in a significant way (such as chief executive officers or senior managers with supervisory and management responsibilities in accounting, financial or risk management areas, etc.).

In accordance with DIA’s internal regulations, the chairperson of the Audit and Compliance Committee shall be appointed from among independent directors. The chairperson shall be replaced every four years and may be re-elected one year after leaving office.

When so requested by the Committee, the executive directors, the members of the management team or employees of the Company are required to attend the sessions of the Audit and Compliance Committee in order to assist and provide with any information available. The Committee may also require the Company’s auditors to attend its sessions, and to hire the services of external advisors.

The composition of the Audit and Compliance Committee at the 2015 year close was as follows:



Name of director	Type of director	Position in the Committee
Mr Richard Golding	Independent outside director	Chairman
Mr Julián Díaz González	Independent outside director	Member
Mr Juan María Nin Génova	Independent outside director	Member
Mrs Rosalía Portela de Pablo	Independent outside director	Member

Mr Richard Golding was appointed independent outside director and member of the Audit and Compliance Committee of DIA on 5 July 2011, when the Committee was created. He was re-elected as member of the Committee on 19 March 2014, and as director of DIA on 25 April 2014. Mr Golding is a graduate in Business Administration from London Thames University. He has held a number of positions during his career, including marketing Director in the Cadbury Schweppes group, Managing Director of Aspro Ocio, Chief Executive of Dorna Promoción del Deporte, Chief Executive of Two Wheel Promotion, and Chairman of the tobacco business and part of the food business of RJR Nabisco for Spain, Portugal, Italy, France, Andorra and the United Kingdom. He has also been Chairman, CEO and member of the Board of Directors of Parques Reunidos and until January 2016 he was Senior Advisor for Parques Reunidos. He is currently a director of Grupo Memora and Industry Advisor at Advent International.

On 11 May 2015, coinciding with Mr. Nadra Moussalem leaving the company, Mr. Golding was elected Chairman of the Commission, having been performing this post since then.

Mr Julián Díaz González was appointed independent outside director of DIA's Audit and Compliance Committee on 5 July 2011. He was re-elected as director on 26 April 2013 and as member of the Committee on 6 May 2013. Mr Díaz Gonzalez is a graduate of Business Studies from Universidad Pontificia de Comillas - ICADE. After working as Managing Director of TNT Leisure, S.A., Managing Director of the Airports Division of Aldeasa, Managing Director of Aeroboutiques de Mexico, S.A. de C.V. and Managing Director of Deor, S.A. de C.V., he joined Latinoamericana Duty-Free, S.A. de C.V. Since 2004 he has been Chief Executive Officer (CEO) of Dufry AG. He is also member of the Board of Directors of Dufry International AG and Duty Free Caribbean Holdings, Director and Chairman of the Group Executive Committee of Dufry AG and Vice-Chairman of Dufry South America.

Mr Juan María Nin Génova was appointed independent outside director of DIA's Audit and Compliance Committee on 15 October 2015. Mr Nin is a Lawyer and Economist having graduated from Universidad de Deusto and Master in Laws from the London School of Economics and Political Sciences. He has developed his career mainly in the public and finance sector: he was Programs Director with the Ministry for the relations with the European Communities. He was General Manager of Banco Santander Central Hispano, CEO of Banco Sabadell, General Manager of "la Caixa" and, finally, Vice-president and CEO of CaixaBank, Critería y Fundación La Caixa. He has also been a member of the Boards of Directors of other listed companies of different types such as Cepsa, Repsol, Gas Natural, Inbursa and Erste Bank. He is a member of the Board of Trustees of Universidad de Deusto, ESADE and Fundación Consejo España-Estados Unidos. Nowadays, Mr Nin is a member of the Board of Directors of Indukern, S.A., independent director of Naturhouse Health, S.A., director of Azora Capital, S.L., and director of the Azvi, S.L. business group. Moreover, he



administers his own equity company Officio-1, S.L., and is advisor to the Chairpersons of the companies Ditecsa and Levante Capital Partners.

Mrs Rosalía Portela de Pablo was appointed independent outside director on 5 July 2011 and member of DIA's Audit and Compliance Committee on 26 June 2015, being re-elected on 26 April 2013 as director. Ms. Portela is a graduate in Economic Science at Universidad Complutense de Madrid and holds a Masters in Economy from Memphis University. After a long term at Procter & Gamble she worked at Repsol, Kimberly Clark and Telefónica in different managerial positions. She moved to ONO where she was Executive Director until September 2014. She has wide experience in consumer goods, the retail food industry and telecommunications. She is currently member of the Board of Directors of Deoleo, S.A.

Coinciding with Mr. Nadra Moussalem leaving the company, she was appointed member of the Committee on 26 June 2015.

Mr Ramiro Rivera Romero, who is the Secretary of the Company's Board of Directors, acts as non-member Secretary of the Audit and Compliance Committee; while Mr Miguel Ángel Iglesias Peinado, non-director Vice Secretary of the Board of Directors and Director of the Company's Legal Services department, is the non-member Vice Secretary of the Committee.

In light of the above, the composition of the Audit and Compliance Committee meets the requirements of the Articles of Association and the Regulation of the Board of Directors. In addition, given that the four members of the Committee are independent directors, one of them acting as chairperson, it complies with Article 529 quaterdecies of the Companies Act, which was introduced by Law 31/2014 of 3 December, amending the Companies Act to improve corporate governance. DIA's Audit and Compliance Committee also complies with Recommendation 39 of the Code of Good Governance for publicly traded companies, approved by the Spanish National Securities Market Commission (CNMV) on February 2015 (the "Code of Good Governance").

III. Functions

Pursuant to functions under Article 529 quaterdecies of the Companies Act, Article 41 of the Articles of Association and Article 38 of the Regulation of the Board of Directors of the Company, the Audit and Compliance Committee has focused its meetings in 2015 on the following main activities:

- **Review of the periodic financial information**

The Committee has supervised and reviewed the process of preparing and presenting the individual and consolidated mandatory financial information (quarterly and half-yearly), which the Board of Directors must submit to the markets and their supervisory bodies; and, in general, it has ensured compliance with the legal requirements on this matter, the appropriate specification of the scope of consolidation and the correct application of generally accepted accounting principles, within the deadlines legally established for this purpose.

- **Review of the annual accounts**

With the purpose that the individual and consolidated accounts for 2015 prepared by the Board of Directors are presented to the Annual General Meeting without qualifications in the audit report, the Audit and Compliance Committee carried out the following tasks, inter alia:

- a) ensured compliance with legal requirements and the correct application of the generally accepted accounting principles;



- b) supervised and reviewed the process of financial reporting and the Company's internal control systems, verifying that the systems were sufficient and comprehensive;
- c) reviewed the mandatory financial information that the Board of Directors must provide regularly to the markets and their supervisory bodies; and
- d) verified that the members of the management team had taken into account the conclusions and recommendations of its reports, as well as discussing with the Company's auditors any significant weaknesses in the internal control systems that they may have detected in carrying out the audit.

As a result of these processes of supervision and review, it is noted that the Audit and Compliance Committee agreed to submit to the Board of Directors the Company's individual accounts and the consolidated accounts of DIA Group, together with the relevant management reports corresponding to the fiscal year ending 31 December 2014, prior to their final drafting by the Board.

In addition, the Audit Reports of the Company's individual accounts and DIA Group's consolidated accounts corresponding to the fiscal year ending 31 December 2014 (drafted in 2015) were presented without any qualifications.

- **External audit**

In accordance with the provisions of Article 38 of the Regulation of the Board of Directors, the Audit and Compliance Committee has supervised the relationships with KPMG Auditors, S.L., the Company's and DIA Group external auditors, as well as compliance with the audit contract, and has aimed to ensure that the opinion on the annual accounts and the main contents of the audit report were drafted clearly and precisely.

Both the Regulation of the Board of Directors abovementioned and the Companies Act provide that the Audit and Compliance Committee must issue a report every year expressing an opinion on the independence of the auditors. The Audit and Compliance Committee verified in 2015 that the work carried out under contract by the external auditor complies with the requirements for independence set out in the current Accounting Act (*Ley de Auditoría de Cuentas*) and thus there are no objective reasons justifying any doubts regarding the independence of the auditor in 2015.

The Committee has analysed the work carried out under contract by the auditor and the valuation of the provision of additional services other than the legal audit in 2015, concluding that the independence regime and the auditing regulations have been respected.

To reach this conclusion, the Audit and Compliance Committee regularly obtained, from the outside auditors, information about the audit plan, about its implementation and about the independence of the auditors, as well as the other communications specified under the auditing legislation.

Likewise, throughout the financial year, the Committee has served as a communications channel between the board of directors and the auditors evaluating the results of each audit and the responses of the management team to its recommendations. The Committee has also ensured that the outside auditor holds a meeting annually with the entire board of directors in order to inform it of the work done and the evolution of the accounting situation and the risks facing the company.



Finally, in 2015 the Committee had the opportunity of holding a “closed doors” working session, with the main members of the audit team assigned by KPMG Auditores, S.L., thus complying with the good governance recommendations concerning this matter.

- **Internal audit**

Another power given by the Regulation of the Board of Directors to the Audit and Compliance Committee is the function of periodically supervising and reviewing the effectiveness of the Company’s internal control and financial and non-financial risk management systems, including fiscal risks, verifying the appropriateness and completeness thereof and proposing the selection, appointment, re-election and removal of the responsible therefor; proposing the budget for such services, approving the orientation and the working plans of same, ensuring that the activity is focused mainly on risks relevant to the Company, and verifying that the members of the management team take into account the conclusions and recommendations in its reports; and discussing with the Company’s auditors such significant weaknesses in the internal control system as may be discovered in the conduct of the audit.

To do so, the audit and compliance committee promotes the existence of a unit to undertake the function of internal auditing which shall ensure the proper operation of the information and internal control systems and which would depend functionally on the non-executive chairperson of either the Board or the Audit and Compliance Committee. This unit shall submit its annual working plan to the Audit and Compliance Committee and shall report directly the incidences which occur in its implementation and, at the end of each financial year, it shall make a report on its activities.

The Committee has actively ensured the independence of the unit which undertakes the internal audit; proposing at the time the selection, appointment, re-election and dismissal of the person responsible for the internal audit service; and since then has been controlling the budget for said service; ensuring increase as and when necessary to be able to undertake its functions with the suitable internal and external capacity and human and technical resources; approving the orientation and its working plans at the beginning of the year, ensuring that its activity is focused mainly on risks relevant to the company; receives periodical information about its activities; and verifies that the senior management take into account the conclusions and recommendations of its reports.

The Company has an Internal Audit Department led by Ms Isabel Fernández de Córdoba Moncada. This department and its Director report directly to the Audit and Compliance Committee and carry out presentation in each formal meeting held by the Committee.

In 2015 the Auditing and Compliance Committee has assessed and approved the Internal Auditing Plan for said year and has informed about follow-up of said plan at the successive Committee meetings.

More specifically, during 2015, 48 internal audits has been undertaken in DIA Group.

In addition, the Company’s external auditors, KPMG Auditores, S.L., made various presentations in 2015 informing the Committee on a number of questions related to the audit of the Company and DIA Group.

- **Systems of Internal Control over Financial Reporting (ICFR)**

As part of the function of supervision and periodic review of the efficiency of the Company’s internal control procedures, the Audit and Compliance Committee, through the Finance



Department, has promoted and supervised the development and implementation of an updated version of the systems of Internal Control over Financial Reporting (ICFR) adapted to the Company's current needs.

Similarly, the Audit and Compliance Committee has supervised the progress made on the ICFR project, both in Spain and other countries, through periodic reports presented by the Corporate Senior Manager. It has also monitored the processes of implementing the ICFR, supervising for this purpose the implementation of the integrated risk management system at the level of DIA Group and reviewing the reporting model and the assessment of key ICFR controls in a number of its processes.

In compliance with the above, at each of the meetings of the Audit and Compliance Committee, the Corporate Senior Manager and the responsible for ICFR made several presentations to inform its members of the internal measures implemented with respect to ICFR.

Additionally, and in relation to the ICFR, DIA has established a Corporate Information Security Policy that includes the strategy for protecting information with relation to access control, user responsibilities, security in communications and operations, change management, security in development, incident management, business continuity and compliance. The policy and associated regulatory framework are based on the ISO 27000 series of international standards.

The Committee has also coordinated the process for the reporting of non-financial information, in accordance with applicable regulations and international reference standards.

With respect to the critical business processes for the Company, DIA has various organisational and technological solutions that guarantee business continuity. Therefore, there is a continuity plan for systems that replicate the main applications in sufficiently distant locations.

The Committee has supervised monitoring of the results of the assessment of the ICFR with respect to key and material processes in Spain and in the DIA Group countries.

As of the date of this report, DIA continues to develop its ICFR systems and implement an ICFR structure that allows it to control and manage potential risks in the preparation of financial information. In particular, in 2015, it improved the system to optimise processes and functions, and a new scope of application for the project has been presented.

DIA has submitted to review by the external auditor the information on the ICFR systems submitted to the markets for 2015. The scope of the auditor's review procedures are in accordance with the Guidelines for Action and the template of auditor's report on the information related to the internal control system on financial information in publicly traded companies of July 2013, issued by the official auditors' associations.

- **Corporate risk management system**

The Group's Internal Audit department has carried out detailed monitoring and control of the risk management function and its formal deployment by jurisdictions, implementation of the risk management tools and, in general, of all the components of the integrated corporate risk management system, including fiscal risks. Among other measures, this department controls and periodically presents to the Committee the situation of the "map of corporate risks" and the evolution in the main risk indicators.



In 2015, the Committee received the risk management report for 2014 and learned of the progress made in this matter. Its most remarkable milestones have been (i) description of the internal organisation supporting the risk management function, identifying the units involved, the information flows and the main activities related to risk identification and assignment, valuation, mitigation and monitoring; (ii) an examination of the corporate risk indicators and changes in them in each of the quarters, weighted by factors of “probability” and “impact”; and (iii) a review and report on the corporate risk map for 2015.

As a novelty, during 2015, intense work has been carried out on the fiscal policy and strategy and the drafts of the Risk Management and fiscal strategy Policies have been approved to be submitted to the Board of Directors.

- **Financial risks**

In 2012, the Audit and Compliance Committee began to quarterly supervise the Company’s main financial risks, such as (i) liquidity risk; (ii) credit risk; (iii) solvency risk; and (iv) market risk, essentially.

In 2015, the Committee has continued monitoring and supervising the above financial risks, through follow-up presentations made at each Committee meeting.

- **Legal compliance**

In 2015, the Audit and Compliance Committee has worked to ensure compliance with the Internal Rules of Conduct, the Regulation of the Board of Directors and, in general, the Company’s rules on corporate governance, with no significant failures to comply being detected in this respect.

The Committee has also reviewed the 2014 Annual Corporate Governance Report, which, in accordance with Article 538 of the Companies Act, must be included in a separate section in the Management Report on the Company’s annual accounts.

The Committee has also reviewed and approved, with the subsequent submitting to the Board of Directors, the drafts of the following policies: (i) the corporate social responsibility policy, ensuring that it is oriented towards the creation of value and monitoring the strategy and practices of corporate social responsibility and evaluating the degree of fulfilment; and (ii) the communication strategy and relations with shareholders, investors (including small and medium shareholders) and other stakeholders.

- **Ethics Code and Whistleblowing Channel**

In addition, in relation to the Ethical Code and the Whistleblowing Channel, the Committee has supervised the actions carried out to make the Code and channels better known in 2015 and monitored the operation of the Ethics Committees at corporate and country level. Regarding the use of the said channel by DIA Group employees, the Committee must receive up-to-date consolidated statistical information and details of any sanctions initiated, their status and the decisions adopted by the Committees, where applicable.

To summarise, in 2015 it was agreed (a) to renew the current ethics code, reinforcing certain principles of conduct and the autonomous, independent role of the ethics committees; (b) to change certain characteristics of the whistleblowing channel to favour its use; and (c) to implement an internal communication plan promoting ethical culture, externally and internally publishing the statistics of use of the channel through an annual corporate governance report and other internal communication methods.



IV. Meetings held in 2015

The Company's Audit and Compliance Committee met five times in 2015. Regarding attendance, only one director excused his absence at one meeting. The rest of the members of the Committee attended either in person or duly represented all the meetings.

This Committee has met with the necessary frequency for the correct operation of its functions, in all cases complying with Article 38.5 of the Regulation of the Board of Directors, which sets out that it must meet, at least, every quarter.

V. Proposals to improve the Corporate Government rules

In 2015, the Audit and Compliance Committee has reviewed the Company's Corporate Governance Rules with the aim of proposing any relevant amendments. It also monitored the corporate governance reforms that finally resulted in the enactment of Law 31/2014, of 3 December, amending the Corporate Companies Act to improve corporate governance.

As a result of the enactment of this Law, the Audit and Compliance Committee has identified some amendments to the Company's rules on corporate governance and, among other aspects, some additional powers to be assumed by the Committee. These have been set out in the amendment of DIA's internal regulations, already adapted to applicable legislation.

Likewise, in 2016 the Committee will review its internal regulations in view of the amendments introduced through the Companies Act after approval of Law 22/2015, of 20 July, pursuant to Accounts Auditing, which shall come into force on 17 June 2016.

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Madrid, 23 February 2016