



ANNUAL REPORT FROM THE AUDIT AND COMPLIANCE COMMITTEE OF
DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.
YEAR: 2016

I. Introduction

The Audit and Compliance Committee of 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 2016, highlighting the main incidents that have arisen with respect to the specific functions it has been assigned as well as its proposals to improve the Company's governance rules.

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 listed companies. This report also complies with the provisions of Article 529 nonies of Legislative Royal Decree 1/2010 of 2 July, which approves the consolidated text of the Spanish Companies Law (the “**Companies Law**”), which stipulates that the Board of Directors shall yearly evaluate the operation of its committees, based on the report issued by each of them, and in this specific case by the Audit and Compliance Committee.

This report will be available to shareholders and investors on the Company's website (www.diacorporate.com) from the moment that the Annual General Meeting is convened.

II. Structure

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, its Chairperson, shall 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, and must have the pertinent technical knowledge about the activity sector to which the Company belongs. For these purposes, the Board will take into consideration the knowledge and professional experience acquired as a result of the performance of responsibilities directly related to these 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 and the members of the management team or employees of the Company are obliged 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, notifying the Board secretary or deputy secretary, who will be in charge of hiring the corresponding services.



The composition of the Audit and Compliance Committee at the 2016 year close was as follows:

Name of director	Type of director	Position in the Committee
Mr Richard Golding	Independent outside director	Chairman
Mr Borja de la Cierva Álvarez de Sotomayor	Independent outside director	Director
Mr Julián Díaz González	Independent outside director	Director
Ms María Luisa Garaña Corces	Independent outside director	Director
Mr Juan María Nin Génova	Independent outside director	Director

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 Manager at Cadbury Schweppes, and Chairman and Regional Chief Executive Officer at RJR Nabisco. He has also been Chairman, CEO and member of the Board of Directors of Parques Reunidos. He is currently an operating partner consultant at Hill Path Capital, an industry advisor at Advent International, a consultant at Parques Reunidos and Chairman and director at the Memora Group.

On 11 May 2015, Mr Golding was elected chairman of the Committee and, on 11 May 2016, he was re-elected as its Chairman, a position which he still holds.

Mr Julián Díaz González was appointed independent outside director and member of DIA's Audit and Compliance Committee on 5 July 2011. He was re-elected as director on 26 April 2013 and 22 April 2016 and as member of the Committee on 13 March 2013 and 11 March 2016. Mr Díaz Gonzalez is a graduate in Business Studies from Universidad Pontificia de Comillas - ICADE. After working as General Manager of TNT Leisure, S.A., General Manager of the Airports Division of Aldeasa, General Manager of Aeroboutiques de Mexico, S.A. de C.V. and General Manager 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 the Chief Executive Officer and Deputy Chairman of the Board of Directors of Dufry International AG and Deputy Chairman of Dufry South America and of Duty Free Caribbean Holdings.

Mr Juan María Nin Génova was appointed independent outside director of DIA's Audit and Compliance Committee on 15 October 2015. On 22 April 2016, his appointment was ratified by the Company's Annual General Meeting and he was re-elected director of the Company. On 11 March 2016, he was re-elected as member of the Committee. Mr Nin is a lawyer and



economist, with a degree from Universidad de Deusto and a Master of Laws from the London School of Economics and Political Science. He has developed his career mainly in the public and finance sector: he was the Programme Director with the Ministry for 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, Criteria and Fundación La Caixa. He has also been a member of the Boards of Directors of other listed companies of different types. He has held top positions at various institutions such as Deusto University and Fundación Consejo España-Estados Unidos and has been a member of the Board of Asociación para el Progreso de la Dirección. He is currently a senior advisor to Corsair Capital LLC, Permira Asesores S.L., CBRE, Latham & Watkins, Levante Capital Partners and Opportunity Network, and a member of the Board of Directors of Société Générale, Azora Capital, S.L. and Grupo de Empresas Azvi.

Mr Borja de la Cierva Álvarez de Sotomayor was appointed independent outside director of DIA’s Audit and Compliance Committee on 5 September 2015. Mr Cierva Álvarez has a degree in Business Administration from Santiago de Compostela University, a Master's degree in Business Administration from Vigo University and is a chartered accountant. His career has involved three main areas. He began in auditing, working as an auditor at Arthur Andersen for nine years. In 1995, he joined the General Finance Department of Inditex, S.A., where he had a successful career as the Group's Chief Financial Officer until 2006. Just after, he joined El Corte Inglés, S.A., where he was the Deputy Purchase Manager and, more recently, the Supply Chain Manager, until May 2016. He has also been involved significantly in education and research: he has taught at several universities in Spain and elsewhere, has been a member of the consulting team for the European Transparency Directive and of the accounting experts of the Spanish Commission to implement IFRS at public-sector companies and has been a member of the Board of Unirisco SCR, the first university venture capital company authorised by the CNMV (Securities Market Commission) in Spain.

Ms María Luisa Garaña Corces was appointed independent outside director of DIA’s Audit and Compliance Committee on 14 December 2016. Ms Garaña is a graduate in Law and Business Administration from San Pablo CEU University. Ms Garaña also has a Master's degree in Business Management from Harvard University. Ms Garaña's career has been in different sectors (telecommunications, banking and utilities) and countries (mainly in North America, Latin America and Europe), giving her extensive international experience in her areas of expertise. She began her career in 1992 in banking and consultancy, and later worked at several companies such as Bain & Company, Inc., Grupo Televisión Azteca, S.A. and Zoom Media (USA). In 2003, she joined Microsoft México S. de R.L. de C.V. as the Marketing and Business Manager; in 2006, she was appointed as the Chairwoman and CEO of Microsoft - Southern Cone; and in 2008, she was appointed as the Chairwoman and CEO of Microsoft Ibérica, S.R.L. In 2015, she was designated Vice President for EMEA of Microsoft Business Solutions, a position which she currently holds. Between 2007 and 2016, she was a member of the Board of the not-for-profit European Institute of Innovation & Technology. She is currently a member of the Supervisory Board of Euler Hermés (Alliance Group). Ms Garaña is currently a member of the Board of Directors of Liberbank, S.A. (where she is an independent director, chairwoman of the Remuneration Committee and member of the Risk Committee) and of Alantra Partners, S.A. (where she is an independent director).



Mr Ramiro Rivera Romero, who is the Secretary to the Company's Board of Directors, acts as non-member Secretary to 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 also the non-member deputy 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 five members of the Committee are independent directors, one of them acting as Chairperson, it complies with Article 529 quaterdecies of the Companies Law. DIA's Audit and Compliance Committee also complies with Recommendation 39 of the Code of Good Governance for listed 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 Law, 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 focused its meetings in 2016 on the following main activities:

- **Review of the periodic financial information**

The Committee 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 ensured compliance with the legal requirements on this matter, the appropriate specification of the scope of consolidation, the correct application of generally accepted accounting principles and the safeguard of the integrity of the financial information by submitting the corresponding recommendations and proposals to the Board of Directors, within the deadlines legally established for this purpose.

- **Review of the financial statements**

For the purpose that the individual and consolidated accounts for 2016 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) ensure compliance with legal requirements and the correct application of the generally accepted accounting principles;
- b) supervise and review the process of financial reporting and the Company's internal control systems, verifying that the systems were sufficient and comprehensive;
- c) review the financial information that the Board of Directors must mandatorily provide regularly to the markets and their supervisory bodies; and
- d) verify that the members of the management team take into account the conclusions and recommendations of its reports, as well as discuss with the Company's auditors any significant weaknesses in the internal control systems that they may have detected during the audit, all of this without undermining its independence.

As a result of these processes of supervision and review, the Audit and Compliance Committee agreed to submit to the Board of Directors the Company's individual and



consolidated accounts of the DIA Group, together with the relevant management reports corresponding to the year between 1 January 2015 and 31 December 2015, 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 2015 (drafted in 2016) were presented without any qualifications.

- **External audit**

In accordance with the provisions of Article 38 of the Regulations of the Board of Directors, the Audit and Compliance Committee supervised the relations with KPMG Auditores, S.L., the Company's and DIA Group's external auditors, as well as the compliance with the audit contract, and 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 abovementioned Regulations of the Board of Directors and the Companies Law 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 2016 that the works carried out under contract by the external auditor comply with the requirements for independence set out in the Audit Act (in force in 2016) and thus there are no objective reasons justifying any doubts regarding the independence of the auditor in 2016.

The Committee analysed the works carried out under the contract by the auditor and the valuation of the provision of additional services other than the legal audit in 2016, concluding that the independence regime and the auditing regulations were 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, and it made other communications specified under the audit legislation.

Likewise, throughout the financial year, the Committee served as a communications channel between the Board of Directors and the auditors, assessing the results of each audit and the responses of the management team to its recommendations; and it made sure that the outside auditor held a meeting with the entire board to inform it of the work carried out and of the Company's accounting and risk situation.

Moreover, the Company's outside auditor, KPMG Auditores, S.L., made several presentations throughout 2016 to inform the Committee of various issues related to the audit of both the Company and of the DIA Group. In 2016, the Committee had the opportunity of holding a 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 Regulations 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, verifying the appropriateness and completeness thereof and proposing the selection, appointment, re-election and removal of the responsible parties; 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; proposed, at the time, the selection, appointment, re-election and dismissal of the person responsible for the internal audit service; and has been since then controlling the budget for said service; ensuring the change 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 takes 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 manager report directly to the Audit and Compliance Committee and carry out presentations at each formal meeting held by the Committee.

In 2016, the Audit and Compliance Committee assessed and approved the Internal Audit Plan for said year and informed about the follow-up of said plan at the successive Committee meetings. More specifically, 46 internal audits were made at the Group in 2016, and the Group's organisation and system officers presented the Action Plan for supervising compliance with the internal audit department's recommendations.

- **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, fostered and supervised the development and implementation of a new project of the Internal Control over Financial Reporting (ICFR) adapted to the Company's current needs.

Similarly, the Audit and Compliance Committee supervised the progress made on the ICFR project, both in Spain and other countries, through periodic reports submitted by the Corporate Service and Executive Manager for Portugal. It also monitored the processes of implementing the ICFR, supervising for this purpose the implementation of the integrated risk management system at the level of the DIA Group.

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

Additionally, and in relation to the ICFR, DIA 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 international standards.

The Committee 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 the 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 2016, a new internal control project was developed at the Company regarding the processes map which will help to (i) calculate the matrix of the ICFR scope and its subsequent approval by the Audit and Compliance Committee; (ii) permanently monitor the controls in accordance with the matrix of the ICFR scope; (iii) continuously assess the controls in accordance with the matrix; and (iv) define the process map for DIA Spain and the Corporate Department.

DIA submitted the 2016 ICFR information reported to the market for review by the external auditor. The scope of the auditor's review procedures was made in accordance with the action guideline and audit report form referred to in the information about the internal control over financial reporting of the listed companies in July 2013 issued by the Corporations representing the auditors.

- **Corporate risk management system**

The Group's Internal Audit department 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 performance of the main risk indicators.

In 2016, the Committee received the risk management report for 2015 and learned of the progress made in this matter. Its most remarkable milestones were (i) the definition of the key risks common to all the countries and the key risks exclusive to the corporate level; (ii) an examination of the corporate risk indicators and their performance in each quarter, weighted by factors of "probability" and "impact"; (iii) a review and report on the corporate risk map for 2016; (iv) the supervision of the risk valuation, mitigation and monitoring; and (v) the measures envisaged to mitigate the impact of the identified risks if they take place.

- **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 2016, the Committee continued monitoring and supervising the above financial risks, through follow-up presentations made at several Committee meetings.

- **Legal compliance**

In 2016, the Audit and Compliance Committee worked to ensure compliance with the Internal Rules of Conduct on Stock Exchange Related Matters, 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 also reviewed the 2015 Annual Corporate Governance Report which, in accordance with Article 538 of the Companies Law, must be included in a separate section in the directors' report; and in relation to the 2016 Annual Corporate Governance Report, the Committee made sure that the following were complied with: (i) Order ECC/461/2013 of 20 March, which determines the content and structure of the annual corporate governance report, of the annual report on remuneration and other reporting instruments of listed companies, savings banks and other institutions that issue securities admitted to trading in official securities markets; and (ii) CNMV Circular 5/2013 of 12 June, which establishes the annual corporate governance report forms for listed companies, savings banks and other institutions that issue securities admitted to trading in official securities markets, as amended by virtue of CNMV Circular 7/2015 of 22 December.

- **Review of the plans, policies and strategies**

Moreover, and in accordance with sections xii to xix of Article 38.3, the Committee:

- (i) supervised compliance with the regulations on related-party transactions with directors to prevent potential conflicts of interest;
- (ii) made sure that the corporate social responsibility policy was aimed at creating value, monitored the corporate social responsibility strategy and practices and assessed its degree of compliance;
- (iii) supervised the communication and relations strategy with shareholders, investors (including small and medium-sized shareholders) and other stakeholders;
- (iv) in relation to the Ethical Code and Whistleblowing Channel, the Committee supervised the actions carried out to make the code and channel better known in 2016 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.

In 2016, the Committee received this information and noticed that there was an increase in the use of these means during the year as a result of the improvements approved by the Board of Directors to foster the Channel's use.



IV. Meetings held in 2016

The Company's Audit and Compliance Committee met six times in 2016. Regarding attendance, only one director excused his absence at one meeting. The members of the Committee attended either in person or duly represented all the meetings.

In 2016, the Committee had an extra meeting with the Nomination and Remuneration Committee to jointly assess the results under the II Long-Term Incentive Plan for 2014-2016.

This Committee 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 shall meet, at least, every quarter, with the aim of reviewing the periodic financial information which, in accordance with Articles 118, 119 and 120 of the Securities Market Act, the Board has to submit to the market supervisory authorities as well as the information that the Board has to approve and include in its own annual public documentation.

The Audit and Compliance Committee is understood to be quorate when the majority of its members attend in person or are duly represented. The resolutions must be adopted by the majority of the members attending each meeting in person or by proxy and recorded in the minutes. Such resolutions are notified to the plenary session of the Board, sending or submitting a copy of the minutes to all the Board members.

V. Proposals to improve the corporate governance rules

One of the Audit and Compliance Committee's functions as set out in the Board Regulations is to inform the Board on how to improve the Company's corporate governance rules.

In line with the above, in 2016 the Audit and Compliance Committee reviewed the Company's corporate governance rules in order to propose the corresponding changes and monitored the corporate governance reforms.

Specifically, with the purpose of (i) including the changes introduced in Law 5/2015, of 27 April, on Fostering Business Financing, Law 9/2015, of 25 May, on Emergency Insolvency Measures and Audit Act 22/2015 of 20 July; and (ii) including certain technical improvements, and with the aim of clarifying the meaning of some matters, perfecting the wording and providing a better understanding, the Audit and Compliance Committee submitted to the Board of Directors the proposal to amend the Regulation of the Board of Directors and the proposal for the Board to submit to the AGM an amendment to the Company's Articles of Association and to the Regulations of the Shareholders' Meeting in view of the changes introduced in the aforementioned regulations.

Likewise, in 2016 the Committee submitted a proposal to the Board to change the Internal Rules of Conduct in the Securities Market so that it conforms to the new features introduced by Regulation 596/2014 of the European Parliament and of the Council of 16 April on market abuse.

Moreover, in 2016 the Audit Committee resolved to provide a favourable report to the Board of Directors regarding (i) the approval of the updates made in the crime prevention model so that it conforms to the requirements established in Law 1/2015, of 30 March, on the amendment to the Criminal Code, contributes to reducing the risk that crimes may be committed within the company and guarantees, at all times, the legality of the acts carried out on behalf of the Company by the employees, managers and directors; and (ii) the approval of the crime prevention and anti-corruption Policy.



Lastly, the inclusion of Mr de la Cierva and Ms Garaña on the Committee has enabled it to fill the vacancy with full guarantees after Ms Portela left the Company. Mr de la Cierva's experience in his career, including his training as a chartered accountant and especially in accounting, internal auditing, cost control and relations with suppliers, and Ms Garaña's experience as an independent director at banking, insurance and investment services institutions (including being a member of Liberbank's Risk Committee) grant them special value when contributing to the performance of the Committee's duties.

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In Madrid on 22 February 2017