



## **REPORT FROM THE AUDIT AND COMPLIANCE COMMITTEE ON THE INDEPENDENCE OF THE EXTERNAL AUDITORS OF THE ACCOUNTS OF DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. IN 2016**

### **I. Introduction and background**

In accordance with section 4(f) of Article 529 *quaterdecies* of the Spanish Companies Act (the “**Spanish Companies Act**”) and according to the provisions of Article 38.3 (ix) of the Regulation of the Board of Directors of DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (“**DIA**” or the “**Company**”) in relation to the regulation and duties of the Audit and Compliance Committee, each year before the issue of the audit report, this Committee will prepare and issue a report expressing an opinion on the independence of the external auditors.

This report must contain an assessment of the provision of additional services other than the legally required annual accounts by these auditors or by persons or entities linked to them, considered individually and as a whole, with respect to the independence regime or the applicable regulatory standards on auditing, according to the Codified Text of the Auditing Act, as approved by Royal Legislative Decree 1/2011, of 1 July (the “**Auditing Act**”), provided that Law 22/2015, of 20 July, on Account Auditing, will be applied to those audit assignments related to fiscal years starting as of 17 June 2016.

As a result, the Audit and Compliance Committee prepares this report and makes it available to shareholders and investors through the website in advance to the Ordinary General Shareholders’ Meeting (although its distribution is not mandatory), as stipulated by Recommendation 6 of the Code of Good Governance for Listed Companies approved by the National Securities Market Commission (CNMV) dated 18 February 2015 (the “**Code of Good Governance**”).

### **II. Analysis of the independence of the auditors**

This report is based on the document received by the Audit and Compliance Committee and prepared by the auditors of the Company, which contains written statement or confirmation of their independence from the Company and the companies in its group (the “**DIA Group**”), as well as information on the additional services, considered individually and as a whole, of any kind, other than that of auditing, provided to these entities by the said auditors or persons or entities linked to them, in accordance with the provisions of the Auditing Act.

This written confirmation, signed by the auditing partner of DIA’s financial statements, Mr Carlos Peregrina García, dated 17 February 2017, is issued according to the provisions of the Auditing Act.

The General Shareholders’ Meeting of the Company held on 25 April 2014 re-elected KPMG Auditores, S.L. (“**KPMG Auditores**”) as auditors of DIA and its subsidiaries, to carry out the auditing of the Company’s individual annual financial statements and of the consolidated annual financial statements of the DIA Group for the financial years ending 31 December, 2014, 2015 and 2016.

Regarding the re-election as auditors, in the document submitted to DIA’s Audit and Compliance Committee the auditors confirmed their independence as auditors in accordance with the provisions of Royal Decree 1517/2011, of 31 October, approving the Regulation



implemented by the Auditing Act, and in compliance with the requirements of the International Standards on Auditing (NIA-ES) 260 on “Communication with those charged with governance” for Entities of Public Interest (EPIs).

In addition, KPMG Auditores has informed of the auditing services and the services of any kind other than auditing provided to the DIA Group in the year ending 31 December 2016 by KPMG Auditores and by other firms which are members of the KPMG network.

The details of the services provided in the year ending on 31 December 2016 are attached below:

Services provided to:	Description of services	Amount (€'000)
DIA Group	Auditing services	636
DIA Group	Other services related to auditing	180
Total auditing services and related		816
DIA Group	Tax services	40
DIA Group	Other services	47
<b>TOTAL SERVICES</b>		<b>903</b>

The item “Other services related to auditing” includes, essentially, the fees for the limited reviews of the consolidated interim financial statements for 2016, for an amount of 110 thousand euros, and also the agreed procedures for an amount of 56 thousand euros. The item “Other Services” includes the fees for advisory services regarding divestments in a series of real properties.

The Audit and Compliance Committee has assessed the provision of the additional services other than legal auditing included in the table above, considered individually and as a whole, in relation to the system of independence and the regulatory standards on auditing.

In order to guarantee the independence of the external auditor, the Audit and Compliance Committee has monitored the fees charged by the main audit firm for services other than auditing the annual financial statements. Likewise, it has supervised the relationship between the fees paid by the DIA Group for both auditing services and services other than auditing, the audit firm and its total income.

Among the grounds for incompatibility included in the Auditing Act that may threaten the independence of the auditor, the following is worth mentioning: *“The perception of fees derived from the provision of auditing services and services other than auditing to the audited enterprise, provided that such fees constitute a significant percentage of the total annual income of the auditor or audit firm, taking into account the average of the last three years.”*

In 2016 KPMG Auditores invoiced the DIA Group for 816 thousand euros for auditing and related services, which added to the 87 thousand euros invoiced for services other than auditing, make a total of 903 thousand euros. This amount does not represent a significant

percentage of the total annual income of the auditor, taking into account the published average of the last three years.<sup>1</sup>

The statement of independence received from the auditor states that KPMG Auditores has designed and implemented general procedures for independence<sup>2</sup> to safeguard its independence, which include specific procedures aimed at identifying and assessing the threats that may arise from circumstances related to audited entities, including those that may represent grounds for incompatibility and/or those that may require the application of safeguarding measures to reduce threats to an acceptably low level. In this regard, the auditor's statement declares that, in relation to the audit of the DIA Group, **no circumstance** considered individually and as a whole that could represent **grounds for incompatibility** has been **identified**.

Regarding the **contractual conditions** included in Article 19 of the Auditing Act, taking into account that DIA's net turnover is over 50 million euros, the Audit and Compliance Committee has verified that the mandatory rotation of the auditor signing the auditor's report after seven years from the initial contract has been complied with. In particular, in 2012 the auditing partner who signed the audit reports was replaced by Mr Carlos Peregrina García who is the current auditing partner who signed the 2016 audit. The rotation therefore meets the required frequency, as 2016 is the fifth year in which he has been involved in the auditing of the DIA Group.

Regarding the **fees** corresponding to the auditing services, the Audit and Compliance Committee considers that they have not been influenced or determined by the provision of additional services to the DIA Group, nor have they been based on any type of contingency or condition other than the changes in the circumstances that served as a basis for setting fees, which were set before the appointment of KPMG Auditores as auditors of the DIA Group.

### III. Conclusion

DIA's Audit and Compliance Committee considers that in 2016 KPMG Auditores, the auditor of the Company and of its consolidated Group, has carried out its auditing work with independence given the following circumstances:

- The auditor confirms that the team in charge of carrying out the audit and KPMG Auditores, with the extensions applicable to them, have complied with the requirements of independence applicable according to the provisions of the Auditing Act; and highlights with respect to the audit indicated, that no circumstances that could represent a significant to its independence threat have been identified.
- During the 2016 financial year, the auditor has not informed the Audit and Compliance Committee of any circumstances that could threaten its independence.

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<sup>1</sup> According to the published information taken from the website of KPMG Auditores, S.L.

<https://home.kpmg.com/es/es/home/tendencias/2014/12/informe-transparencia-2014.html>

<https://home.kpmg.com/es/es/home/tendencias/2015/12/informe-transparencia-2015.html>

<https://home.kpmg.com/es/es/home/insights/2016/12/informe-de-transparencia-2016.html>

<sup>2</sup> According to section 4.3.2 of the Transparency Report for 2016 of KPMG Auditores, S.L. available in the following link: <https://home.kpmg.com/es/es/home/insights/2016/12/informe-de-transparencia-2016.html>

- The fees are not influenced or determined by the provision of additional services, nor are they based on contingencies or conditions other than changes in the circumstances that serve as the basis for setting the fees, as stated in Article 21 of the Auditing Act.
- The fees for the auditing services and those different from the audit of the accounts do not constitute a significant percentage of the total of annual income for the auditor, taking into account the published average of the last three years.
- Five years have elapsed since the appointment of the current auditing partner who signs the accounts. This period is lower than the one set by the provisions in force regarding the mandatory rotation of the auditor who signs the Audit Report.

The Audit and Compliance Committee, in accordance with the provisions of Recommendation 42 of the Code of Good Governance, has ensured that the Company and the external auditor respect the current rules on the provision of services other than auditing, the limits to business concentration of the auditor, and in general other regulatory standards on the independence of auditors.

The Auditing Act and the Spanish Companies Act require the Audit and Compliance Committee to issue a report every year, before the auditor's report on the financial statements, expressing an opinion on the independence of the auditors. Based on this requirement and the information given above, the Audit and Compliance Committee concludes that there are no objective reasons for questioning the independence of the auditor in 2016.

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Madrid, 22 February 2017