



**ANNUAL REPORT FROM THE AUDIT AND COMPLIANCE COMMITTEE OF**  
**DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.**  
**YEAR: 2017**

## **I. Introduction**

The Audit and Compliance Committee (hereinafter the “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 2017, highlighting the main incidents that may have arisen with respect to the specific functions it has been assigned.

This report has been prepared in compliance with Articles 41 of the Articles of Association, Articles 6.2 and 38.12 of the Regulation of the Board of Directors of DIA, Article 25 of the Audit and Compliance Committee Regulations, and pursuant to the recommendations on good corporate governance for publicly traded 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 Corporate Enterprises Act (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, and proposes an action plan based on its results to correct any shortcomings that are detected.

The content of that report, which will be available to shareholders and investors on the Company's website ([www.diacorporate.com](http://www.diacorporate.com)) once the Annual General Meeting has been convened, conforms to the recommendations set out in the Technical Guide published by the Spanish Securities Market Commission (the “CNMV”) on audit committees at public-interest entities (the “Technical Guide”).

## **II. Audit and Compliance Committee Regulations**

The Audit Committee's organisation and operational rules are stated in the Articles of Association, in the Board Regulation and in the Audit Committee's Regulations themselves, approved on 14 December 2017, which are available on the Company's website ([www.diacorporate.com](http://www.diacorporate.com)).

## **III. Structure**

In accordance with Article 41 of the Articles of Association, Article 38.1 of the Regulation of the Board of Directors, and Article 12 of the Committee's Regulations, the Committee will consist of at least three and a maximum of five outside or non-executive directors, designated by the Board of Directors from amongst its directors, where the majority of the members and, in any case, the Committee's Chairperson must be independent.

In accordance with those rules, the members of the Audit and Compliance Committee, particularly its Chairperson, will be designated according to his/her knowledge and experience in accounting, auditing or risk management. His/her knowledge and experience in financial matters, internal control and business management will be taken into account, as well as his/her knowledge, ability and experience in consideration with the Committee's other tasks.

In particular, to consider that a director has knowledge and experience in accounting, auditing or both, the Committee member must have: (a) knowledge in accounting or audit standards or both; (b) the ability to assess and interpret the accounting standards; (c) experience in



drafting, auditing, analysing or assessing financial statements with a certain complex nature, similar to those of the Company itself, or experience in supervising one or more persons involved in such tasks; and (d) understanding of the internal control mechanisms related to the process of drafting financial statements.

For such purposes, the Board will take into consideration the knowledge and professional experience acquired as a result of the performance of duties directly related to financial matters, internal control and business management, 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.).

Likewise, the aim is to ensure diversity, especially regarding gender, professional experience, competence, sector knowledge and geographical origin.

In accordance with section 2 of Article 529 quaterdecies of the Corporate Enterprises Act and DIA's internal regulations, the Chairperson of the Audit and Compliance Committee will be appointed from among the independent directors, replaced every four years and may be re-elected one year after leaving office. He/she must have sufficient ability and availability to devote more time to the Committee than the other members.

When so requested by the Committee, the executive directors and the members of the management team and employees of the Company are required to attend the meetings of the Audit and Compliance Committee in order to assist and provide with any information available.

The composition of the Audit and Compliance Committee at the 2017 year close was as follows:

<b>Name of director</b>	<b>Type of director</b>	<b>Position in the Committee</b>
Mr Borja de la Cierva Álvarez de Sotomayor	Independent outside director	Chairman
Mr Richard Golding	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	Other outside director	Director

- Mr Borja de la Cierva Álvarez de Sotomayor 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 worked 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.

He is currently not present on any other Board of Directors although he is a member of the Supervisory Board of UNINVEST, S.G.E.I.C., S.A.

On 5 September 2016, Mr de la Cierva was appointed director and member of the Committee and, on 28 April 2017, he was ratified as director and re-elected as a Committee member.

On 10 May 2017, he was elected as Chairman of the Audit and Compliance Committee for three years, replacing Mr Richard Golding. Mr de la Cierva complies with that established in Article 38.7 of the Board Regulation since he is an independent director and his position is not incompatible.

- Mr Richard Golding was appointed 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 and 28 April 2017, the date on which he was also re-elected as a Committee member. 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, Chairman and Regional Chief Executive Officer at RJR Nabisco, and Chief Executive Officer at Dorna Promoción del Deporte. He has also been Chairman, CEO and member of the Board of Directors of Parques Reunidos, and Chairman and director at Memora Group. He is currently an operating partner consultant at Hill Path Capital, an industry advisor at Advent International and a consultant at Parques Reunidos.
- Mr Julián Díaz González was appointed 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 22 April 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) at 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 of Duty Free Caribbean Holdings and of Hudson Ltd., belonging to the Boards of Directors of all of them.
- Mr Juan María Nin Génova was appointed 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 that date, 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 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 member of the Governing Board of Deusto Business University School and ESADE Business School.

He is also an operating partner of Corsair Capital LLC, an industry advisor to Permira Asesores, S.L. and an advisor to CBRE Real Estate and CAP GEMINI. He is also present at the following governing bodies: Azora Capital, S.L., Grupo de Empresas Azvi, S.L. and Soci t  G n rale.

- Ms Mar a Luisa Gara a Corces was appointed director and member of the Committee on 14 December 2016 and ratified by the Annual General Meeting on 28 April 2017 as director, the date on which she was also re-elected as a Committee member. Ms Gara a is a graduate in Law and Business Administration from San Pablo CEU University. Ms Gara a also has a Master's degree in Business Management from Harvard University. She has worked at several companies such as Bain & Company, Inc., Grupo Televisi n Azteca, S.A. and Zoom Media (USA). She later joined Microsoft M xico S. de R.L. de C.V. as the Marketing and Business Manager; she has also been the Chairwoman and CEO of Microsoft - South Cone, the Chairwoman and CEO of Microsoft Ib rica, S.R.L. and the Vice President EMEA for Microsoft Business Solutions. Since January 2018, she has been the Managing Director EMEA for Google Professional Services at Google L.L.C.

She has also been 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 Herm s (Alliance Group) and is 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.

All the information about the Audit Committee members is available on the Company's website ([www.diacorporate.com](http://www.diacorporate.com)).

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  ngel Iglesias Peinado, non-director Vice Secretary of the Board of Directors and Manager of the Company's Legal Services department and responsible for the Company's Regulatory Compliance Unit, 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, the Regulation of the Board of Directors, the Audit and Compliance Committee Regulations, the Corporate Enterprises Act and Recommendation 39 of the Code of Good Governance since four of the five Committee members are independent directors, one of them acting as the Chairperson, and the fifth one is



classified as "other outside director", thus contributing to the Audit Committee's impartial and objective criterion.

Lastly, the Committee complies with Article 529 quaterdecies of the Companies Act since, overall, the members of the Audit and Compliance Committee of DIA have the pertinent technical knowledge in relation to DIA's activity sector and one of the members has experience in information technology.

#### **IV. Functions and tasks carried out in 2017**

The Audit and Compliance Committee complied with its 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, and the Audit and Compliance Committee Regulations since their approval.

The Committee's main functions are as follows: (i) ensure the auditors' independence and oversee their selection, appointment, re-election and replacement process; (ii) oversee the internal audit; (iii) oversee the process of drafting and presenting the mandatory periodic financial information, the financial statements and the directors' report; (iv) oversee the Company's internal control and risk management systems; (v) oversee compliance with the corporate social responsibility policy, the internal codes of conduct and the applicable regulations regarding transactions related to directors and significant shareholders; and (vi) provide advice to the Company's Board of Directors.

The following tasks and main activities were carried out in 2017:

##### **1. Drafting of the economic and financial information**

To comply with Article 8 of its Regulations, the Committee oversaw the process of drafting and presentation of the mandatory individual and consolidated economic and financial information (quarterly and half-yearly) that the Board of Directors has to submit to the markets and its control bodies.

In particular, the Committee oversaw compliance with the regulatory requirements, the appropriate delimitation of the consolidation scope, the correct implementation of the generally accepted accounting principles and the safeguard of the integrity of the financial information, submitting the corresponding recommendations and proposals to the Board of Directors, all of this within the legally established deadlines for such purpose.

##### **2. Review of the financial statements**

To ensure that the Company's individual and Group's consolidated financial statements of the previous year drafted by the Board of Directors and respective directors' reports were submitted to the Annual General Meeting without a qualified auditor's opinion, the Committee oversaw and reviewed that information before it was drafted.

As a result of these processes of supervision and review, the Audit and Compliance Committee resolved to submit to the Company's Board of Directors a favourable report so that it could draft the Company's individual and Group's consolidated financial statements, together with the respective directors' reports corresponding for the period between 1 January 2016 and 31 December 2016.

Similarly, the Committee resolved to provide a favourable report to the Company's Board of Directors so that it could approve the summarised financial statements for the year ending 31 December 2016 so that it could be submitted to the CNMV in due time and form.



In addition, the audit reports of the Company's individual accounts and DIA Group's consolidated accounts for the ending 31 December 2016 were presented without any qualifications.

Lastly, to ensure the appropriate supervisory task, the Audit Committee was informed of the management's decisions regarding the application of the main criteria in relation to the financial statements and other non-financial information.

### **3. External audit and auditor's independence**

In accordance with Article 38 of the Regulation of the Board of Directors and Article 6 of its own Regulations, the Audit and Compliance Committee is responsible for selecting, appointing, re-electing and replacing the external auditor or auditor of the Company and Group and maintaining its independence when carrying out its tasks. Every year, the Committee assesses the auditor's actions, the results of each audit and how the management team responds to its recommendations, being the communication channel between the external auditor and the Company's Board of Directors. Moreover, the Committee must issue a report every year stating its opinion on the external auditor's independence. Lastly, the Committee is responsible for previously approving the non-audit services to be performed by the audit firm, assessing its appropriateness and never compromising its independence.

During the year, the Audit and Compliance Committee oversaw the relations with the external auditor of the Company and DIA Group, i.e. KPMG Auditores, S.L., as well as its compliance with the audit contract. The Committee examined the 2016 audit report submitted by that external auditor, making sure that the opinion on the financial statements and the key content of the audit report were drafted clearly and accurately. To that end, the Committee made sure that the external auditor held a meeting with the plenary session of the Board of Directors to inform it about its work and progress in the Company's accounting position and risks.

The Audit Act, Article 529 quaterdecies 4.f) of the Corporate Enterprises Act and the Board and Audit and Compliance Committee Regulations state that the Audit Committee has to issue a report stating an opinion about auditor independence every year before issuing the audit report. Based on that requirement and the confirmation of independence received from the auditors, the Audit Committee concluded that there are no objective reasons to question the auditor's independence in 2017 and unanimously approved the issue of the corresponding report.

To reach that conclusion, the Audit and Compliance Committee regularly received information from the external auditor about the audit plan and its execution. During the year, the officers of KPMG Auditores, S.L. made several presentations to the Committee and replied to all types of questions that were asked. In February 2017, the partner responsible for the audit firm was replaced since the rotation is mandatory (after five years as partner) in accordance with Audit Act 22/2015 of 20 July (the "Audit Act"); the Committee was duly informed of the rotation.

The Committee approved to submit to the Board of Directors the proposal to re-elect KPMG Auditores, S.L. as the external auditor for 2017. In turn, the Board of Directors proposed the Annual General Meeting to elect that firm as the accounts auditor for the Company and Group in 2017; the proposal was approved by the Company's Annual General Meeting on 28 April 2017.

During 2017, the Committee assessed and approved, before they were provided, the non-audit services to be performed by the audit firm, assessing its appropriateness and never compromising its independence, as required by the regulations.



Also during the year, the Committee was used as the communication channel between the Board of Directors and the external auditor.

Lastly, in December 2017 the Audit Committee approved the Committee's annual communication agenda with the accounts auditor for 2018, in line with the recommendations set out in the Technical Guide.

#### **4. Internal audit**

In accordance with the Regulation of the Board of Directors and Article 7 of the Committee's Regulations, the Company is responsible for carrying out the internal audit, with direct dependence on and supervision from the Audit and Compliance Committee.

The person responsible for the internal audit provides the Committee with an annual work plan and regularly informs it of the plan's implementation and any potential incidences in its development. The internal audit reports and the recommendations and action plans are periodically and promptly submitted to the Committee. At the end of each year, a report on the activities is also submitted to the Committee, which makes sure that senior management has the conclusions and recommendations from the reports.

In turn, the Committee must ensure the independence and efficacy of the internal audit function, propose the selection, appointment, re-election and removal of the officer, approve the annual work plan and make sure that the human, technological and financial resources are available to carry it out and that its activity focuses mainly on the relevant financial and non-financial risks of both the Company and Group.

During the year, the Internal Audit Plan for 2017 was submitted for assessment and approval by the Audit and Compliance Committee, and information was provided at the Committee meetings about the monitoring of that plan and the results of the audits conducted and those in progress, assessing in detail the recommendations stated by the internal audit team. Likewise, the Strategic Internal Audit Plan for 2018-2020 was submitted and a report on the internal audit activities in 2016 was drafted, detailing the status of certain tasks entrusted by the Audit Committee that year. That report was approved by the Committee itself.

#### **5. Internal control and risk management systems**

The Audit and Compliance Committee's functions are those envisaged in Article 9 of its own Regulations, i.e. the periodic supervision and assessment of the internal control and risk management systems as a whole based on the reports submitted for such purpose.

Therefore, the Committee must make sure that the control systems identify the various financial and non-financial risks, including the operational, technological, legal, tax, social, environmental and reputational risks. Likewise, it must establish the acceptable risk and tolerance levels, making sure that they are within the values set out, and propose, where applicable, any adjustments or changes.

During 2017, the Committee promptly received the risk monitoring reports submitted by the officers of the Internal Audit and Finance Department, in particular regarding the DIA Group's Internal Control over Financial Reporting (ICFR). In that way, the Committee oversaw the monitoring of the results of the assessment of the ICFR with respect to key and material processes in Spain and in the other countries where the DIA Group operates.

In that sense, Internal Audit discusses with the auditors the significant weaknesses in the internal control system that are detected, where applicable, when carrying out the audit.



## 6. Financial risks

Within the framework of risk management, in 2012 the Audit and Compliance Committee began to quarterly and separately supervise the Company's main financial risks, essentially: (i) liquidity risk; (ii) credit risk; (iii) solvency risk; and (iv) market risk.

In 2017, the Committee continued monitoring and supervising systematically the above financial risks, through follow-up presentations made regularly at several Committee meetings. At all the meetings, the Committee assessed all the financial risks and monitored those which warranted closer monitoring.

## 7. Obligations of publicly traded companies

### (i) Related-party transactions

In accordance with section 1.h) of Article 529 ter of the Companies Act, the Board of Directors has the non-delegable power to approve, after a report from the Audit Committee, the related-party transactions. Therefore, the Committee must provide information, before their approval by the Board of Directors, about the transactions related to the Company and Group companies, with the directors, managers and parties related to them and, lastly, with the significant shareholders and parties related to them.

In 2017, the Committee carried out that duty to inform about related-party transactions before their approval by the Board of Directors. In that respect, the Committee reviewed the full report on the matter for 2016 and for the first quarter of 2017.

### (ii) Other transactions

The Committee provided information, before their approval by the Board of Directors, about the transactions regarding structural or corporate changes which the Company planned, in particular regarding their financial terms and accounting impact.

### (iii) Codes of conduct

The Committee must oversee compliance with the internal codes of conduct, in particular with the code of conduct regarding securities markets.

To carry out this task, in 2017 the Committee 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, and no relevant breaches were detected.

### (iv) Corporate governance

In accordance with Article 538 of the Companies Act, an annual corporate governance report must be included in a separate section in the directors' report together with the Company's financial statements. The content of that report is regulated in Order ECC/461/2013 of 20 March and in 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.

The Committee reviewed and unanimously approved the content of the annual corporate governance report for 2016, specifically the matters concerning the Committee itself, which are set out in sections C, E, F and H of that Annual Report.



(v) Code of ethics and whistle-blowing channel

One of the Committee's functions is to approve a Code of Ethics and establish procedures which guarantee respect for the principles of professional ethics and integrity. It must also establish an internal mechanism which enables employees to report, in a confidential and even anonymous way, any irregularities that they see, especially financial and accounting ones.

The Committee oversaw the actions to disseminate and communicate DIA's Code of Ethics and Whistle-Blowing Channel in 2017 and the operations of the Ethics Committees at both the corporate and country level, based on the reports provided periodically by the Regulatory Compliance Department and the presentations made at the Committee's plenary session.

The Committee received from the Regulatory Compliance Department the consolidated statistical information and detail of the cases of complaints and consultations made by employees and suppliers in 2016: 87% of the complaints and 70% of the consultations were from employees and were resolved by the corresponding departments.

(vi) Corporate social responsibility

In accordance with Article 38 (xiv) of the Regulation of the Board of Directors and Article 10.1 of its own Regulations, the Audit and Compliance Committee is in charge of overseeing the corporate social responsibility policy so that it focuses on creating value, monitoring the corporate social responsibility strategy and practices and the degree of compliance.

In 2017, the 2017-2019 Master Plan for Corporate Social Responsibility was submitted to the Committee, drafted with advice from the consulting firm Ernst & Young, which envisaged 16 lines of action which, in turn, included 39 projects. The objective is to manage the DIA Group's positioning with regard to the expectations from its stakeholders, foster improvement in management and encourage a common vision in line with all the countries where the DIA Group operates. The Committee unanimously approved to submit that Master Plan to the Board for its information and, where applicable, approval.

(vii) Relations with shareholders and investors

As part of the obligations of publicly traded companies, the Committee is also in charge of overseeing the strategy of communications and relations with shareholders, investors (including small and medium ones) and other stakeholders; this task was regularly carried out during the year.

(viii) Communications with the regulators

In accordance with Article 8.4 of the Audit Committee's Regulations, the Committee promptly responded to the requirements and requests for information from the CNMV during its review of the Group's financial information.

## **V. Meetings held in 2017**

(i) Committee meetings during the year

The Committee held six meetings in 2017 and, on four other occasions, the resolutions were adopted in writing and without a meeting.



Out of those six Committee meetings, one member excused himself for not attending one of them and two members in another one. Without prejudice to the foregoing, all the Committee members attended all the meetings in person or by telephone in person or by proxy.

Additionally, all or some of the Committee members 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 and Article 20.1 of the Committee's Regulations, which set out that it must 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 or intermediate public documentation.

(ii) Number of meetings held with the internal auditor, with the accounts auditor and with third parties which are not members of the Committee

In accordance with Article 20.4 of the Committee's Regulations, the Committee Chairperson can invite third parties which are not members of the Committee (executive directors, managers, employees, experts, etc.) to the meetings to deal with the specific items on the agenda for which they were summoned.

The meetings held in 2017 were attended by the pertinent members of DIA's management team and external advisors, who informed and advised the Committee in a more rigorous and detailed way about their areas of responsibility and the significant events which took place in each of those areas and made presentations and provided explanations regarding the action plans with the aim of meeting the targets and solving the shortcomings.

Members of the external audit team of KPMG Auditores, S.L. also attended three Committee meetings in 2017 with the aim of presenting DIA's annual financial report for 2016 and the limited review report of the DIA Group's financial information for the first quarter of 2017, presenting the current situation of the 2017 Audit Plan, and providing information about the main features related to the Group's accounts audit.

The consulting firm Ernst & Young was also invited to monitor the corporate social responsibility strategy and practices and assess the degree of compliance.

## **VI. Assessment of the Committee's functioning and performance**

The performance and composition of the Audit and Compliance Committee in 2017 was assessed by the members of the Board of Directors with the aim of strengthening its functioning and improving the plans for the following year.

To do this, a detailed questionnaire was drafted regarding the main features which affect the Committee's performance, from an analysis of its composition, the experience, knowledge and training of its members, to an assessment of its various functions: supervision of the risk management, internal and external audit, financial and non-financial information, corporate governance rules, corporate social responsibility and related-party transactions.

The Board members believe that the basic action principles on which the Committee is based are followed, specifically regarding specific responsibilities, scepticism and critical attitude, constructive dialogue among its members, continued dialogue with internal audit, the accounts auditor and management, and sufficient analysis ability with the power to use experts.



The Board also assessed the performance of its Chairperson and if the Committee's advice to the Board was conclusive and focused on the material key matters with the level of detail required.

## **VII. Proposals regarding the Company's governance rules**

The functions of the Audit Committee established in the Articles of Association, the Regulation of the Board of Directors and the Audit and Compliance Committee's Regulations include making the necessary proposals for its improvement and for the Company's governance rules when the Committee deems this fit.

In that sense, in 2017 the proposals were made regarding the amendment to the Company's internal regulations. Specifically, to better follow the Technical Guide, the proposal for the Committee's Regulations was submitted to the Board of Directors for approval. In accordance with the Technical Guide, and after the approval by the Board on 14 December 2017, the Regulations were published on the Company's website and they include the following matters: (i) the responsibilities and functions assigned; (ii) the composition and requirements for appointing the members; (iii) the operating rules; (iv) the Committee's assessments; (v) the reports to be issued; (vi) the rules on how the Committee must interact with the Board of Directors and shareholders; and (vii) the rules on how to communicate with the accounts auditor and the internal auditor.

Apart from the changes stated in the preceding sections regarding the Committee's adaptation to the recommendations set out in the Technical Guide, the independent assessment of the Audit Committee has not led to other significant changes in its internal organisation and procedures or in its governance rules.

## **VIII. Conclusions and proposals for improvement**

In 2017, the Audit and Compliance Committee carried out all the functions entrusted to it by the law and Articles of Association in an appropriate and efficient manner, as deduced in the assessment that was conducted.

Since the CNMV published the Technical Guide, most of its recommendations have been complied with and the necessary actions have been implemented to comply with all of them. Therefore, in the coming months, the Committee will:

- Define an external auditor selection procedure which establishes the criteria and parameters to consider among a sufficient number of participating audit firms.
- Define a welcoming programme for the new Committee members which enables all of them to have minimum standard knowledge of the Company and actively participate right in it from the start.
- Design a periodic training plan for all the Committee members which enables them to update their knowledge and which can also refer, among others, to new features in the accounting regulations, the specific regulatory framework for the Company's activity, the internal and external audit, risk management, internal control and the relevant technological advances for the Company.

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In Madrid on 20 February 2018