



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

**YEAR: 2018**

### **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 2018, 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 41 of the Bylaws, 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 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 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 Bylaws, 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 Bylaws, 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 knowledge 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.

In 2018, there were some changes to the Board's structure as a result of events which also affected the composition of the committees. Specifically, Mr Borja de la Cierva Álvarez de Sotomayor was the Committee Chairman until 28 December 2018, the date on which he was appointed as the Company's Chief Executive Officer and, therefore, in his capacity as an executive director, he had to resign from the Committee and his Chairmanship. The Company expects to appoint a Chairperson for the Audit and Compliance Committee shortly; in the meantime, article 16.3 of the Audit and Compliance Committee Regulation is applicable, based on which the independent director with the longest seniority on the Committee (Ms María Garaña) acts as the Chairperson replacing him.



The composition of the Audit and Compliance Committee at 2018 year-end was as follows:

<b>Name of director</b>	<b>Type of director</b>	<b>Position in the Committee</b>
Ms María Garaña Corces	Independent external	Chairperson (acting) and member
Mr Julián Díaz González	Independent external	Member
Mr Jaime García-Legaz Ponce	Independent external	Member

- Ms María Luisa Garaña 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 Garaña is a graduate in Law and Business Administration from San Pablo CEU University. She also has two Master's degrees in Business Administration, one from San Pablo CEU University and the other from Harvard University.

She has worked at several companies such as Bain & Company, Inc., Grupo Televisión Azteca, S.A. and Zoom Media (USA). She later joined Microsoft México 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 Ibérica, 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 an independent director and member of the Audit and Compliance Committee of Alantra Parters, S.A., an independent director, Chairperson of the Remuneration Committee and member of the Risk Committee of Liberbank, S.A., and member of the Advisory Board of Euler Hermés (Allianz Group)..

- 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. On 25 July 2018, Mr Julián Díaz resigned as a member of the Audit and Compliance Committee. Notwithstanding the foregoing, in view of the resignation of Mr Sergio Ferreira Dias as a Committee member on 18 November 2018, Mr Díaz was appointed as a new member of the Audit and Compliance Committee on 21 December 2018.



Mr Díaz Gonzalez is a graduate in Business Administration and Management 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 currently the Chief Executive Officer and Director of Dufry International AG, Deputy Chairman of Dufry South America and Duty Free Caribbean Holdings, and Director and Deputy Chairman of Hudson Ltd.

- On 27 December 2018, Mr Jaime García-Legaz Ponce was appointed by co-option as an independent director and Committee member.

Mr García-Legaz is a graduate in Business Administration from Colegio Universitario de Estudios Financieros (CUNEF). Mr García-Legaz also has a PhD in Economics from Madrid Complutense University. He has been a state trade expert and economist since 1994.

Most of Mr García-Legaz's career has been in the public sector. He began his career at CajaMurcia as a manager. He then became a junior economist at the Bank of Spain and the Financial Regulation Director (1993-1995) and Public Debt Director (1993-1999) at the Directorate General for the Treasury and Financial Policy.

Between 1999 and 2000 he was Economic Advisor to the Government Presidency, between 2000 and 2002, he was Director of the cabinet of the Secretary of Telecom and between 2002 and 2004, he was General Director of Welfare and Education.

From 2004 to 2008, he was Director of Economics and Politics in the FAES Foundation and Managing Director of Statistics at the Autonomous Government of Madrid. He has also been Secretary of the Economic Affairs and Finance at the Spanish Parliament (2008-2011) and member of the Spanish Parliament (2008-2012). In addition, between 2005 and 2008 he was advisor for the Brazilian Chamber of Commerce.

Between 2011 and 2015, he worked for the Ministry of Economic Affairs in the following positions: Spanish Commerce Representative in the European Union and in the G-20 Council of Ministers and Secretary of Commerce, International Commerce and Foreign Investment.

During that period, he was also Executive Chairperson of “Invest in Spain” (2011-2012) and Chairperson of ICEX (2011-2015). Between 2015 and 2017, he was the Executive Chairperson of CESCE, the Chairperson of the International Credit Insurance Consortium and the Chairperson of the Informa Dun & Bradstreet.

Finally, between 2017 and 2018 he was the Chairperson of AENA, SME, S.A.



All the information about the 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 Ángel Iglesias Peinado, 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 Board and the Corporate Secretary of the Group.

In light of the above, the composition of the Audit and Compliance Committee meets the requirements of the Bylaws, 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 the three Committee members are independent directors 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 or individually, the members of the Audit and Compliance Committee of DIA have the pertinent technical knowledge in relation to DIA's activity sector and have performed or perform at present managerial and executive duties and responsibilities which, among others, significantly affect the matters related to accounting, auditing or both (such as chief executive officers, top executives or senior managers with supervisory and control responsibilities in financial, accounting or risk management areas).

#### **IV. Functions and tasks carried out in 2018**

The Audit and Control Committee complied with its functions under Article 529 quaterdecies of the Companies Act, Article 41 of the Bylaws and Article 38 of the Regulation of the Board of Directors of the Company, and the Audit and Control 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 2018:

##### **1. Drafting of the quarterly and half-yearly 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, in 2018 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 DIA Group's consolidated financial statements drafted by the Management, together with the respective directors' reports corresponding for the period between 1 January 2017 and 31 December 2017.

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 drafted by the Management for the year ending 31 December 2017 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 2017 were presented without any qualifications.

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.

Lastly, the Committee was actively involved in the accounting review work carried out after identifying events in the second half which required accounting adjustments in accordance with that announced in the Significant Events disclosed by the Company in October and December 2018, and worked together with external accounting experts and with the external auditor itself in assessing the adjustments and immediately providing information in accordance with the applicable regulations. By way of example, as a result of those decisions, among other measures, the Group implemented the usual impairment tests on its non-current assets in advance.



### **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 of 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 Control 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 2017 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 Audit and Control 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 2018 and unanimously approved the issue of the corresponding report.

To reach that conclusion, the Audit and Control 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.

The Committee approved to submit to the Board of Directors the proposal to re-elect KPMG Auditores, S.L. as the external auditor for the Company and its Group for, among others, 2018; the proposal was approved by the Company's Annual General Meeting on 20 April 2018.

During 2018, 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.

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



Lastly, at the issue date of this report, the Audit Committee had examined the Committee's annual communication agenda with the accounts auditor for 2019, 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 must have an internal audit function, 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. 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 the Group 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 2018 was submitted for assessment and approval by the Audit and Control 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 implementation of the Strategic Internal Audit Plan for 2018-2020 was monitored and a report, approved by the Committee itself, on the internal audit activities in 2017 was drafted, detailing the status of certain tasks entrusted by the Committee that year.

#### **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 and with the tender for auditors in their tasks to identify, analyse and inform on the significant weaknesses in the internal control system detected during the audit.

During 2018, the Committee promptly received the risk monitoring reports submitted by the officers of the Internal Audit and Finance Department in the matters of their competence in relation to internal control and risk management systems, in particular the DIA Group's Internal Control over Financial Reporting (ICFR). In that way, the Committee supervised the monitoring of the ICFR assessment results referring to the key processes and materials in Spain and in the other countries where the DIA Group operates.



Likewise, the internal audit officers made periodic presentations to provide an appropriate monitoring of the main financial and non-financial risks of the Company and its Group based on the corresponding key corporate risk maps, the reporting processes for the corporate key risk indicators, the review, update and remedy plans, whose specific implementation is supervised by the Internal Audit department itself.

Lastly, the Internal Audit department and the Committee itself discusses with the auditors the significant weaknesses in the internal control system that are detected, where applicable, when the audit is performed by the latter, all of this in line with the periodic information provided by the external auditors.

## **6. Financial risks**

Within the framework of risk management, 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.

In 2018, the Committee continued monitoring and supervising the above financial risks, through follow-up presentations made regularly by members of the Finance Department at several Committee meetings. At all the meetings, the Committee assessed all the financial risks and monitored those which warranted closer monitoring, assessing whether to adopt corrective measures where necessary. Within the context of that monitoring, the Management proposed the implementation in the second half of 2018 of the Group's debt refinancing plan, which was closely supervised by the Committee and the Board, including the creation of a special task force comprising two Committee members.

## **7. Obligations of listed 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 2018, 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 report on the matter for 2017 and for the first half of 2018.

### *(ii) Other transactions*

The Committee provided information, before their authorisation by the Board of Directors, about the corporate transactions made by the Company during the year and, in particular, regarding their financial terms and accounting impact and, where applicable, their tax



impact (based on a report drafted by the Management on "transactions with special tax risks").

(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 2018 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 2/2018 of 12 June.

The Committee reviewed and unanimously approved the content of the annual corporate governance report for 2017, 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 2018 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 2017.



(vi) Corporate social responsibility

In accordance with Article 38.3 (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.

During 2018, the 2017-2019 Master Plan for Corporate Social Responsibility, drafted with advice from the consulting firm Ernst & Young and approved by the Board of Directors in 2017, was monitored by the Committee. 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.

(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 based on the presentations made by the internal investor relations officers and with specific support from external advisors.

(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 and, in general, within the framework of its competence.

## **V. Meetings held in 2018**

(i) Committee meetings during the year

The Committee met seven times in 2018. Out of those seven Committee meetings, one member excused himself for not attending four of them. 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 2018 were attended by the pertinent members of DIA's management team and external advisors, who informed and advised the Committee in a 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 2018 with the aim of presenting DIA's annual financial report for 2017 and the limited review report of the DIA Group's financial information for the first half of 2018, presenting the current situation of the 2018 Audit Plan, and providing information about the main features related to the Group's accounts audit.

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

The performance and composition of the Audit and Compliance Committee in 2018 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 by consultancy firm Heidrick & Struggles 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 Committee assessed the report's preliminary conclusions submitted to it by the external consultant and discussed them, sharing its thoughts with the other Board members with a view to an overall assessment of the Board and establish the corresponding action plan aimed at improving its operations.



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

The functions of the Audit Committee established in the Bylaws (article 42.3.(i)), the Regulation of the Board of Directors (article 38.12) and the Audit and Control Committee's Regulations (article 10.5) include making the necessary proposals for its improvement and for the Company's governance rules when the Committee deems this fit.

During 2018, the Audit and Compliance Committee did not consider necessary to make proposals regarding the improvement of the Committee or the Company's rules on corporate governance since during 2017, in order to better follow the Technical Guide, a 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.

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

In 2018, the Audit and Compliance Committee carried out all the functions entrusted to it by the law and Bylaws 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.
- Update the periodic training plan for all the Committee members.

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In Madrid on 4 February 2019